Growth Promotion versus Poverty Reduction

World Bank Rethinking of Aid Policy and Implications for Developing Countries

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Executive Summary

Following the end of the Cold War, the World Bank, in parallel with the IMF, has been engaged in a review of its aid policy. At the end of the 1990s, this 'rethinking' led to a radical shift in the declared primary goal of its development strategy from "growth promotion" to "poverty reduction." This shift in goals brought with it a new policy framework, accompanied by new procedures and content. After July 2002, all forms of concessional aid from the World Bank will be provided on the basis of this new policy. More specifically, in terms of procedures, recipient country governments seeking concessional aid are required to formulate a document called Poverty Reduction Strategy Paper (PRSP) and submit it to the Board of Directors at the World Bank for approval prior to implementation.

This paper examines the results of the World Bank's rethinking of its development strategy in terms of the robustness of its new policy framework, in particular its practicality as a system of aid policy. My conclusions at this stage are as follows:

- The new development strategy is noteworthy and persuasive in its new direction as well as its theoretical basis, which builds on the intellectual support of Joseph Stiglitz and Amartya Sen.
- In terms of policy measures, or action plans to be supported by fiscal resources, the new policy framework lacks robustness. The plans for action under the framework are incomplete and have not yet passed the test of application in a developing country setting. Moreover, even if these plans were properly formulated, many developing countries that have an underdeveloped system of fiscal management would find it difficult to compile a reliable budget or expenditure programme to support them.
- Further investigation suggests that the shift in goal from "growth promotion" to "poverty reduction" is not necessarily driven by the success developing countries have had in fulfilling their aspirations for "economic independence via industrialisation"—a need that has motivated them ever since they won political independence. Therefore, it is too early to conclude that this aspiration has now been completely superseded by a call for poverty eradication.

Given these circumstances, if the World Bank imposes its new strategy (or policy framework) uniformly and inflexibly, it is likely that developing countries with relatively good development performances and a strong sense of "ownership" will present opposing views and policies. In this connection, the paper discusses events surrounding the drafting of Vietnam's Interim-PRSP.

The preliminary findings of this paper are as follows.

- There is a need to improve the new World Bank development strategy, presented in the form of a "PRSP-Based Assistance" to make it more complete in terms of policy measures and therefore more widely acceptable among low-income countries with varying development performances. However, in light of changing development trends, including the emergence of new theories, it is no longer realistic to view the appropriate goal as an exclusive alternative between growth promotion or poverty reduction.
- A more practical approach would be to identify the appropriate combination of two sets of expenditures for poverty reduction through two approaches, namely, (i) "broad-based growth" and (ii) "pro-poor targeted." Pro-poor targeted expenditures directly serve the purpose of poverty reduction. In contrast, broad-based expenditures contribute to GNP growth first and then to poverty reduction by way of increased savings, which are channelled through fiscal resources or banks to particular uses targeted at poverty reduction. The World Bank advocates a larger allocation for fiscal resources to pro-poor targeted expenditures, whereas discontent recipients with better development performances stress the need for broad-based growth expenditures (e.g., Vietnam).
- The optimum combination of poverty reduction expenditures using the two different approaches is unique for each recipient country as the relative efficacy of expenditures for poverty reduction between the two depends on country-specific factors. These include: (i) GNP growth rate; (ii) discount rate; and (iii) degree of decentralization in financial management. An optimum combination of the two approaches, if determined by objective and scientific evaluation of a country's economic realities, would be instrumental in avoiding likely discord between the World Bank and certain developing countries. It should be stressed, however, that the above solution is possible only when the total of the public resources available for poverty reduction is given and fixed. If that is not the case and hence the items and the sum of the pro-poor targeted expenditures and those of the broad-based expenditures—both for poverty reduction—need to be determined separately and simultaneously with other types of expenditures, different methods for solution are required. One option would be to rely on the CGE (Computable General Equilibrium) framework with necessary modifications.
- However, whichever method is adopted, it is necessary to improve the World Bank's new development strategy by conducting detailed empirical studies in each recipient country. Such studies should examine the mechanisms that lead to poverty or alleviate it as well as the relationship between these mechanisms and individual items

of both pro-poor targeted and broad-based growth expenditures. The results of the studies can then be summarised in terms of a number of mechanisms for poverty reduction, in a form applicable to the above analysis within a broader framework. The analysis can also include mechanisms that lead to poverty. Although this work may seem simple, it actually requires a great deal of empirical work. Therefore, at the end of this paper, I present an analysis of the poverty mechanisms at work among the ethnic minorities in the Central Highlands of Vietnam, the most urgent pro-poor targeted undertaking on the Vietnamese government's agenda.

I. Introduction and Overview

At the end of March 2001, the Joint Vietnamese-Japanese Research Project (1995-2001) that was conducted under a bilateral co-operation agreement between both countries came to an end.(1) The project primarily aimed at assisting the formulation and implementation of the Sixth and Seventh Five-Year Development Plans, and I was heavily involved in this process as leader of the Japanese academic group. In the twenty years since the end of the Indochina war in 1975, in which Vietnam witnessed the re-normalisation of international relations and the resolution of military problems, the implementation of these Five-Year Plans signified the country's finally entering onto the path of long-term development after having achieved economic reconstruction. However, just at this time, the international financial institutions (IFIs) and Western donors who had supported Vietnam's reconstruction with considerable financial assistance were in the middle of a drastic review of past aid policy in the context of the post-Cold War era following the collapse of the Soviet Union. In my capacity as an advisor to the Joint Research Project, I often observed at first hand the distinctive response of a latecomer country like Vietnam—that is, resistance and discontent—to the new aid policy put forward by the IFIs and Western bilateral donors. In light of this response, and our own government's ambivalent reaction to the changing circumstances, it was essential for us to carefully examine our role and decide upon the stance of our own research project. Within this context, this paper exclusively focuses on one issue—the goal shift from growth promotion to poverty reduction. Since World War II (WWII) the formal, primary goal of IFIs and Western donor aid policy has consistently been the promotion of sustainable growth in developing countries. Now, in the new millennium it has been revised on all fronts to "poverty alleviation." (2)

The Organisation of This Paper

In Section II, I show that between 1999 and 2001, the efforts of the World Bank to review its aid policy, which began with the conclusion of the Cold War, produced a dramatic shift in its primary development goal from growth promotion to poverty reduction. Through a comparison of assistance programmes before and after the review, it becomes clear that this shift is not simply a new name for the same product, but that the review has led to a fundamental revision of the World Bank's policy framework. Here, I will refer to the new assistance programme as “PRSP (Poverty Reduction Strategy Paper)-Based Assistance.” In Section III, I discuss how PRSP lacks robustness at the action plan level, although it may be a good document to indicate policy orientation. I then examine in Section IV two hypotheses: (i) developing countries have already fulfilled their aspirations to industrialise, and have now started on a new stage of development, where poverty alleviation is called for; and (ii) global poverty is worsening and has to be addressed under “PRSP-Based Assistance,” regardless of the weakness of its policy system. The analysis of these hypotheses, however, remains inconclusive. In Section V, I examine the theoretical underpinning of the World Bank’s policy shift, focusing on the intellectual base provided by Joseph Stiglitz and Amartya Sen. According to Stiglitz, “development” ought to be a holistic process that leads to the transformation of society through the participation of all stakeholders. Sen considers “poverty” as the deprivation of “basic capabilities,” based on the new concept of “fairness” in ethical theory. My conclusion is that although these new approaches are theoretically sound and may gain wide support, they remain deficient if viewed as a system of action plans. When a new assistance programme, which lacks a robust system of action plans, is implemented only because of the authority of the World Bank, there is the risk that it will invite conflict and resistance from recipient countries (Of course, this largely depends on their institutional capacity and the degree of ownership). To illustrate this risk, in Section VI, I present the example of Vietnam during the drafting process of the Interim-PRSP (I-PRSP), and in Section VII, I consider how to choose a pragmatic development strategy under such circumstances. My provisional conclusion is that it is no longer realistic to view development as an exclusive alternative between growth promotion or poverty reduction. Rather, it is more worthwhile to ask, in line with the terms used by the World Bank itself, what is the most appropriate combination of expenditures for both broad-based growth and pro-poor targeted approaches in order to effectively reduce poverty. This process must begin with investigating the possibilities for poverty reduction through these two approaches and elucidating the mechanisms involved. As an example, I discuss the poverty mechanism at work in ethnic minority communities in the highland regions of Vietnam because their plight is of paramount concern to the Vietnamese Government.

II. Shifting Goals in Aid Policy

II-1. The Policy Review of the 1990s

In considering the World Bank's shift from growth promotion to poverty reduction as the primary goal of development, we must understand how the World Bank's aid policy evolved during the 1990s. The details of this process are described in my separate paper.[(3)] In this section, I concentrate on the essence of the review process, with specific reference to Table 1, which presents the four broad lines of thought.

(1) As a first step, let us take a look at the change in lending instrument under the review. To date, "Investment Project Lending" and "Structural Adjustment Lending (SAL)" have been the two main pillars of World Bank assistance to developing countries (see items 1 and 3 of Table 1). Project lending was the World Bank's original task as a long-term development bank from its establishment in the 1940s, and continues to account for the largest share in terms of lending volume. SAL was set up to alleviate developing countries from the balance-of-payments crisis or debt crisis of the 1980s, and a country seeking such a quick-disbursing loan for balance-of-payment support was required to fulfil policy conditionalities consisting of trade liberalisation, transition to a market economy, and other structural reforms. Now, as far as the assistance provided by the International Development Association (IDA) (the soft window of the World Bank Group, handling concessional lending to low-income countries) is concerned, "PRSP-Based Assistance" has begun to exert strong influence over the above two types of assistance. A PRSP is first drafted by a recipient country, and becomes effective upon the approval by the World Bank's Board. In the case of the IMF, "PRSP-Based Assistance" has replaced Structural Adjustment Facilities (SAF) and Enhanced Structural Adjustment Facilities (ESAF)—instruments implemented in parallel with the World Bank's SAL. There were common conditionalities for SAF, ESAF, and SAL, which were elaborated jointly by the recipient country, the World Bank and the IMF, and agreed upon under the Policy Framework Paper (PFP). From now on, PRSP replaces PFP.[(4)] "PRSP-Based Assistance" will formally be launched in September of 2002 after a three-year

transition period. Within this timeframe, recipient countries must formulate a PRSP or an I-PRSP and obtain the approval of the World Bank's Board.

(2) Until the mid-1990s, there was no fundamental change in terms of the basic policy direction of both "Investment Project Lending" and SAL. Although their respective contents and procedures had progressed, economic growth remained the ultimate goal of development. It was the perceived need for "poverty reduction" that played a catalytic role in shifting these two types of assistance to "PRSP-Based Assistance" (items 2 and 4 in Table 1). The latest thinking on poverty reduction is symbolised by the *World Development Report 2000/2001: Attacking Poverty* (*WDR 2000/2001*) and the "Comprehensive Development Framework (CDF)." The CDF originated from a document personally drafted by James Wolfenson, current president of the World Bank, as an attempt to take a more holistic approach to development (not limited to the economic sphere) and broaden the base of participation to include all stakeholders (e.g., recipient governments, donors, the private sector) in the formation and implementation of aid policy. Thereafter, even though the CDF was a World Bank-driven document, it has become accepted by Consultative Groups (CG) as a guideline for development co-operation at the country level. The theoretical underpinning for CDF was provided by the "New Development Strategy (NDS)" proposed by Joseph Stiglitz, a renowned economist of asymmetric information theory and then chief economist at the World Bank. Meanwhile the new approach to poverty reduction in the *WDR 2000/2001* was conceptually derived from the "capability" approach advocated by the Nobel Prize winner Amartya Sen. As a result, the ultimate goal of "PRSP-Based Assistance" calls for, at least ideologically, not only growth in income and wealth, but also the improvement of people's lives through overcoming various non-monetary and intangible forms of poverty. This is why PRSP attaches great importance to the participation of all development partners as the agency for change. In this sense, PRSP is clearly distinct from past assistance, which embraced growth promotion as its primary goal.

Table 1: The World Bank's Aid Policy "Review" — Focus on the 1990s

	1940s	1980s	1990s		2000	
			Wappenhaus' Report (1992)		*Assessing Aid* (1998)	
1. Investment Project Lending	Structuralism: The project as a component of "national economic planning"		Shift to outcome evaluation (from project-based to country-based portfolio evaluation)		Country Assistance Strategy (CAS) adopted as evaluation criteria	
2. Poverty Reduction Focus (lately expanded to include non-income poverty)	McNamara (WB president, 1968-81): increased investment for agriculture, rural development and Basic Human Needs (BHN)	H. Chenery (WB chief economist): "Redistribution with Growth" (1974)	*WDR1990*: *Poverty* Poverty Assessment introduced (1991)	Participatory Poverty Assessment (adopted in mid-1990s) Narayan (1997)	*WDR2001*: *Poverty* A. Sen: Capability Approach	**PRSP-Based Assistance**
3. Structural Adjustment Lending (SAL)		SAL introduced (1980): originally focused on market liberalism	*WDR1991*: "Market-Friendly Interventions"	*East Asian Miracle* (1993) followed by *WDR1997*: broadening the scope of policy coordination and interventions		
4. Comprehensive Development Framework (CDF)			J. Stiglitz: New Development Strategy (NDS) presented at UNCTAD (1998)	Wolfenson (WB president): proposal for CDF (1999)		

Note: Prepared by the author.

