

Approach to Poverty Reduction in Developing Countries and Japan's Contribution

Toru YANAGIHARA

Professor, Faculty of International Development,
Takushoku University

Since the 1990s, the goal of international development seems to have converged on poverty reduction. There has emerged, based on the views and concerns of poor people themselves, a more comprehensive conception of poverty encompassing not only income and consumption but also economic vulnerability and sociopolitical conditions of powerlessness. Accordingly, a multidimensional strategy for poverty reduction has been proposed, which consists of three pillars: 'expanding income-earning opportunities,' 'enhancing security,' and 'promoting empowerment.' These developments represent a significant advance in the understanding of the totality of the lives of poor people and in the search of effective synergetic measures for poverty reduction.

The World Bank, in particular, has come to play a broader leadership role both in the formulation and implementation of policy and institutional reforms and in the coordination of actors involved, official and private, as well as local and international. It has instituted two schemes, "Comprehensive Development Framework (CDF)" and "Poverty Reduction Strategic Paper (PRSP)" for poverty reduction in low-income countries. CDF is summarized in a matrix, where development issues and goals are listed along the horizontal axis and contributions by various actors in each issue area are registered along the vertical axis. The matrix is designed to provide an overall view of the ongoing and anticipated contributions by all the development actors involved, and serve as diagnostic and prognostic device for the host country in its attempt to promote and facilitate coordination and collaboration. PRSP is a three-year action plan for poverty reduction to be drawn up by the government and approved by the Boards of the World Bank and the IMF. It is stipulated that the formulation and implementation of PRSP be predicated on the following requirements: a) a long-term and multidimensional approach to poverty reduction; b) determination of the priority of policies and programs based on their feasibility and effectiveness in poverty reduction; c) broad participation in the decision making process within the country, and promotion of the coordination and partnership among the various actors under the government's leadership.

This new approach raises many important issues. In many countries administrative capacities of governments may prove to be inadequate for the task and political processes, which might militate against the realization of meaningful participation. The Japanese development community should not take the CDF-PRSP regime as given, but instead, should endeavor to conceive and propose effective approaches to poverty reduction based on its own experiences and perspectives. It is high time that the Japanese government, private organizations, and researchers face up to the global challenge of poverty reduction.

Introduction

Since the 1990s, the goal of international development appears to be focused once again on poverty reduction. The World Bank has made poverty reduction its top priority since the latter half of the 1990s and has directed all its activities toward this goal. The Bank has also taken the lead in redefining poverty through publishing a *World Development Report* subtitled *Attacking Poverty* (WDR

2000/2001), and has worked out new policies based on a broader conception of poverty.

This article will describe these new developments, identify significant departures from traditional approaches and practices, examine the poverty reduction strategies espoused by the World Bank and the International Monetary Fund (IMF), and comment on their contributions and limitations. Lastly, the author will offer his views on contributions that Japan could make and the changes needed to realize those contributions.

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I. New Developments in the Conception of Poverty

The *World Development Report* (WDR 2000/2001) set out an important new approach in defining poverty, which now includes the following two aspects.

First, the definition of poverty was broadened to reflect concerns in the various aspects and characteristics of the lives of the poor. Under the traditional economics-based approach, poverty was usually measured based solely on consumption or income level, with these variables defining the poverty line and determining who are the poor. Since the mid-1960s, a greater focus has been placed on the delivery of social services such as education and health care to better reflect the quality of life which consumption and income levels alone fail to reveal; poverty came to be defined as taking into account the extent to which basic human needs fail to be met. The WDR 2000/2001 further broadened the definition of poverty to include two other aspects and raised new poverty reduction issues related to those aspects. The first was focusing on the vulnerability of the poor, as manifested by the weakness of their livelihood base, and addressing their security-related issues — how well they could manage the risks and uncertainties inherent in daily life and what is their ability to respond to unfavorable situations. The second was attempting to understand the lives of the poor in the context of their social and political relationships, thus shedding light on sociopolitical aspects of their lives such as their powerlessness and voicelessness, and pointing to the need for empowerment to enable them to overcome such conditions. Broadening the definition of poverty has made an important contribution toward developing new, multidimensional approaches to poverty reduction corresponding to the overall picture of the lives of the poor, as opposed to the single indicator-based poverty line approach. While the definition of poverty per se now encompasses more facets, however, the conventional consumption or income level-based indicators remain the practical yardstick for assessing the degree of poverty and determining the extent to which poverty reduction goals have been reached.

The second aspect in the new conception of poverty places more importance on the perception of the poor concerning their situations, and also on their own desires for and priorities in improving livelihood conditions. This reflects the desire on the part of aid donors to avoid imposing inappropriate external judgments and to accord priority to the most pressing needs of the poor. Importantly, it implies a role reversal, viewing the poor as active participants, or actors, in remedying their situations, not as passive aid recipients. In preparation for the WDR 2000/2001, a Voice of the Poor survey, interviewing 60,000 poor people in 60 countries across the developing world, was carried out to determine how the poor view their living conditions, what restrictions and barriers they face,

and what goals they have. This survey yielded an unprecedented detailed understanding of their lives and had a great impact in expanding the definition of poverty, revealing as it did the vulnerability of their livelihoods and their powerlessness/voicelessness in sociopolitical relations.