II-2. Radical Changes in Assistance Programme

It is desirable to examine more concretely the goal shift of World Bank aid policy at the end of 1990s and how it translated into changes in World Bank assistance programmes (as well as the IMF-supported "facility"). As the previous sub-sections suggest, the shift in policy goals is not merely a re-branding of the same product, but is an attempt to transform the policy framework and goal in unison—although the content of the policies themselves have not altered. In this sub-section, I would like to discuss this point again in more detail.

Structural Adjustment Lending (SAL) in the 1980s

In examining the change at programme level, I have chosen SAL in the 1980s (just after its introduction), as representative of the World Bank's assistance programmes before review. The Bank's more traditional form of assistance, "Investment Project Lending," could also have been chosen, but SAL's comprehensiveness and country-wide perspective, makes it an easier tool for comparison to "PRSP-Based Assistance." Table 2 presents the main points to be considered here. What we conclude is that SAL's primary goal of medium-term growth sustainability is supported through a policy framework of "macro-economic stabilisation" and "liberalisation." (Such policy can be referred to as structural reform to include such measures as price rationalisation and market transition, as well. Also, "SECAL or Sector Adjustment Lending" can be used to address sector-specific reform). For this policy framework to be effective, the following two assumptions must hold: (i) market mechanisms will spontaneously revive and function once a developing country eliminates distortions under the dirigiste economic system that has been in use until now; and (ii) growth will be achieved through the efficient allocation of resources by competitive market mechanisms. In this way, "structural adjustment policy" is based on such measures to achieve greater efficiency. In Table 3, I refer to this as "supply-side policy."

Table 2: Policy Goals and Framework of Structural Adjustment Lending in the 1980s

A. Policy Goals

The primary goal of SAL to be provided by the World Bank is to support the recovery and maintenance of "sustainable growth." However, as no formal document directly states this, and to some extent this is my interpretation, I feel it is necessary to provide some explanation. The only formal document that I have found that asserts the objectives of SAL, is the Operational Manual (Statement No.3.58, Annex II, Nov. 82, Nov. 1982), which includes the following definition of SAL.

"Structural Adjustment Lending (SAL) is non-project lending to support programs of policy and institutional change necessary to modify the structure of an economy so that it can maintain both its growth rate and the viability of its balance of payments in the medium term."(1)

As the above statement indicates, it is clear from the beginning that SAL aimed at maintaining growth rate and a balance of payments over the medium term. That is to say, the World Bank launched SAL in the late 1970s, because it considered the short-term balance of payments support scheme under the IMF's stand-by credit insufficient to address the balance of payments crises faced by many developing countries, and proposed the addition of supply-side policies to the IMF conditionality. (The conditionality for stand-by credit forms one part of the policy framework in section B of this table, and requires a reduction in expenditure and an expenditure switching policy). The IMF itself did not recognise the necessity of SAL until 1996, when it established SAF, followed by ESAF a year later. As further evidence to show that growth was regarded as the superior goal (to another goal of stability), the World Bank's greatest concern at that time was the potential risks that recession-induced excessive adjustment in developing countries may trigger a global recession.

B. Policy Framework: Three Major Policy Categories

This section is compiled from a self-evaluation report produced by the World Bank's Country Economic Department in 1990.(2) The policy framework therein is presented here as three main categories, which are presented along with an analysis of the economic issues they tackle. The last column contains the policy goals and their cause-and-effect relationships, and summaries my interpretation of the report's content.

Issues Facing Recipient Countries and Their Response to SAL

Issues Analysis		SAL Policy Framework	Policy Type
I. Macro-economic disequilibrium. Unsustainable current account deficit. Large fiscal deficit. High rate of inflation.	→	(1) Reduction in Expenditure. Using fiscal and monetary policy to constrict available resources, including foreign capital, for domestic demand.	Stability
II. Micro-economic distortions. Barriers to the movement of factors of production. Barriers to domestic and international competition. Inadequate pricing policy of tradable goods and public services, which do not reflect opportunity costs.	→	(2) Switching Policy for Expenditure and Production. Using exchange rate policy and wage policy to increase the relative prices of tradable versus non-tradable goods and promote exports and efficient import substitution.	Growth
III. Weak institutions and inappropriate policy. Especially, weakness in financial systems and economic management.	→	(3) Supply-Side Growth Promotion Policy. Removing the structural causes of macro-economic disequilibrium. Implementing reform to promote the efficient use of both private and public resources. Strengthening institutional capacity. Increasing savings and investment.	Improved Efficiency

C. Individual Policy Measures

The individual policy measures that the World Bank requires recipient countries to adopt under the SAL conditionality are compiled from the same 1990 evaluation report and presented in Table 3. However, as individual policy objectives overlap with the multiple components of the above policy framework, in Table 3, I have restricted these to only the main objectives.

Note (1): World Bank (OED), *Structural Adjustment Lending: A First Review of Experience*, Sept. 24, 1986.
Note (2): World Bank (Country Economics Department), *Report on Adjustment Lending II, Policies for the Recovery of Growth*, March 26, 1990.

Table 3: Content of Conditionality
Distribution of Loan-Agreement Conditions by Policy Area

(%)

	All Countries	Sub-Saharan Africa Countries
1. Supply-Side, Growth-Oriented Policies	**85**	**82**
Trade policies	16	14
Sectoral policies	28	26
Industry	4	4
Energy	6	2
Agricultural	17	19
Financial sector	10	7
Rationalisation of gov't finance & administration	7	6
Public enterprise reforms	16	19
Social policy reforms	4	5
Others	4	5
2. Absorption Reduction Policies	**12**	**13**
Fiscal policy	9	12
Monetary policy	2	2
3. Switching Policies	**3**	**4**
Exchange rate	2	2
Wage Policy	2	3
Total	**100**	**100**

Source: World Bank (Country Economics Department), *Report on Adjustment Lending II, Policies for the Recovery of Growth*, March 26, 1990.

Note: The 61 countries and 183 cases compiled in this table received the final SAL tranche in the summer of 1989.

In fact, this presupposition existed from the very beginning of SAL's creation. Section A of Table 2 describes the background to the creation of SAL. It appears that the World Bank, at the time, was seriously concerned that developing countries facing balance-of-payment crises would curb growth as a means to alleviate their difficulties. This is based on a famous report published by Ernest Stern (then president of the World Bank) in 1983(5), which stated that adjustment options for debt-crisis affected countries fell into the following four categories: (i) increase borrowing, (ii) increase exports, (iii) increase import substitution or (iv) lower the growth rate, and that sooner or later, most developing countries would be cornered by a downturn or a stop in growth. The reasons are as follows: for the low-income countries of Sub-Saharan Africa, the option for curbing growth rates (iv) was unavoidable; and for other oil importing countries, the options for increasing exports (i) or import substitutions (ii) were largely exhausted as adjustment tools. The report further warned that in this event, a global recession could ensue. As a last resort measure to prevent this, the World Bank parted ways with its sister organisation, the IMF, which did not share this diagnosis, and took the bold step of designing SAL. However, at the time the only means available to the World Bank were “supply-side policies.” Confined to liberalisation and deregulation, market transition and the removal of price distortions, these “supply-side policies” did not offer any measures that aimed at strengthening productive capacity. The financial support offered by SAL was a quick-disbursing loan for immediate balance-of-payment support, and it was nothing more than a paltry sum when seen in light of the need to maintain economic growth rate. All SAL did was shore up the current account deficit for a period of two to three years while the country devoted itself to supply-side reforms.

When the individual measures of SAL conditionality are classified by policy area (Section C of Table 2 and Table 3), most of them are related to the implementation of “supply-side policies.” Also, under sectoral policy, various supply-side measures are included in industry and agriculture. For industry, typical measures include export promotion and market-led industrialisation, and the necessary improvements in policies and institutions. These are based on the past experience that import substitution and the inefficiency of state-owned enterprises led to low growth. As for agriculture, the main emphasis is placed on removing distortions in pricing and distribution policies to enhance sector efficiency. Some interest exists in agricultural infrastructure such as flood control, irrigation systems or roads, but its overall importance is limited.(6)

Table 4: The Results of Structural Adjustment Lending

(1) Effects of adjustment lending, controlling for initial conditions and external factors – Comparison between 1971-80 and 1986-90

(%)

	Change in GDP growth
IAL (27 countries)	2.5
Correcting for implementation	3.5
Middle-income IAL	3.6
Correcting for implementation	4.2
Low-income IAL	1.8
Correcting for implementation	2.4
Sub-Saharan Africa IAL	1.9
Correcting for implementation	2.9

(2) Growth by Country Group, 1971-90

(%)

	Real rate of GDP growth		
	1971 - 80	1981 - 85	1986 - 90
IAL (27 countries)	4.4	1.7	4.2
Middle-income countries	5.4	2.1	4.8
Low-income countries	3.3	1.2	3.6
Sub-Saharan Africa	3.5	1.3	3.5
OAL (30)	4.7	3.0	2.0
Middle-income countries	6.1	3.2	1.2
Low-income countries	3.3	2.9	2.8
Sub-Saharan Africa	4.1	3.4	2.2
NAL (20)	5.6	2.2	2.4
Middle-income countries	6.3	2.4	2.8
Low-income countries	4.3	1.8	1.8
Sub-Saharan Africa	6.7	3.0	3.9

Source: World Bank (Country Economics Department), *Structural Adjustment Lending and Mobilization of Private and Public Resources for Growth* (Washington, D.C., 1992).

Note: IAL=Intensive Adjustment Lending; OAL=Other Adjustment Lending; and NAL=Non Adjustment Lending.

IAL countries are ones which received at least two structural adjustment loans of three adjustment loans of any type that became effective by the end of fiscal 1990 (June 1990), with the first loan becoming effective (the first tranche release) by the end of fiscal 1986 (June 1986). OAL countries are other ones which received adjustment loans effective by the end of fiscal 1990. NAL are those with no adjustment loans effective by the end of fiscal 1990.

The category of IAL "Correcting for implementation" excludes those countries that had interruption of two adjustment loans over three years. Thus, IAL countries are those that used adjustment loans intensively.

Finally, let us examine Table 4. Presented here are the aggregate outcomes of SAL in the 1980s, based on the statistical analysis compiled by the Bank in an attempt to measure the contribution of SAL to growth rates from their decline at the beginning of 1980s to their recovery in the latter part of the decade (in comparison with the levels of the 1970s). Although growth performance is not directly related to the main topic of this paper, I believe it valid to test the hypothesis that the structural reform mentioned earlier fosters growth, and as such deserves our attention. The interpretation of the two panels in Table 4 is not easy; however, they can be understood in the following manner:

(1) From a comparison of Table 4 (1) and (2), it is possible to understand that SAL has a significant effect on the recovery of the growth rate.

(2) However, when its effects on middle- and low- income country groups are considered separately, the net contribution (where initial conditions and exogenous factors are controlled) from SAL is largely restricted to middle-income countries. For low-income countries, the net contribution of SAL is positive but insignificant. The 1992 evaluation report by the World Bank, from which the data are taken, noted the following: "adjustment lending is a necessary—but not sufficient condition for transition to a sustainable growth path.…. this support will pay off in high growth only if long-term development problems are tackled. Resolving these problems will continue to require substantial external support through project and sectoral investment lending from the international community." [World Bank 1992, p.3]

Even if the above statistical analysis of growth outcomes is insufficiently reliable, the assumed relationship between SAL-based structural reform and growth is not firmly established, suggesting that there is a need for further research. As for industrial policy, research is needed to identify possible areas where it can play a supplementary role. Nonetheless, throughout the 1980s, the World Bank recognised these problems with SAL based on its self-evaluation and continued efforts for its improvements into the 1990s, as indicated in Table 1.

Structural Adjustment Lending (SAL) in the 1990s

At present, "PRSP-Based Assistance" is the only example of a programme which treats poverty reduction as the primary goal. However, before we consider this programme, I would like to touch upon the partial revision of the SAL policy framework during the 1990s.(7) Table 5 presents the structure of the Policy Framework Paper (PFP) of a particular borrower country in the latter half of the 1990s. As for the components of PFP, Item I refers to macro-economic stability, while II, III, IV are related to structural reform, and V and VI are sectoral policy measures (structural reform and sectoral policies are presented together in Table 2 under "supply-side" policies). Items I to VI do not differ fundamentally from the original policy framework of SAL. What has changed is VII, or education expenditure. This addition reflects the new interest in poverty reduction throughout World Bank assistance policy, particularly following the publication of the *World Development Report 1990: Poverty* (*WDR 1990*) (see Table 1). The report responded to the increasing anxiety that although latecomer countries had managed to recover growth fairly well, achievements towards poverty reduction had remained insufficient. One reason, the report asserted, was that the poor were unable to access the potential benefits of growth, and therefore "expenditures on basic service provision," e.g., education, health and nutrition, must be increased (*WDR 1990* also noted that the growth achieved tended to be capital intensive and had little contribution to making use of the assets of the poor). As Item VII shows, a stereotypical new SAL policy framework has incorporated the above concerns, and added them at the end of a list of prescriptions as "basic social service expenditures"—following "macro-economic stability," "structural reform" and "sectoral reform." Now, what about the goal of development assistance linked to the new policy framework? While there is no sufficient information peculiar to the 1990s, it points towards a continuation of a development assistance goal embraced in the 1980s—that is, sustainable growth. Several country-specific documents also support this argument.(8)

Table 5: IMF/World Bank-Supported Structural Adjustment Lending in the 1990s: The Structure of Policy Framework Paper (PFP)

I	Maintaining Macro-Economic Stability 1. Fiscal revenue 2. Public expenditure 3. Transparent fiscal policy 4. Trade policy
II	Improving Competitiveness 1. Exchange rate regime 2. Trade liberalisation 3. Foreign debt policy 4. Domestic deregulation
III	Strengthening the Financial Sector 1. Central bank 2. Commercial and investment banks 3. State-owned commercial banks
IV	Reforming State-Owned Enterprises (SOE)
V	Increasing Productivity through Infrastructure Development 1. Energy sector 2. Transport sector
VI	Promoting Rural Development and the Environmental Conservation
VII	Investing in Human Resources (particularly Primary Education)

Note: The table indicates the outline of the draft PFP negotiated between a low-income country and IMF/WB in the late 1990s under SAL. A typical PFP in the 1980s contained aggregate demand management policies (tight fiscal and monetary policies, devaluation etc.) and supply-side policies (market transition, trade liberalisation, privatisation and SOE reform etc.).

PRSP-Based Assistance

The policy framework and the goals of "PRSP-Based Assistance" are presented in Table 6. The *Guidelines for Joint Staff Assessment of a Poverty Reduction Strategy Paper* (JSA), on which I heavily depended for this section, is an excellent guide to help understand the current World Bank thinking on "PRSP-Based Assistance," which is still at an early stage in its evolution. This is the case because JSA is a guideline for IMF and the World Bank staff to review and make recommendations for improvements (if necessary) on a PRSP, after it is formulated and submitted by a country applying for assistance. Nevertheless, JSA is incomplete and has several weaknesses. So, I am uncertain how far one can augment its weaknesses with the more structured policy discussion available from another document, the *WDR 2000/2001* (Here, I will supplement as little as possible and indicate where I have done so).

Table 6: The Framework for IMF/World Bank-Supported "PRSP-Based Assistance"

A.	**Building Country Ownership through Participation** The PRSP describes the participatory process that the government conducted to design and to build ownership for the strategy. The PRSP also summarises major issues raised during the participatory process and the impacts of the process on the content of the strategy.
B.	**Poverty Diagnosis** 1.1 How adequate are existing poverty data? • The nature and determinants of poverty outcomes (income and non-monetary dimensions). • Extent of income/consumption and other dimensions of poverty (health, including environmental diseases and HIV/AIDS, education, natural resource degradation, vulnerability, disempowerment). • Analysis of gender dimension of poverty. • Distribution of assets of various types—natural (especially land), physical, financial and human. • Identification of economic, social and institutional constrains to poverty reduction. 1.2 The growth and distributional impacts of past policies and programmes • Macro-economic policies, including the ability to respond to exogenous shocks. • Structural and sectoral policies. • Equity, effectiveness and efficiency of existing pattern of public expenditures, service delivery, and systems for budget management, financial management, and procurement.
C.	**Targets, Indicators, and Monitoring** 1.1 Define medium- and long-term goals of poverty reduction outcomes (monetary and non-monetary), establish indicators of progress and set annual and medium-term targets. These indicators and targets must be appropriate given the assessment of poverty and the institutional capacity to monitor. And they must be consistent with the policy choices in the strategy. 1.2 Adequacy and sustainability of the monitoring and evaluation systems.
D.	**Priority Public Actions** *Macro-Economic Framework, Fiscal Choices, and Financing Plan* 1.1 Macro-economic framework: (i) a level of inflation that does not undermine private sector growth, (ii) an external position that is sustainable in the medium- to long-run, (iii) growth that is consistent with the poverty reduction objectives laid out in the PRSP, and (iv) an overall fiscal stance that is compatible with the PRSP's poverty reduction and growth objectives. 1.2 Fiscal choices consistent with the poverty reduction and growth objectives of the PRSP. 1.3 PRSP has an adequate and credible financing plan—including domestic borrowing and projected aid (and other external) flows. *Structural and Sectoral Policies, Policies for Social Inclusion and Equity; Governance and public Sector Management* 1.4 Structural and sectoral policies • Key policy, incentive, and institutional constrains to poverty reduction. • Measures to expand opportunities for the poor and to distribute the benefits of growth and public services more equally by region, by economic and social groupings, and by gender. • Prioritisation and sequencing of reforms, considering expected impacts on the poor. • Private sector and financial sector development. • Key social sector policies and programmes, including those related to HIV/AIDS. • Policies and institutions for environmental sustainability. 1.5 Policies for social inclusion and equity • Measures to promote fair and equitable treatment of poor men and women under law. • Social protection and labour policies. 1.6 Improvements in governance and public sector management being pursued in areas that are important for poverty reduction

Source: (1) This table is the author's summary of the *Guidelines for Joint Staff Assessment of a Poverty Reduction Strategy Paper* (JSA) (April 18, 2001). The JSA guidelines contain the main points to be reviewed jointly by World Bank and IMF staff on a PRSP (or I-PRSP) which is submitted by a developing country applying for concessional assistance based on new assistance programme. To date, this is the most reliable source of information published by the IMF and World Bank on the contents of PRSP.

(2) The JSA guidelines contain little description of the issues specific to structural and sectoral policies. However, JSA on Vietnam's I-PRSP, which appears to have used this outline, includes structural policies, i.e. structural reforms to promote employment, exports and broad-based economic growth, as well as the provision of social safety nets to cope with SOE reform. Sectoral policies cover infrastructure, urban development, rural development (including agriculture and financial services, environmental protection and development targeted at ethnic minorities) and human resource development.

Section C of Table 6 indicates that the primary goal of this type of assistance is poverty reduction in the medium- and long-term. Section D, "Prioritisation of Public Actions," corresponds to what would generally represent a policy framework. Section B, the diagnostic tool for the present poverty profile, is useful to supplement the inadequate description in the JSA. Well, how has the policy framework changed along with the goal shift from growth to poverty reduction? In comparing SAL with "PRSP-Based Assistance," the following two points are critical.

(1) In the past, the World Bank policy framework focused on growth promotion in the purely economic sense, that is, increased income, consumption and material wealth (measured by aggregate macro-economic outcomes). Now, the new framework includes non-income, non-material and even non-economic aspects for poverty reduction (normally measured by micro-economic outcomes). That is to say, this understanding of poverty reduction is not the same as a reduction in material poverty. Moreover, under the new policy framework, various assets are presented as important concepts, including the "physical," "financial" and "human" assets possessed by an individual, household or community. These assets collectively form capital that brings about growth at the macro-level, but should also be treated differently because they have undergone a redistribution process, etc. Similarly, right or wrong, "environmental" and "social" assets are not considered in the current conventional growth accounting.

(2) The previous policy framework was limited to the sphere of economic policy, comprising of "macro-economic stability," "structural reform" and "sectoral policy including social

service provision." When only the economic sphere is examined, even under the new policy framework, the same set of components appears as a means to reduce poverty. However, in reality, as the concept of poverty is no longer limited to the economy and includes social, cultural, political and administrative and legal aspects, the policy framework must evolve correspondingly. The policy measures for non-economic aspects of poverty are classified according to the three pillars around which the *WDR 2000/2001* is organised, namely: "opportunity," "empowerment" and "security." In part, they are combined with the items classified above as economic policies (especially the structural and sectoral policies), but in part, they are treated as independent items.

Several terms used above may require further explanation. Here, I will confine my comments to the three concepts of "opportunity," "empowerment" and "security" which were introduced in the *WDR 2000/2001* and were used in Participatory Poverty Assessment (PPA) in the context of describing poverty. As for the remaining terms, I will explain them in Section IV in connection with Table 7. At the World Bank, PPA had been already used as an improved method for poverty assessment (introduced in 1991). However, it was not until PPA underwent frequent testing in various regions, as part of the background research for the *WDR 2000/2001*, that it progressed methodologically into a sophisticated tool.(9) PPA aims at deepening the knowledge and understanding of poverty—i.e., its concepts, indicators and mechanisms that the poor themselves can grasp—based on field surveys in deprived regions and conversations with the poor. As such it differs considerably from the conventional research of poverty, which is based on the desk-analyses of the macro-level statistical data and the results of household income and expenditure surveys. Efforts to develop the results into numerical indicators useful for quantitative analysis are also making progress. Therefore, derived from the PPA methodology, the three key concepts of poverty (related to poverty diagnosis and public actions in Table 6) are different from the other parts of the policy framework.

Of the three concepts, "opportunity" implies access to the benefits conferred by economic growth or institutions, and the resultant efficiency increase in the use of various assets possessed by an individual to improve living standards. An individual's assets can cover "human," "natural," "physical," "financial," and "social" areas. A major finding from PPA was the crucial importance of "social" assets (or social capital) to the poor. Social capital is defined as “the benefit an individual derives as a member of social organisations” or, with that as a presupposition, “the ability of an individual to form relationships with other actors of society.”

“Powerlessness,” as a result of democratic, legal and social discrimination, has serious consequences, particularly for the poor. “Security” in general means the protection of the poor from any risks they face. For example, “risk” can include disease, injury, old age, crime, domestic violence, unemployment and other labour market related risks, crop failure and fluctuation in food prices etc.

Finally, I would like to emphasise here that the framework of “PRSP-Based Assistance” summarised in Table 6 is the very first experiment by the World Bank, and it has yet to be tested. In other words, there is no empirical evidence within recipient countries to support the model. From what I have seen, the policy framework of Vietnam’s I-PRSP indicates the general policy direction, but it is not specific in terms of policy measures. As a result, it is impossible to translate into budgeting or a financial plan. The difficulty also comes from the paucity of statistical data due to the weakness of public finance system.(10)

III. Does the Goal Shift Mark a Definitive Change?

In the above section, we examined the goal shift that resulted from the World Bank aid policy review and the related changes in its policy framework. One strong impression obtained was that the goal shift from sustainable growth to poverty reduction, at the conceptual level, is an epochal proposal. However, despite the boldness of the World Bank’s “declared goal shift,” we feel that there remain a number of concerns. The greatest matter of concern is that “PRSP-Based Assistance” has not been tested on the ground. In drafting an I-PRSP, governments in developing countries can outline policies for poverty reduction on paper, with the support from the World Bank. However, such a strategy would at best indicate the policy direction. It would not be easy to design actual policy measures or an action plan, tailored to country-specific circumstances in this manner. More fundamentally, to convert poverty reduction policies into a system of workable measures requires budgetary support. However, there is serious concern about budget management capacity. Weak budget management capacity is clearly an issue in Vietnam, and we can easily imagine that circumstances in other developing countries are similar. Now let me present another matter for concern. The part of the policy framework where poverty reduction is achieved by growth through macro-economic stability and structural reform, generally follows the steps of SAL. However, as seen in Table 4, with the exception of middle-income countries, SAL did not succeed at all in achieving its primary goal of growth. The reason for the failure was its incomplete understanding of the economic system operating in low-income countries. It is not clear how "PRSP-Based Assistance" programmes have overcome this weakness.

It is quite possible that the World Bank—even if it acknowledges the above concerns for the robustness or sustainability of the new policy framework—is so constrained by external or other circumstances that it cannot totally retract the goal shift now it has been declared. At least three hypothetical scenarios for this could be considered.

(1) For many developing countries that won political independence after WWII, the consistently held aspiration to gain economic independence through industrialisation has to a large extent been satisfied, and now, their main development goal has shifted to the next stage—"poverty alleviation" —to achieve a better life for their people.
(2) Even if poverty is concentrated in certain regions and dimensions, it has worsened to become an issue of global concern.
(3) The new theories of development economics and aid policy proposed by Stiglitz and Sen are in themselves robust enough to lend strong intellectual support and credibility to the policy framework for "PRSP-Based Assistance" on a continued basis—regardless of its actual strength and sustainability—and thus the framework will be widely adopted with the support of development professionals and economists.

In the next section, I examine each of these hypotheses in more detail.

IV. Changing Trends in Global Economy

IV-1. End of the Post-War Aspiration to Industrialise?

Let us begin from the first hypothesis. Following WWII, many developing countries that achieved political independence subsequently attempted to win economic independence through industrialisation. These efforts formed their primary goal for development, and this was reflected in the international development co-operation policy. With changing circumstances, a different major concern appeared from one to another; but in most cases, it was relegated to a secondary goal. At times, the other concern did become the primary goal.(11) When viewed as an overall trend, however, we can safely say that this period was governed by the primary goal of achieving sustainable growth through industrialisation. The question is whether the shift in the primary goal of assistance programmes to poverty reduction (after review) means that development professionals believe that the developing countries have basically fulfilled (or are fulfilling) their aspiration to industrialise, and have entered a period where the new goal of securing the "happiness" of their people is pursued. The majority of them appear to have negative views on this point, but I will refrain from commenting further.

IV-2. Many Facets of Global Poverty

The second question related to the sustainability of the goal shift is whether global poverty is worsening. According to the *WDR 2000/2001*, the proportion of the population living under the poverty line, defined in terms of daily per capita expenditure (in US$), decreased from 28.3% in 1987 to 24% in 1994. However, as the population of developing countries increased over that period, the number of people whose income falls below the poverty line has remained relatively unchanged (1,180 to 1,200 million people). Also, cross-sectional analysis indicates a skewed concentration of the impoverished population in South Asia and Sub-Saharan Africa, and that the absolute number of poor in these regions is on the rise. In contrast, in East Asia, a more successful region, the poverty rate fell from 26.6% to 15.3%, and the absolute number of poor declined from 420 to 280 million. These are the results of the analysis of improved statistical data during the past 20 years (Household income and household expenditure surveys were conducted at least twice in the countries whose population accounted for 85% of that of the developing world).

Over the last 20 years, we have witnessed events on three occasions that might have worsened the global poverty situation.[12] The first was the impact that SAL of the 1980s had on the poor. This was addressed by the introduction of Poverty Assessment among other things, in view of the concerns raised by the *World Development Report 1990: Poverty* (*WDR 1990*). The second was the failure of the former Soviet Union and the Eastern Block's hasty privatisation, which caused a massive rise in unemployment. In contrast, the gradual reform of state-owned enterprises adopted by China, another transition economy, is making steady progress.

The third event was the East Asian financial crisis of the late 1990s, about which the World Bank was emphatic in its warning, calling attention to the adverse effect it had on employment and social welfare. The World Bank also conducted a follow-up analysis.[13] Certainly the financial crisis had a strong negative impact on household welfare, and poverty increased throughout East Asia. However, these impacts were less serious than had been initially expected. Households compensated for the fall in wages and reduced employment in the formal sector by increasing employment in the informal sector (through an increase in the household workforce). The governments, on their part, strengthened social safety nets and doubled efforts for information gathering in order to design appropriate policy measures.

However, there are lessons learned from the East Asian crisis. First of all, the full employment and constant growth that had acted as a safety net in East Asia until then, all at once crumbled under the macro-economic shock. It is no longer possible to take its continuation for granted. Secondly, the structure and facets of the East Asian society are changing rapidly. The aging population, urbanisation and industrialisation of employment, and political participation are exerting pressure on the informal, family-based mechanisms of social protection. For example, in Malaysia, the Philippines, Thailand and Vietnam, more than two-thirds of parents over sixty live together with their adult children. In South Korea, however, that proportion declined from 78% in 1978 to 49% in 1994. In Japan, the percentage of people over sixty who exclusively rely on their family income fell from 16% in

1980 to less than 6% in 1990. Now, demand for more formal, government-managed schemes for providing care for the elderly is rising.

One of the crucial factors contributing to the recent fervour over poverty is the frequency of national and regional armed conflicts.(14) The conflicts of the Cold War era were largely "proxy wars," and their occurrence as well as their conclusion were, so to speak, orchestrated. Following the end of the Cold War, such conflicts disappeared and instead internal and regional disagreements easily escalated into armed conflict. Of the 103 armed conflicts that occurred between 1989 and 1997, all of them took place in the developing or transition countries, with the exception of Northern Ireland and Uppsala. Currently, 90 countries are in the middle of an armed conflict, and another 30 countries are of special attention, facing the imminent threat of a conflict.

There is practically no research on conflict by economists, but nobody doubts that the causes of conflict and poverty are inter-related. Even if leaving aside the causes of poverty, it is clear that conflict hinders the development process, which in turn brings about poverty. A typical example is presented by World Bank study on Sub-Saharan Africa. According to the study, the collapse of public order due to internal conflict or civil unrest has halted the development process of countries whose population accounts for one fifth of the entire African population.(15)

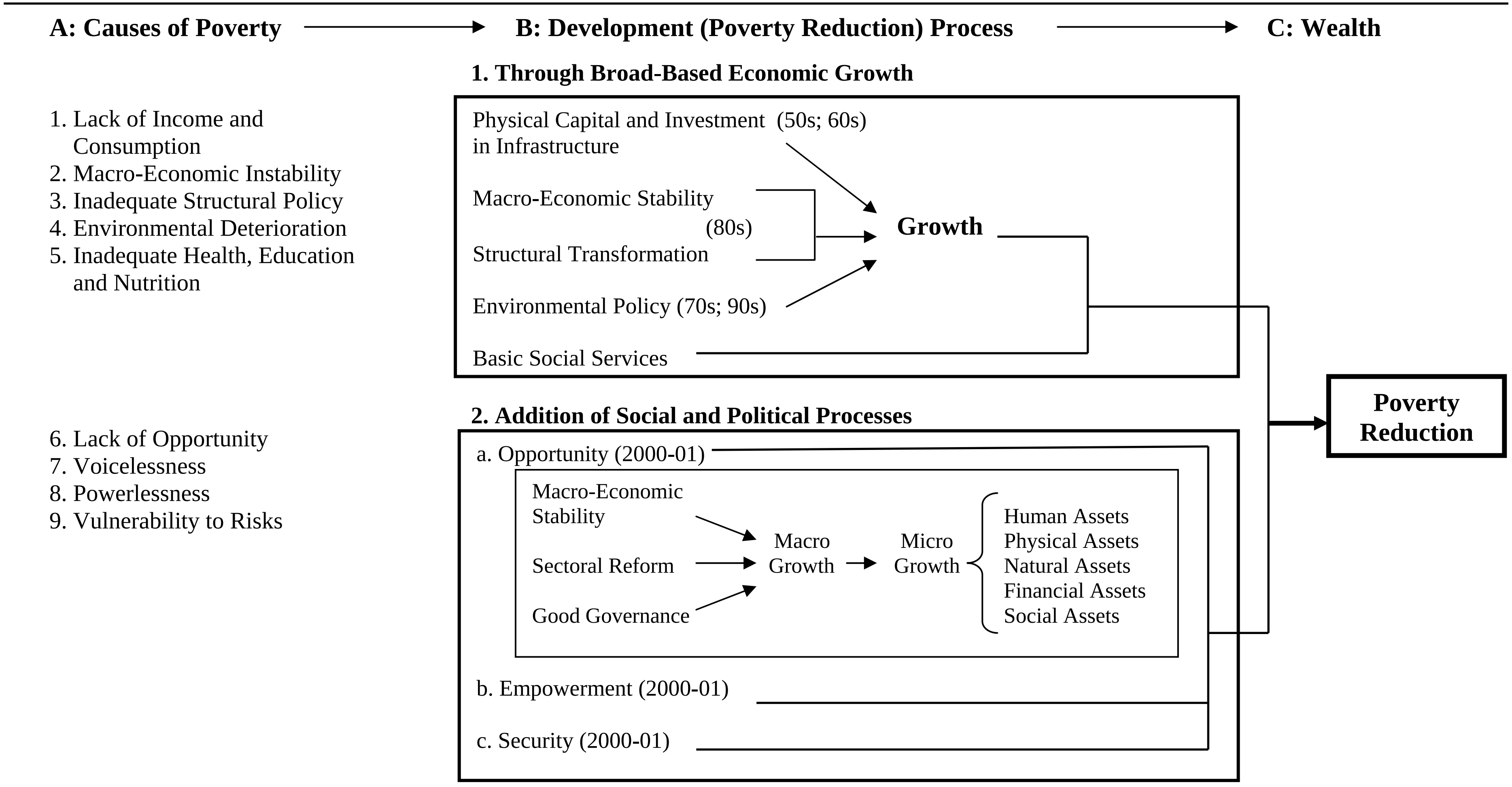
The United Nations High Commission for Refugees (UNHCR) is responsible for the issue of refugees, and this issue is deeply related to domestic and regional armed conflict. The UNHCR extends support to those who had to flee a country because of civil war or conflict arising from the clash of ethnic groups or religions. Moreover, in recent years, it has expanded support to include those fleeing conflict within a country, upon the request of the UN Secretary General. In 1990, the total number of refugees equalled 14.9 million, but because of continued outbreaks of large-scale conflicts in Northern Iraq, former Yugoslavia, Rwanda, and the Great Lakes region of Africa, that figure rose rapidly, peaking at 27.4 million in 1995. Thereafter, through the efforts of the UNHCR, the figure fell to 21.4 million in 1999. However, in March of that year, conflict in the Kosovo broke out and the figure rose again to 22.3 million.(16) In general, refugee related issues are beyond the scope of research conducted by economists. Therefore, how the relationship between international conflict and poverty should be linked to a programme based on “PRSP-Based Assistance” remains to be answered.

V. Stiglitz and Sen—Robustness of Theories

The third question is related to the robustness of the economic development theory and international development policy (or aid policy) formulated by Stiglitz and Sen. This issue is independent of examining the strength of “PRSP-Based Assistance.” But in preparation for this discussion, it is necessary to take a closer look at the influence both these academics actually had on PRSP policy. For that purpose, I have compiled Table 7 by summarising the changes in the concept of poverty, the poverty reduction process and the shift in the development goal (which are the outcomes of the World Bank policy review), based on the analysis from Section II of this paper. As for the concept of poverty, “after the review,” it has been expanded to cover not only the economic aspects of poverty (items 1 to 5 in column A of Table 7), but also the non-economic aspects (items 6 to 9). As for the poverty reduction process, there has been a shift to cover both the economic growth process (items 1 and 2 in column B) and the social and political processes. Furthermore, as for the development goal that integrates these processes, there has been a shift from the promotion of material growth to the broader definition of poverty reduction including the reduction of non-material poverty. These developments or outcomes constitute the three opportunities that led to the emergence of “PRSP-Based Assistance” in the 1990s, as indicated in Table 7. Indeed, both Stiglitz and Sen made great contributions to the design of these concepts. Moreover, the division of labour between the two academics is consistent and well presented. Stiglitz deals mainly with a holistic development approach, while Sen concentrates on conceptualising the chief causes of poverty. Thanks to their contributions, the multiple causes of poverty in column A of Table 7 are combined, and the panels 1 and 2 of column B are integrated (I shall discuss these details later).

Now let us look at their theories separately.

Table 7: Poverty, Wealth and the Development Process: Evolution of World Bank Concepts



Note: The causes of poverty in column A are listed in the same order as they were historically adopted in the World Bank's policy framework. Items 6 to 9 emerged after "the review," while items 1 to 5 existed even before "the review" and are remain current. The development process before "the review" is shown in panel 1 of B, and panel 2 shows new processes introduced after "the review." However, B1 (growth) is not only a condition for B2a (opportunity), but also a prerequisite for the whole non-economic process of B2 (*WDR 2000/01*, p.37). The figures given in brackets in column B refer to the decade when respective policies were adopted by the World Bank.

V-1. Stiglitz and the New Development Strategy (NDS)

Stiglitz produced a large volume of writing on development economics and development policy while working at the World Bank as chief economist. However, in my opinion, his most systematic work was in connection with a speech given as the UNCTAD Prebisch Lecture in October, 1998.(17) This paper presented a new paradigm that asserted that "development" is not a technical problem requiring technical solutions. Rather, it represents a *transformation* of society—a movement from traditional relations, ways of thinking, methods of production and administration, to more "modern" ways. Here, "higher GDP is not an end itself, but as means to improved living standards and a better society, with less poverty, better health, and improved education. By and large, increases in GDP per capita are accompanied by reductions in poverty." [Stiglitz 1998, pp.3-5]

I would like to give particular attention to three aspects of Stiglitz's perception of the economy and society of a developing country that form the background to the new paradigm.

(1) In traditional economic theory, prices perform all the coordination that is required in an economy. But this requires a full set of markets—an assumption that patently is not satisfied in less developed countries. Thus, co-ordination in developing countries must progress using a development strategy to supplement market imperfections (Stiglitz adopts this development strategy in NDS).

(2) Developing economies are resource-constrained. As well as detecting and dealing with major distortions in the economy, a development strategy should strive for the maximum use of these scarce resources. In other words, the economic management of a developing country should be comprehensive rather than concentrate all interest on the traditional management tools of liberalisation, privatisation and macro-economic stability.

(3) As mentioned earlier, a development strategy should not be confined to economic and technological transformation, rather it should be an approach to transform whole societies, and as such should respond to the problems of all its constituents. The strategy should act as a catalyst to build consensus among the stakeholders, that is, the private sector, the public sector, the community, households and individual.

These three perceptions of a developing country argue for a completely new paradigm in the history of the development economics that provides the foundation for World Bank aid policy (which until now has witnessed changes from "structuralism" to "neo-classical economics" and, for a short period, "revisionism" in the interim). For Japanese development professionals, the last concept (above (3)) is new, but the first two concepts (above (1) and (2)) closely resemble assertions that we have made in the past.[(18)] In our terminology, these would refer to the underdevelopment of the economic system (above (1)) and of various productive capacities (above (2)) (which correspond to the early stage of development in a market economy). As for Stiglitz, such perceptions are based on market imperfections, particularly the application of moral hazard and adverse selection models, in the theory of asymmetric information (through which he made invaluable contributions to economics).

Thus NDS, building on the above perceptions, first of all emphasises that the instruments of conventional economic development are not effective as a prescription for society-wide transformation. Even if development efforts succeeded in transferring technology, only duality or isolated enclaves would be developed. Moreover, because of the limits imposed by fungibility (appropriation of funds), investment project assistance would do little more than finance projects with the lowest social returns.[(19)] Accordingly, NDS needs to prepare a (somewhat ambitious) plan that covers both economic and non-economic aspects. However, because of underdevelopment of the market the strategy ends at proposing a (extremely imperfect) vision. Despite this shortcoming, it is imperative that NDS sets priorities for resource allocation, which should cover not only conventional types of resources but also the capacity of the government and problem-solving ability. Next come issues related to co-ordination. If an economy is to move to the next stage of development, the appropriate infrastructure, human capital, and institutions all have to be in place. The kind of co-ordination under NDS differs from indicative planning that simply substitutes for market imperfections. It is expected to provide the broader vision, including entry into new technologies or new industries.

The most interesting, and at the same time problematic, feature of Stiglitz's approach arises from his perception of its means as outlined in (3) above, that is the assertion that NDS ought to be a consensus builder across the whole of society. This is largely dependent on a motivation or incentive system for a successful NDS. Three main ingredients of which are presented.

(1) NDS ownership and partnership: NDS, if imposed as conditionality from outside, will rarely be implemented. Instead, the participation of all segments of society in its planning and implementation is important for its success. Through participation and ensuring access to any benefits of success, it hopes to create a sense of ownership. If NDS achieves this, it will harvest strong support from the people.
(2) Obtaining the participation of all stakeholders could be considered as sufficient, but in addition, an incentive system to support the participation of groups of individuals or organisations is also necessary. In particular, it is important that participants sense that their views are taken into account in decision-making.
(3) Reform often brings advantages to some groups while disadvantaging others. There is likely to be greater acceptance of reforms—and a greater participation in the transformation process—if there is a sense of equity, of fairness, about the development process.

V-2. Sen and the Capability Approach

Stiglitz's NDS is based on the two principles of comprehensiveness and partnership. It releases the concept of development from the realm of economics in the narrow sense, towards society-wide transformation. The strategy also enlarges its sphere of activity from a technical approach in economic policy to the involvement of all components of society (and in their turn donors and the government). Taking up the propositions set out in NDS, Sen's contribution [20] is to breathe life into the strategy by tackling Stiglitz's pursued but unrealised attempt to make the development process "fair" and "equitable." Sen has achieved this by proposing the "capability approach"—a framework that goes beyond the approaches of normative economics (and ethical theory). The "capability approach" is based on a profound reflection of development and bears close affinity to the concept of poverty reduction. According to Sen, poverty can be understood as a condition marked by the deprivation of "basic capabilities," and he see development as a process where this inadequacy is fulfilled. It should be also stressed that, until now, normative economics only took up limited aspects of an individual's attributes within the concept of fairness (For example, in "utilitarianism," physical and spiritual "contentment" were taken up and quantified as "utility," or in the material welfare school, "material welfare" was quantified as "utility," while John Rawls looked at these attributes as "primary goods"[(21)]). The concept of capability, in contrast, contains wide-ranging aspects of an individual's qualities, and accordingly the concepts of poverty and poverty reduction become part of this comprehensive content.

It might be useful to add that in traditional classical economics, the concept of capability takes as its base the right to control monetary income (i.e., the material basis of welfare) and has been developed with the support of various physical and mental complements that enable these assets to realise greater welfare.

Then, through what kind of intrinsic process does material wealth develop into "capability"? Here we need to adopt an intermediate concept, called "functioning." Let us assume that the goal of the household is a better lifestyle. The concept of "functioning" reflects the various things that are useful in achieving this goal. They may vary from elementary ones, such as being adequately nourished and being free from avoidable diseases, to very complex activities or personal states, such as being able to participate in the life of community and having self-respect. A person's "capability" refers to the alternative combinations of functionings that are feasible for her to achieve. The amount or the extent of each functioning enjoyed by a person may be represented by a real number, and when this is done, a person's actual achievement can be seen as a "functioning vector"; and the "capability set" would consist of the alternative functioning vectors that she can choose from.[(22)]

For the conversion of assets into a "functioning" and the choice of one group of "functioning vectors" from the "capability set," an individual, household or organisation's capability is necessary; however, demonstration of these abilities can be restricted by society or the political environment. Such an environment can form one type of "functioning" as well. According to Sen, a person's capability, indicated by the achievable functions and alternative combinations, is a kind of freedom—the substantive freedom to achieve various lifestyles. Thus the "capability set" represents a broader meaning of the freedom to choose.

Because the concept of capability (or freedom) covers the wide-ranging aspects of an individual's qualities, it gives a broader explanation of concepts of poverty and poverty reduction. Table 6 and Table 7 clearly show that, following the adoption of "PRSP-Based Assistance" in 1999, concepts of poverty and poverty reduction have grown in stages. Credit for this is precisely due to the influence of Sen's capability approach, channelled through contribution to the *WDR 2000/2001*.(23)

V-3. Famine and Public Action

Sen's capability approach has made invaluable contribution to development economics and development policy at the level of normative economics. Therefore, the natural expectation should be that it will motivate and inspire low-income countries and their poor—as a new approach dealing with "fairness" and "justice" for them. If that is the case, it should never be expected to contribute to policy at the action plan level. Nevertheless, the capability approach has been criticised for its lack of policy implications. In this sense, it is important to refer to Sen's research of famines in the 1970s, through which he directly responded to similar criticisms in light of the recent re-examination of public policy implications.(24)

Sen investigated well-known famines that occurred around the world after the 1940s. Notably, he found that the cause of famines was not necessarily connected to the aggregate level of food production or a scarcity in supply, but rather the loss of "entitlement" of various job-specific groups or individuals. (In fact, victims are limited to groups that lost "entitlements.") "Entitlement" is not a word frequently used; however it refers to the ability a person earns to produce food, or to buy food at the market by getting employment in the production of other commodities, which may vary from cash crops, industrial goods, trade or businesses etc. Famines are caused by the loss of entitlements of one or more occupational groups, and by the resultant deprivation of opportunities to get and consume food. [Sen 1999, p.168]

One example is the Great Famine of 1943 in Bengal. With the Japanese army around the corner, the British and Indian defence expenditures were heavy in urban Bengal. Once the rice prices started moving up sharply, public panic as well as manipulative speculation played its part in pushing the prices sky high, and beyond the reach of a substantial part of the population of rural Bengal. This is what started the famine off. In the Bangladeshi famine of 1974, the first signs of distress were found among the landless rural labourers, after the summer floods, which disrupted the employment of labour for transplanting rice.

The famine that continued from 1972 to 1974 in Ethiopia started because of a drought; however, the mechanism of the famine differed significantly between the states in the northeast and those in the south of the country. Furthermore, different kinds of farmers and pastoralists whose livelihoods were distressed by the famine were affected differently. Farmers can be grouped into landed farmers, tenant farmers, smallholders, and agricultural wage labourers etc, and their relationship with the famine was complex. In the northeast, the victims of the famine were mostly farmers, particularly tenant farmers and smallholders. In this case, entitlement failure took place in such form that was not mediated through the market. That is to say, a decrease in the food a family produces and owns. However, the famine did not dramatically lower the aggregate amount of food produced. In the east and south of the country, the pastoralists were hit severely. In their case, the infiltration of commercial farming drove them from their dry season grazing lands, and the shock caused by the drought was doubled. Normally, the pastoralists sell their usual animal products to buy food grain. A drought led to a fall in the relative price of animal products vis-à-vis food grains, which made it impossible for the pastoralists to buy enough staple food to survive. Put simply, "it was the market mechanism that killed the pastoralists who had been heavily hit by the famine."

What kind of policy implications did Sen intend to draw by advocating an "entitlement approach" to famines? Of the many types of entitlement, he attaches great importance to the "exchange conditions." As the above examples clearly show, a sharp increase in the price of food in the market made it impossible for the pastoralists to exchange their products to buy enough food to ensure their survival. Also, flooding deprived the landless farmers of the opportunity for paid labour, and thereby denied them a minimum level of income to survive. In spite of this rich analysis, policy proposals for market system reform have yet to be presented.(25)

It was at an academic meeting held in August 1990 (in London) that Sen gave his lecture regarding the policy implications of the investigation. His lecture was extremely modest, but it covered two main points.

(1) Famines are associated with the loss of entitlement of one or more occupational groups in particular regions. The numbers involved are usually small fractions of the total

population, and the minimum level of purchasing power needed to ward off starvation can be quite small. For example, public employment creation programmes in the Indian state of Maharashtra, by providing cash payments, effectively prevented potential famines from occurring during 1972-74. Sen explains the advantages of public action that generates wage income through employment over handouts and direct distribution of food as follows: To start with, providing employment makes it easier to select the appropriate recipients and thereby reduces the likelihood of waste and corruption. Moreover, cash payments make it possible to use already existing business and distribution channels and thus control inflation arising from collusion among tradesmen. In fact, in the dry season in Maharashtra, the per capita consumption of food of the occupational groups which were not affected (factory workers and large-scale farmers) and the hard-hit groups (agricultural wage workers, smallholders) decreased similarly. In other words, the fall in the total consumption of food was equally shared among all the occupational groups.

(2) Expanding the role of public action to public scrutiny and monitoring (without limiting it to the provision of public goods) greatly contributes to avert the outbreak of famines. This is a point that Sen has asserted on an *ad hoc* basis for a long time. According to him, famines did not break out in India after the Bengal famine in 1973 because India has a developed mass media that functions as the early-warning system whenever a given state or region shows symptoms of famine. By way of contrast, in China, where the media is totally controlled, the Great Famine of 1961 killed twenty to thirty million people, without the knowledge of the top leaders of the country. In his lecture, this issue was stressed as one of the political pre-conditions to prevent famines more systematically.

VI. Policy Debates at the Conceptual Level

In Sections IV and V, we examined whether any external circumstances prevented the World Bank from stepping back from the new policy framework it had adopted—the goal shift from growth promotion to poverty reduction—even if it lacked robustness and sustainability (Section III). More specifically, we reviewed the possibility of such scenarios as: (i) the end of aspiration for industrialisation by developing countries; (ii) worsening of global poverty; and (iii) the strong persuasive powers of Sen's and Stiglitz's theories. We were unable to deny their possible influence; however, neither could we guarantee that the implementation of the new policy framework for poverty reduction would be without problems. These are the conclusions of our examination thus far. Under such circumstances, it is quite possible to invite a situation where donors (particularly the World Bank) and the recipient country (particularly one with strong ownership) disagree over the formulation of a comprehensive development programme. Or, the ensuing opposition and confusion could adversely affect their relationship with the recipient country, in cases where the World Bank strongly insists on "PRSP-Based Assistance."

In this section, I would like to examine this problem by focusing on the relationship between the Vietnamese government and the World Bank around the drafting of the I-PRSP, work which began in April 2000. At the time, there were ongoing negotiations on the second Structural Adjustment Lending between the Vietnamese government and the World Bank (Poverty Reduction Strategy Credit: PRSC) and the IMF (Poverty Reduction and Growth Facility: PRGF) (The negotiations lasted four years from 1997 to April-May 2001).

VI-1. A Quiet Debate: The Case of Vietnam

I became aware of the existing problem in July 2000, at the stage when the Vietnamese government was just about to start the drafting its I-PRSP. At the time, a high-level official of the government expressed the following reservations about the World Bank's policy for poverty reduction.

> *"Our understanding of economic development and poverty alleviation is that first of all it must begin with economic growth, without it poverty alleviation is not possible. The fact is that for the past ten years Vietnam has been able to collect tax revenue because it has enjoyed economic growth, and it is these funds that we have used for poverty alleviation. And we have had good results. If, as the World Bank says, we put poverty alleviation first, then Vietnam will have to continue borrowing for the foreseeable future, and that we cannot do."*

Vietnam's I-PRSP was completed in March 2001 and submitted to the World Bank. While it largely met the formality required by the World Bank, in substance, the views expressed by the official permeate the document. As a compromise, the structure of the I-PRSP follows the suggestions set out in the JSA (see Table 6). Specifically, the policy framework is organised in the same order as in the guideline, that is, macro-economic stability, structural transformation, sectoral policy, and increasing opportunities for the poor. However, the title of Section II of the I-PRSP (which deals with the goal) has been carefully named "Growth and Poverty Reduction Objectives." The most powerful sign that the views of the Vietnamese government permeate the document is given by the description of the macro economy. This part of the document is adopted directly from the planning goals set out in two documents: *The Seventh Five-Year Plan for Socio-Economic Development 2001-2005* (approved in June 2001) and *The Strategy for Socio-Economic Development in the Period 2001-2010*. As the goal of an annual growth rate of at least 7% for the next five years has also been made a primary goal of the I-PRSP, it requires the policy measures set out the Ten-Year Strategy to be implemented without modification. These would include macro-economic stability, a sound balance of payments, together with "Industrialisation and Modernisation." As for poverty reduction, it is treated as "a key social policy" and as such becomes nothing more than one of the many policy measures set out in the Ten-Year Strategy.(26)

Another point repeatedly made by the Vietnamese government is reflected in the title of Section III of their I-PRSP, "Macro Mechanisms and Policies to Promote Economic Growth and Create Resources for Poverty Alleviation." According to the Vietnamese government, a large part of the resources for poverty reduction must come from the national budget—although they are partly financed by external and local resources. Where the budget revenue is small, it restricts the extent of poverty reduction measures. Thus, for poverty reduction policies to make progress, the first priority should be placed on growth at the macro-economic level. If we accept this point, the selection of the target groups for poverty reduction measures also becomes important. Although the I-PRSP lacks a concrete description of poverty reduction, given severe budgetary constraints, it is necessary to strictly select the target groups for assistance. The document suggests that assistance be targeted at infrastructure projects in the highlands and in isolated and deprived areas where ethnic minorities live or in poor communes (villages), together with the improvement of transport network which links these areas with the already developed areas.(27)

World Bank and donor documents on Vietnam often indicate that the main issue for their discussions with the Vietnamese government over poverty reduction strategy is on the balance of budgetary allocation between (i) broad-based growth, and (ii) pro-poor targeted expenditure. In particular, in the Joint Report of Government-Donor-NGO Poverty Working Group (*Vietnam Development Report 2000: Attacking Poverty*) suggests that prior to the 1999 Consultative Group (CG) Meeting, there existed disagreements between the Vietnamese government (i.e., the Ministry of Planning and Investment (MPI)), who favoured broad-based growth, and the World Bank and donors in the Poverty Working Group (which also includes the Ministry of Labour, Invalids and Social Affairs (MOLISA)), who favoured a poverty reduction approach.[(28)] I will take up this point again later on. This fact implies that such important issues had been dealt with based on a subjective judgement, with the sketchy information on the seriousness of poverty and the actual strength of the economy. The World Bank, which recognises itself as the "Knowledge Bank," is primarily responsible for this serious situation. Furthermore, if matters progress in this manner, the World Bank's poverty reduction strategy will remain hard to understand, and there is even a risk that the new policy framework will be regarded as another new conditionality.

VI-2. Statistical Research Trap

I believe that the original intention of a paper, "Growth is Good for the Poor" written by D. Dollar and A. Kraay (Development Research Group, the World Bank), was to warn against the misunderstanding that hasty goal shift could bring along with it, that is, that growth consideration is unnecessary for poverty reduction (The paper has become widely known since its publication on the World Bank website in March 2000). Conversely, it is also possible that the paper could lead to the misinterpretation that poverty reduction is largely the results of growth and that growth is all that is needed to improve the lives of the poor. In the previous section, I warned that the imposition of "PRSP-Based Assistance," while it still is incomplete, can lead to resistance and chaos. I believe that the issue presented in this sub-section could cause similar problems.

Regression Analysis of a Cross-section of 80 Countries

In this paper, Dollar and Kraay conducted regressions on a data set of 236 observations in a cross-section of 80 countries, which had been accumulated by the World Bank over 40 years. The paper adopts two approaches. The first is to explore the association between the average per capita income of the overall economy (per capita GDP) and the per capita income of the poor in that country (defined as the mean income of the lowest quintile). This can be measured both in absolute terms and in terms of growth rates. The analysis shows that in either case the relationship between growth of income of the poor and overall economic growth is one-to-one (that is, when the national per capita income rose 10%, then that of the poor also rose by 10%). Moreover, in absolute terms, over 80% of the variation in incomes of the poor is due to variation in overall per capita incomes, while in terms of growth rates, just under half of the growth of income of the poor is explained by growth in mean income. This suggests the robust relationship between growth and poverty.

The second approach is to analyse what kinds of variables can explain deviations in the relationship between growth and the poor. Based on a decomposition formula that divides the mean incomes of the poor into per capita GDP and income distribution of the poor (all in logarithmic scale), institutional and policy variables (such as macro-economic stability, fiscal discipline, openness to trade, and rule of law), that have been identified as pro-growth in empirical growth literature, are tested to explain deviations from this basic relationship between incomes of the poor and growth. The results of this analysis are much as expected, although the effects of each of these variables on the mean income of the poor is complex comprising of a direct effect (or income effect) that operates through its effects on overall incomes, and an indirect effect (or distribution effect) that operates through its effects on distribution of income. That is to say that, reducing public expenditure and controlling inflation aimed at macro-economic stability are not only examples of "super-pro-poor" policies, with an additional positive effect on distribution of income. There is a popular view that globalisation increases inequity within countries. However, the analysis finds that openness (measured as exports plus imports related to GDP) has positive growth effect and does contribute to increasing income of the poor, but its distribution effect is insignificant and statistically different from zero. On the other hand, the overall effect of public spending on social services is not significant. "This reminds us that in many countries, public expenditure on social services is often not well-targeted towards the poor." [Dollar & Kraay 2000, p.6]

Regarding these results, Dollar and Kraay note the following. "This does not imply that growth is *all* that is needed to improve the lives of the poor. What we do learn is that growth generally does benefit the poor and that anyone who cares about the poor should favour the growth-enhancing policies of good rule of law, fiscal discipline, and openness to international trade." [Dollar & Kraay 2000, p.27]

Although I accept the results of the analysis by these econometricians, being an economist myself, I find it necessary to add the following comments. Regarding the first approach, the elasticity of unity and R-squared (co-efficient of determinant) of 0.8 between growth of the whole economy and the proportion of poor shows an extremely positive relationship. However, as it is determined from regressions performed on aggregate data from a cross-section of countries, we must be cautious about any policy implications. For example, I am not persuaded by the conviction often seen in policy proposals that, whatever the circumstances, if policy measures that promote growth are in place, they will also be useful for poverty reduction.(29) In relation to the second approach, it is desirable to conduct the same analysis applied here to macro-economic variables to variables for other policy areas that are thought to bring about a direct effect, particularly on poverty reduction. In conclusion, the kind of study produced by Dollar and Kraay that makes policy-related comments on the issues of growth and poverty reduction based on the results of a regression analysis of cross-sectional data collected internationally, resembles discussing problems at the policy level with materials dealing with the conceptual level, and this is very risky.

VII. Search for a New Strategy for Development

In sum, "PRSP-Based Assistance," introduced as the result of the World Bank aid policy review, has been successful in proposing an ultimate development goal and the new policy framework to implement it—with the support of new development theories put forward by Stiglitz and Sen. The proposal suggests the need for a shift in goals and in policy frameworks from growth promotion (i.e., income dimension) to poverty reduction (i.e., income and non-income dimensions). However, it is a highly deficient proposal when viewed as system of action plans to be properly supported by fiscal resources.

Moreover, we examined whether developing countries of today, having achieved political independence after WWII, are on the way to attaining economic independence through industrialisation and have reached the next stage of development where they aspire to poverty reduction. Conversely, we questioned whether poverty has prevailed and worsened in developing countries, especially in recent decades, and whether many of these countries could not afford to consider medium- and long-term development. If one of the above answers positive, we would have to accept the new proposal and support it vigorously even though it was deficient as a system of action plans. We were unable to obtain a clear and positive answer to these inquiries; rather, the answer appears to be negative.

Finally, we warned that there are risks attached to conducting policy discussions relying on materials that dealt with the conceptual level. In such a case, the goal, or, at least, the policy framework (at the action plan level) can easily become a choice between two alternatives: growth or poverty reduction.

VII-1. Pro-Poor Targets and Broad-Based Growth

In light of these circumstances and various constraints, how should a new development strategy be designed to make it truly effective and workable? A straight response is difficult, but the preliminary analysis of this paper suggests the following:

(1) Concerning the goal, or at least the policy framework of a new development strategy, it is not realistic to force a choice between growth or poverty reduction. It is more desirable to consider the appropriate combination of "pro-poor targeted expenditure" and "broad-based growth expenditure" approaches—to a common goal of poverty reduction—if using the language of the World Bank and CG documents. This line of thinking implies our acceptance that the ideological environment for development strategy has shifted its focus to poverty reduction. Indeed, at the theoretical level, this shift seems to be strongly influenced by both Stiglitz and Sen. At the operational level, it may be an affect of the prestige of the World Bank in the development community. The examples of negotiations between the Vietnamese government and the World Bank also indicate that the Vietnamese government itself has become conscious of the change in the ideological environment for the development strategy.

(2) As for "pro-poor targeted expenditure," it is necessary to clarify the various pathways by which poverty traps are created in relation to each and every one of the expenditure items. In this sense, *The Economics of Poverty in Poor Countries* (1998) by Partha Dasgupta is an attempt to systematically analyse the realities of India and countries in Sub-Saharan

Africa. As one pathway of a poverty trap, Dasgupta describes reciprocal connection between under-nourishment and a person's capacity to work. He also looks at the dependence of impoverished people in low-income countries on local commons or common-property resources, and sees how the very process of economic growth can result in the breakdown of communitarian arrangements, making certain sections of the population (e.g., women, children, and the old) especially vulnerable to economic shocks (According to a survey of 21 dry districts from six tropical states in India, among poor families, the proportion of income based directly on the local commons was for the most part in the range of 15-25 %). Moreover, he argues that the links between poverty, high fertility, and environmental deterioration may well constitute yet another pathway by which people can get trapped in poverty. For India and Africa, the pathways described above are fairly common. It is necessary to specify the types of poverty and pathways by which people become poor and remain poor, along with the realities of Vietnam. However, such research has rarely been conducted to date.

(3) It is also necessary to analyse the critical pathways by which broad-based growth leads to poverty reduction. Thus, the analysis of the pathways should not be limited to "pro-poor targeted." In this case, the expenditure items do not have the aim of reducing poverty directly. Rather, they initially contribute to an expansion of GDP, and the resultant increase in savings leads to poverty reduction through fiscal, financial and various other routes. When "broad-based growth expenditure" is preferable to "pro-poor targeted expenditure," the scale of poverty reduction through the former is greater than the latter. Here, it is necessary to evaluate the scale of poverty reduction by calculating its cumulative total, in terms of present value and throughout the entire stream of time. So, the level of discount rates also matters.

(4) Through this exercise, it is expected that allocation of "pro-poor targeted expenditure" and "broad-based growth expenditure" is determined objectively and scientifically, rather than subjectively and politically. An important assumption in this regard, however, is that the total budget or the sum of public finances and borrowing for poverty reduction is given. If the total resource envelop is undecided, and the expenditure must be simultaneously allocated for both pro-poor targeted and broad-based growth, a new device is needed. Our attempt to estimate the optimum level of the expenditure for poverty reduction under the

CGE general equilibrium framework—conducted as part of the Joint Vietnamese-Japanese Research Project—was precisely driven by this motivation.[30]

VII-2. Poverty Mechanisms Affecting the Ethnic Minorities of Upland and Highland Vietnam

Then, how can we construct models that help analyse the pathways or mechanisms of poverty caused and/or reduced through both pro-poor targeted and broad-based growth approaches, as mentioned before? In this section, we again focus on the case of Vietnam. In particular, we pay attention to the poverty problem in the ethnic minorities in the uplands and highlands—the only incidence of pro-poor targeted action, strongly supported by the Vietnamese government at this stage—in an attempt to elucidate how this case can be constructed as a poverty model and (without entering into the construction of a structural model of the whole economy) what implications such a model would have within the economy. Of course, the problems affecting the ethnic minorities in uplands and highlands are complex, and the information necessary for their analyses is neither sufficient nor systematically organised. Thus, in the following I will focus on the ethnic minorities in Central Highlands (or Tay Nguyen, which covers the provinces of Kom Tum, Gia Lai, Dac Lac, and Lan Dong). To avoid an unduly complicated description, here I will not mention the latest problem surrounding the construction of a multi-purpose dam in the Son La province in the Northern Uplands (which involves the resettlement of 100,000 people), on which the Party made a final decision in the summer of 2001.

First, let me describe several features of the ethnic minority groups in the highlands. There are 56 recognised ethnic groups in Vietnam, accounting for 12 % of the total population. The majority of them inhibit the remote mountain regions bordering Southern and Central China, Laos and Cambodia. In various senses, they are isolated from the Vietnamese economy and society. That is to say, these regions are isolated geographically; because of underdeveloped infrastructure they are not connected with the plains via transport network. Moreover, as each ethnic group has its own language, communication with the Vietnamese (the Kinh majority) is difficult. Literacy rates within respective ethnic groups are also low. In terms of production methods, they are engaged in slash-and-burn farming, migrating within specific geographical areas demarked for their use (by group by group) and repeat a fairly static cycle.[31]

Causes of Poverty

Nevertheless, the causes of poverty among the ethnic minorities of the Central Highlands of today cannot be explained solely by the above features.[32] Following the adoption of Socialism in Vietnam and its involvement in international conflicts, there were five major events, which pushed the ethnic minorities into poverty in the modern sense.

(1) The policy to encourage population increase, adopted by the Vietnamese government after independence and re-unification, bears similarity to the policy promoted in China. By the 1980s, the government radically changed this policy into one that encouraged smaller families. Thanks to the improvements in public health and sanitation, the regions inhabited by the ethnic minorities witnessed a marked fall in death rate (There was no change in the birth rate). The resultant increase in population led to a shorter resting phase in the cultivation cycle and a decrease in yield.

(2) In the Central Highlands, the herbicides dispersed by the US army during the Vietnam War and the stirring and the outflow of topsoil in forests using bulldozers caused a massive loss in forests and farmable land.

(3) In 1976, after the establishment of a unified Vietnam (in the case of the South. For the North, it was after the Geneva Agreement of 1954), the government adopted a policy that encouraged surplus labour in the rural areas of the north and central regions to migrate, manage, and cultivate the areas inhabited by the ethnic minorities. This resettlement project meant to follow the movements of national security and political significance that originally took place in Russia and China. However, what interests us here is its economic aspects. Under the resettlement project, the ethic minorities were banned from slash-and-burn farming and obliged to supply their (farming and resting) land for national ownership, onto which landless labourers from the Red River Delta and the central plains moved as "scheduled migrants" to develop and cultivate the land (now referred to as a "new economic zone").[33] The total number of "scheduled migrants" was estimated at 3 million.[34] On the other hand, the indigenous inhabitants, deprived of their land and forced into "settled farming," were unable to adapt well to the new change.[35] They were technically and culturally left behind. As a result, they over-cultivated the limited land

allocated to them, causing erosion of the topsoil and its outflow, which in turn led to a fall in land productivity.

(4) Separate from the above scheduled migrants, from about 1985 onwards, the Vietnamese living in densely populated rural areas of the central plains (the Quang Ngai province) and the ethnic minorities living in the over-crowded northern mountainous areas (Thai and Fumon) began to migrate into the Central Highlands. Although they were considered as "voluntary migrants," in fact, they were "squatters" or illegal migrants. Around 500,000 of these migrants moved there, attracted by the profit to be made from the rising values of coffee and other cash crops.(36) As a result, the land left to the indigenous ethnic minorities became even smaller.

(5) After 1995, a series of floods attacked farms on the central plains, and many farmers lost their land. These victims were sent to the Central Highlands as "scheduled migrants." Those migrants described in (3), (4) and (5) above benefited from the government's support programmes and have come to enjoy the certain level of living standards; however, the indigenous ethnic minorities in the Highlands have received virtually no benefits from the programmes.(37)

The above explains the mechanisms through which poverty was created in the Central Highlands during the Socialist planning period following North-South Unification. Various factors were combined, and indeed, their consequences on the ethnic minorities were devastating.(38) However, I would like to stress one point. That is, it was only in the 1990s, that the realities of the resettlement project came to be known. Until then, there was a severe lack of the information on the project and the areas where slash-and-burn farming had been banned. Certainly, this project deprived the ethnic minorities of their customary entitlement, i.e., a vast area of common land, and drove them into misery. On the other hand, it is also true that the government, the private sector and the Vietnamese farmers created a new productive opportunity and that this provided an opportunity for the indigenous inhabitants as well. But, the indigenous inhabitants did not possess the ability to take advantage of this opportunity. This problem became evident in the 1990s as the market-oriented reform progressed.

Changes During the Market Transition Period

The introduction of market-oriented reform to the development policies for the mountainous regions inhabited by ethnic minorities started fairly late after the beginning of *Doi Moi* (renovation) policy. However, once started it followed along the same track as *Doi Moi*. In particular, two reports have detailed accounts of the policies adopted under market-oriented reform. These were produced by two of the twenty-five study groups that belong to the Consultative Group for Vietnam, i.e., "The Five Million Hectare Reforestation Program" and the "The Partnership to Support the Poorest Communes" (A commune is an administrative unit roughly corresponding to an administrative village in Japan).

The former is about an ambitious project to reforest roughly half of the country's total forests (10 million hectares. The project is based on such visions as: ensuring environmental sustainability, responding to the demands of agriculture and household consumption, and improving the livelihoods of forest-dependent farmers (Decree 327 in 1993, Decision 556 in 1997). Notably, the project gives priority to land use planning and classification as a step to realise this vision. To this end, the differences between protected forests, farmland, and production forests (including competitive, long-term concessions won by the private sector for commercial activities), and community-owned land are well recognised. Moreover, the project stresses: strengthening of "state forest enterprises" (which have jurisdiction over about 5 million hectares of forests) and its managerial reform (separation of forest management and management boards functions), smallholder capacity building from province to commune levels, and improving the social status of the "forest-dependent farmers." As for community-based land use planning, the issue remains how to satisfy the needs of traditional community rights.

"The Partnership to Support the Poorest Communes" (or Program 135) is based on the Prime Minister's Decree 135 in 1998. The project aims to improve the material and non-material life of people in remote, mountainous and underprivileged communes and to create conditions for them to overcome poverty and become better integrated into the mainstream of Vietnamese life. It originally identified 1,715 communes as its target (among 4,400 communes), including 1,000 communes as an initial focus. In 1999, the Vietnamese government supported 1,200 communes in 30 provinces, investing about US$36 million (with an average investment per commune of about US$30,000). This is a far more comprehensive poverty reduction project than “the Five Million Hectare Reforestation Program.”

The Future: Three Crossroads

As market-oriented reform progresses in the 1990s, how will the traditional poverty model for the ethnic minorities of the Central Highlands change? At least, the following three alternatives can be considered.

(1) The ethnic minority groups will continue to be impoverished, regardless of future developments in the other sectors.
(2) The business development in the other sectors, particularly state forest enterprises, private forest enterprises, and smallholders, will create direct employment opportunities for ethnic minorities, which, through industrial linkages, will increase business opportunities for them. Moreover, taking advantage of education and training opportunities, they will gradually integrate into the market economy. Thus, the division between them and the Vietnamese will disappear. When that happens, it is quite likely that polarisation will occur among the ethnic minorities and within respective groups. On the whole, however, the ethnic minority groups will achieve improved livelihood under the market economy.
(3) The ethnic minority groups will maintain sustainable production and livelihoods, based on their respective common land, which was allocated through the planning and re-classification process. A large part of the common land has already been reallocated, and very little is left for them. But, the communal life will be revived at the somewhat reduced scale.

In analysing the three alternatives, I have not considered the riot by a group of ethnic minorities protesting against the government’s land and migration policy (which occurred in February 2001 in the three provinces in the Central Highlands) and the construction plan of the Son La Dam which involves politically- and socially- sensitive resettlement of 100,000 population of ethnic minorities in Northern Uplands (approved by the Party Politburo in summer 2001). It is quite possible that if these developments are examined based on sufficient information, the content of alternatives and their respective weight will change. Nevertheless, it has become clear that the poverty of ethnic minorities depends on changes in traditional communities and their surrounding economic environment, and how they respond to the new changes.

Endnotes

(1) I made a presentation of this project on May 21, 1999 at the Japan Academy (Gakushiin), under the title of "Advising Vietnam on the Transition to a Market Economy." Following its completion, the findings of the project were compiled into a report and published as Shigeru Ishikawa, "Six Years of Joint Vietnamese-Japanese Research and the Seventh Five-Year Plan (Draft)" (Nichietsu Kyoudou Kenkyuu no Rokunen to Daishichiji Gokanen Keikaku (Souan)), Ministry of Planning and Investment and Japan International Cooperation Agency, *Study on the Economic Development Policy in The Transition toward a Market-Oriented Economy in The Socialist Republic of Viet Nam (Phase 3) Final Report Vol.1 General Commentary* (Betonamukoku Sijoukeizaika Shien Kaihatsu Seisaku Chousa (Dai San Feezu) Saisyuu Houkokusho Dai Ikkan Souron) Chapter 1, March 2001. Please also see Shigeru Ishikawa and Yonosuke Hara (eds.), *Vietnam's Transition to a Market Economy* (Vietnam no Shijoukeizaika), Toyo Keizai Shimpousha, 1999, about the intermediate stage of the project, which was commercially published as book.

(2) Other developments include that: (i) Until recently, international assistance from industrialised to developing countries largely took the form of "bilateral aid" which is based on respective donors' policy and budgetary procedures, except for "multilateral aid" which is channelled through contributions to international organisations. However, since the end of the 1990s, as part of enhanced partnership efforts, donors have been encouraged to co-ordinate their aid policies (known as "policy harmonisation") and pool funds for development expenditure (known as "common basket"). (ii) There was a fierce debate over the desirability of "big bang" or "gradualism," as transition approach from a socialist or central planning system to a market economic system. It appears that such debate has re-emerged amid strong opposition to the reform of state-owned enterprises and state-owned commercial banks. My analysis on this issue has been already explained in the document cited in endnote (1). Nevertheless, I would like to take another opportunity to make presentation on this issue.

(3) Shigeru Ishikawa, "The World Bank Aid Policy Review and Japan's ODA" (Sekaiginkou no Kokusai Kaihatsu Seisaku Minaoshi to Nihon no ODA), *Shakai Kagaku Kenkyuu* Vol. 53, No.6, 2002.

(4) As with SAL, "PRSP-Based Assistance" will be handled jointly with the IMF in many operational aspects. However, to avoid complication, in this paper I will not refer to IMF procedures.

(5) Ernest Stern, "World Bank Financing of Structural Adjustment," in John Williamson (ed.), *IMF Conditionality*, Institute of International Economics, Washington, D.C., 1983.

(6) Refer to Note (2) in Table 2.

(7) For the detailed analysis of the World Bank's self-evaluation of SAL, please see Shigeru Ishikawa, "Structural Adjustment: Re-Examination of the World Bank's Policy" (Kouzou Chousei – Segin Houshiki no Saikentou), *Ajia Keizai* 35-11, November 1994.

(8) For example, the *Vietnam Country Assistance Strategy of the World Bank Group 1999-2002*, the World Bank, August 1998, defines the overall objective of CAS as "restoring the momentum of growth and deepening the quality and sustainability of development."

(9) Deepa Narayan, *Voices of the Poor, Poverty and Social Capital in Tanzania*, 1997; Narayan *et al.*, *Voices of the Poor, Can Anyone Hear Us?*, 2000; and Narayan *et al.*, *Voices of the Poor, Crying Out for Change*, 2000. In Vietnam, the PPAs was conducted in four areas, i.e., Lao Cai, Ha Tien, Tra Vinh and Ho Chi Minh City. Please see World Bank, DFID et al., *Voices of the Poor*, Hanoi, 1999.

(10) This point is easily confirmed from the description of the Government of Vietnam-Donor Working Group on Public Expenditure Review, *Vietnam, Managing Public Resources Better, Public Expenditure Review 2000,*Vol. 1, Main Report, December 2000. Focusing on the budget for FY1997 and FY1998, this review analysed the expenditure for four sectors (i.e., agriculture, education, health and transport) and the data on the transfer to the poor. However, the total expenditure was unclear because the amount of extra-budgetary fund (which accounts for considerable part of the total expenditure) and the amounts of retained profits and ODA-related expenditures of state-owned enterprises were not known. Moreover, 30% and 26% of the expenditures used for FY1997 and FY1998 respectively could not be specified.

(11) For example, following the end of the 1960s and at the height of UNCTAD's activity, poverty consideration took the first priority as indicated by H. Chenery's theory of redistribution (Table 1). In the early stage of transition, socialist countries abandoned command economies and embraced marketisation as their primary goal. IDA, *Performance Audit Report, S. R. of Vietnam Structural Adjustment Credit,* February 23, 1998.

(12) Izumi Ohno, *The World Bank: Shifting Development Aid Strategy* (Sekai Ginko: Kaihatsu Enjo Senryaku no Henkaku), NTT Shuppan, 2000.

(13) World Bank, *East Asia, Recovery and Beyond,* 2000.

(14) This paragraph is based on the description by Kazuo Takahashi, "Armed Conflict and Development" (Funsou to Kaihatsu), in Kazuo Takahashi (ed.), *Agenda for International Development 2000, Coping with Marginalisation* (Kokusai Kaihatsu no Kadai: 2000, Maajinaraizeishon ni Taisuru Taiou), FASID, 2000.

(15) World Bank, *A Continent in Transition, Sub-Saharan Africa in the Mid-1990s,* 1995.

(16) UNHCR, *Refugees by Numbers,* 2000.

(17) Stiglitz's knowledge of the realities of developing country economies forms one part of the background to his argument for NDS. The other part comes from his creation of the concept of the "incomplete market" in his "theory of asymmetric information." In light of these perspectives, he has completely re-examined mainstream economics including development economics, which currently uses the concept of the "perfect market" as a tool to recognise the economic system for both developed and developing countries. Joseph E. Stiglitz, "Toward a New Paradigm for Development: Strategies, Policies, and Processes," The 1998 Prebisch Lecture at UNCTAD, Geneva, October 19, 1998.

(18) I have argued that basic issues in development economics should be analysed, using the concepts of "underdeveloped market" (from a systemic viewpoint) and "growth pattern specific to the initial conditions" (from a viewpoint of productive capacity). Here, my concept of underdeveloped market is based on an historical perspective. In contrast, Stiglitz's concept of incomplete market is derived from the systemic features of a cross section of the economy. Please note that such features originate from asymmetric information that exists even in developed market economies.

(19) "Fungibility" is a term applied to fiscal policy and aid policy. It is a difficult concept for the layman to grasp, but the detailed explanation is available from Chapter 3, the World Bank, *Assessing Aid: What Works, What Doesn't Work and Why*, Oxford University Press, 1998. (Japanese translation: Hirohisa Kohama & Yoko Tomita (trans.), *Yuukou na Enjo: Fanjibiritii to Enjo Seisaku*, Toyo Keizai Shimpousha, 2000.

(20) Amartya Sen, *Development as Freedom*, Alfred A. Knopf, New York, 1999; A. Sen, *Inequality Reexamined*, Oxford University Press, 1992 (Japanese translation: Yukio Ikemoto, Hiroki Nogami & Jin Sato (trans.), *Fubyoudou no Saikentou: Senzainouryoku to Jiyuu*, Iwanami Shoten, 1999; A. Sen, *On Economic Inequality*, Oxford University Press, 1973 (Japanese translation: Kotaro Suzumura & Koichi Suga (trans.), *Fubyoudou no Keizaigaku*, Iwanami Shoten, 2000); A. Sen, *Poverty and Famine*, Clarendon, Oxford, 1981 (Japanese translation: Takashi Kurosaki & Koji Yamazaki (trans.), *Hinkon to Kikin*, Iwanami Shoten, 2000).

(21) Sen and many other economists attach great importance to the work of *A Theory of Justice* (1971) by political philosopher, John Rawls. This book is highly recognised as having taken into account the wide-ranging qualities of an individual and tackled the issue of fairness—for the first time since the 1930s when welfare economics had virtually stopped an ethical pursuit. According to Rawls, "primary goods" is comprised of "natural primary goods" such as life, health, and knowledge and "social primary goods" which is easily affected by the social system. The latter includes: (i) freedom of thought, conscience and speech; (ii) opportunity and freedom to choose work; (iii) status and function associated with job; (iv) income and wealth; and (v) a position of self-respect within society. (Tsuneo Ishikawa, *Income and Wealth* (Shotoku to Tomi), Iwanami Shoten, 1991, p.42). In this way, the concept of "primary goods" already covers a multitude of qualities. While admitting its importance, Sen criticises that the concept still lacks comprehensiveness.

(22) The relationship among material wealth, functioning, and capability can be easily understood from Sen's diagram showing "functioning vector" or "capability set" in the two-dimensional space (diagram 27-1, in Suzumura & Suga (trans.) pp.223-6). In the diagram, it is assumed that only two vectors exist—Vectors (1, 2). (Although the ability to convert material wealth into function (1, 2) is an important capability, it is not omitted from the hypothesis.) A production possibility frontier (PPF) can be drawn between the two axes formed from function (1, 2), with each point on the PPF representing a functioning vector. The space formed from the PPF and the two axes is viewed as "capability set."

(23) The World Bank, *World Development Report 2000/01: Attacking Poverty*, 2000, p.15. For the first time, this report acknowledges that vulnerability, voicelessness and powerlessness represent the forms of poverty which, according to Sen, severely limit an individual's "capability."

(24) For Sen's research of famines, please see Sen, *Poverty and Famine*, 1981. His more recent analysis is found in his speech, "Public Action to Remedy Hunger" (Kouen: Kigakikin no Tame no Koukyoukoudou), August 1990, which is contained in the Japanese translation of the above book (Takashi Kurosaki & Koji Yamazaki (trans.), *Hinkon to Kikin*, Iwanami Shoten, 2000).

(25) In my recollection of research on poverty and famine, I was strongly impressed by the differences between the two great famines during the Tokugawa Dynasty (1615-1868): the "Tenmei Famine" (1789) and the "Tempou Famine" (1834). In both cases, reduced food production resultant from natural disaster was the primary cause of the famines. Between the Tenmei and Tempo period, the market economy had developed fairly extensively in Japan. During the Tenmei period, there were cases "to starve to death even if people possessed money and were wrapped in silk." In contrast, during the Tempo period, "there were no deaths due to starvation in major cities because people did not need to starve as long as they had money." (Daisuke Aoki, *The Iwate Famine Seen from Behind the Past Records of a Temple* (Jiin no Kakochou Kara Mita Iwate-Ken no Kikin) Ouushi Dankai, Morioka-Shi, 1967). From the perspective of entitlement, it appears that this phenomenon is related to the problems of the distribution system of food production rather than "exchange conditions." There is a need for further investigation into both aspects, i.e., reduced food production and the distribution system.

(26) The results of the Vietnam Living Standards Survey (VLSS) conducted twice in the 1990s by General Statistical Office, UNDP and the World Bank, provided for the first time a scientifically-based estimate of the reality of poverty. The table below indicates the change in poverty ratio, based on a head count ratio, by dividing the number of households below the poverty line by all the households.

(1) From the Vietnam Living Standards Survey

		1992-93	1997-98
Poverty Line		Dong 1.16m per year	Dong 1.78m per year
Percentage of Poor	Whole Country	58.2%	37.4%
	Rural Areas	66.4%	44.9%
	Urban Areas	25.1%	9.0%

(2) Change in the Percentage of Poor from various data sources

	1992-93	1998	1999	2000	2005 (plan)	2010 (plan)
1 Current Definition of Poverty in Vietnam	30%		13%	11% (est.)		
2 World Bank Definition of Poverty	58%	>37%				
3 Definition of Poverty after 2001					<10%	
4 MOLISA Poverty Line				17%		5%
5 Ninth Party Congress						none

Notes: a) Rows 1, 2 & 3 are from I-PRSP (March 2001). The new definition in Row 3 requires the poverty line to be established for each region (the mountain and island rural areas: an annual income of 960,000 dong, the plains rural areas: 1.2m dong, and urban areas: 1.8m dong).
b) Row 4 is based on the World Bank, Asia Development Bank & UNDP, *Vietnam Development Report 2001, Entering the 21st Century, III: Pillars of Development*, p.73.
c) Row 5 is based on the *Strategy for Socio-Economic Development 2001-2010,* presented to the Ninth Party Congress.

(27) Based on the agreement between the Vietnamese government and the CG, it was decided that poverty reduction policies would be addressed in I-PRSP in connection with macro-economic issues, and in the Comprehensive Poverty Reduction Strategy (CPRS) in connection with individual poverty measures. I-PRSP falls under the responsibilities of the Ministry of Planning and Investment, and the latter falls under the Ministry of Labour, Invalids and Social Affairs (MOLISA). Where the I-PRSP intends to limit the targets for poverty reduction to the poor and to poor communes, the CPRS tends to extend the scope of action to include rural and urban areas. Government-Donor-NGO Partner Group, *Vietnam Development Report 2001, Entering the 21st Century, III: Partnership for Development*, Hanoi, December 2000, pp.11-13.

(28) Government of Vietnam, Donor-NGO Poverty Working Group, *Vietnam Development Report 2000: Attacking Poverty*, 1999, p.152. Regarding the Vietnamese government's intention to strictly limit the sector-specific expenditures for poverty reduction to anti-poverty measures for ethnic minorities in the highlands, please refer to the World Bank, *Vietnam Development Report 2001: Pillars of Development* (op. cit.), Chapter 4-IV (Targeted Anti-Poverty Programs and Social Safety Nets, especially pp.74-75). *Ibid*., *Partnership for Development* (op. cit.), Poverty Working Group, especially pp.12-13.

(29) According to the World Bank, *Vietnam Development Report 2000* (op. cit.), p.148, Vietnam's success in reducing poverty (20.8% at headcount ratio) between 1993 and 1998 can be primarily explained by a high economic growth rate (30.7%) and its resultant large, positive impact on the

poor. Although the high growth rate also created greater inequity (-17.6%), this negative impact was more than compensated for by the positive impact of growth. However, the growth rate between 1998 and 1999 slowed to less than half of that in the period mentioned above. Moreover, the intensive farming methods that had supported growth until this point have reached their limits. This means that future growth must rely on the two other sources: an increase in non-agricultural rural employment and urban employment.

(30) The Computable General Equilibrium (CGE) model is applied to the national economy of a developing country to measure the impact and examine the feasibility of specific policies on the economy as a whole. Under our Joint Vietnamese-Japanese Research Project, we employed the CGE model to examine the relationship between poverty reduction policies and growth. Mitsuo Ezaki and Nguyen Tien Dung, "Medium-Run Prospect of Vietnam's Economy: CGE Simulation Analysis of the 7FYP," *Vietnam-Japan Joint Research (Phase 3)*, Hanoi Workshop, December 8, 2000. However, our work has not yet advanced to the stage to add a specific model of the poverty mechanism.

(31) This description relies on the UN (UNDP, UNFPA, UNICEF), *Poverty Elimination in Vietnam*, Hanoi, October 1995, and John Bresnan, "A Society Emerging from Crisis" (Betonamu Shakai no Chousen) in Masashi Nishihara and James Morley (eds.), *Vietnam Joins the World* (Taitou Suru Vietnam), Chuuou Kouronsha, 1996 among others. The land used for slash-and-burn, migration farming is so called Village Common Land, and as long as common resources are managed by local communities, the "tragedy" by free- riders will not arise.

(32) This subsection heavily relies on the knowledge and experiences by Toshihiko Arae, who is a team member of the Joint Vietnamese-Japanese Research Project.

(33) Toshihiko Arae, *Changes in Development Policies for the Highland Regions of Vietnam During the 1990s and their Effect on Ethnic Minorities* (Kyuujuunendai Ni Okeru Betonamu no Shousuuminzoku Sanchi Kaihatsu Seisaku no Douyou), February 2000.

(34) UN, 1995 p.29 (op.cit.)

(35) The Vietnamese government implemented a policy of scheduled migration, to move the ethnic minorities from the highlands to the broad valleys as part of the resettlement policy for the Vietnamese majority migrants. The government encouraged the ethnic minorities to practise settled farming instead of slash-and-burn cultivation and to cultivate commercial crops and plant paddy fields. However, it was unrealistic to introduce, all of a sudden, the new commercial farming practices into the farmers who were still at the stage of slash-and-burn techniques (May 21, 2001 letter from Toshihiko Arae to the author).

(36) UN, 1995 (op. cit.)

(37) Toshihiko Arae, as noted (33) above.

(38) Banned from practising slash-and-burn cultivation in mountain villages, and failing at the planting of commercial crops and paddy fields in settled communities, the ethnic minorities from the highlands were forced to sell their land to repay their loans. They had either fled deep into the mountains, beyond the reach of the government, to continue to slash-and-burn farming, or they worked as day labourers in the settled communities… Around 1998, groups of ethnic minorities including the Su Tien began to appear as beggars in Ho Chi Minh City. (Toshihiko Arai, from 35 above)

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