II. New Focus in Approaches to Poverty Reduction

New policy approaches to poverty reduction have been formulated on the basis of these new developments in the conception of poverty. New elements in policy approaches may be clearly identified when they are compared to the policies proposed a decade ago in the *World Development Report* 1990. In the WDR 1990, poverty was defined in terms of income/consumption levels and the availability of social services. The basic approach to poverty reduction focused on the supply and demand for labor, the main income source among the poor. The WDR 1990 advocated dealing with two issues simultaneously: achieving labor-intensive growth patterns that would increase the demand for labor, especially unskilled labor, and creating human capital that could respond to the income-earning opportunities generated in the course of the growth process, by providing education, health care, and other social services. While endorsing these measures, the WDR 2000/2001 defined poverty more broadly as a complicated phenomenon and advocated multidimensional approaches to poverty reduction in order to respond to the most urgent concerns of the poor.

Three tasks have been identified as the keys to poverty reduction. The first is promoting opportunity among the poor, who lack assets, access to markets, and work opportunities, in order to increase their income and allow them to escape from poverty in terms of consumption and income levels. This approach roughly corresponds to that of the WDR 1990. The second is enhancing security, which is reducing their vulnerability and enabling the poor to cope with unfavorable situations because they tend to be greatly affected by factors out of their control such as illness, poor weather, natural disasters, worsening market conditions, and public safety. The third is facilitating empowerment, which makes formal political-administrative and informal social institutions work in favor of the poor, who have tended to be disadvantaged and discriminated against in both domains.

The WDR 2000/2001 also emphasizes the complementarity among the three tasks identified above, and advocates the adoption of a comprehensive approach encompassing all three in order to generate synergy. It further maintains that poverty reduction strategies based on this comprehensive approach should involve not only governments but also broad sectors of society. These poverty reduction strategies envision major changes to national economic, politi-

cal, and social systems, taking place over a long period of time. But at the same time, WRD states that policies or programs should be evaluated for (short-term) results in terms of their impact on poverty, to determine which policies or programs are effective, and that an evaluation system should be created for this purpose. It also emphasizes the importance of the role of the poor as active participants in all stages of formulating and implementing poverty reduction policies, and thus the importance of devising schemes and procedures for involving them in the decision-making and implementation processes.

As summarized above, the new approaches to poverty reduction cover a broad range of tasks and actions. The World Bank's activities will be geared to promoting these approaches, and it will play an active leadership role.¹

III. Poverty Reduction Strategies and the Role of the World Bank and the IMF

In January 1999, the World Bank formulated the Comprehensive Development Framework (CDF). At a joint annual meeting of the World Bank and the IMF in September 1999, they decided that drawing up and presenting a Poverty Reduction Strategy Paper (PRSP) would be a precondition to implementing concessional lending or the Heavily Indebted Poor Countries (HIPC) Initiative. These initiatives have determined the basic tenets of approaches to poverty reduction to be collectively pursued by the international community as a whole.

The CDF includes the following important new approaches. First, it states that an overall, long-term perspective is needed in order to understand the development process, and that economic, social, political, and administrative aspects should all be thoroughly considered. It proposes that, to determine the success or failure of development over the long term, assessment should go beyond the usual economic and social indicators and place importance on other factors such as (broadly defined) governance issues encompassing government, legal, and financial systems; investment climate; education and health care; and official and nonofficial social security. Second, it urges that all the actors involved in development — developing countries' governments, multilateral and bilateral aid agencies, civil society, and private-sector enterprises — should work cooperatively through sharing information and coordinating activities to promote the development process and boost overall development impact. Related to this, the CDF lays down operating principles for country ownership, participation, transparency, evaluation, and accountability.

The CDF is summarized in a matrix format,

where development issues are listed along the horizontal axis and contributions by various actors in each issue area are registered along the vertical axis. The matrix is designed to provide an overall view of the ongoing and anticipated contributions by all the development actors involved including multilateral and bilateral aid agencies and NGOs, and to help the host country government take leadership in coordination and collaboration in aid policies and role assignment among all the development actors. Coordination and collaboration among the development actors, however, is actually carried out in the process of formulating and implementing the PRSP.

The PRSP is a three-year action plan for poverty reduction incorporating and articulating the approaches and principles set out in the CDF. In its formulation and implementation, the PRSP therefore reiterates many of the viewpoints and principles emanating from the CDF. It takes a long-term and multi-dimensional approach to poverty reduction. Policies and programs are to be prioritized based on their feasibility and effectiveness in poverty reduction. At the operational level there should be broad participation in the decision-making process within the country; the host country government should take the initiative in promoting collaboration and partnership among aid agencies and NGOs. The PRSP document consists of five parts. First, it reviews current poverty situations and diagnoses the causes of poverty. Second, it indicates goals and policy measures. The goals include both long-term (10-15 years) poverty reduction targets and short-term (2-3 years) targets; the latter are readily monitorable for timely evaluation of policy measures. The policy measures constituting the strategy comprise macro and sector-level economic policies, social policies, and administrative and political reforms. Third, it establishes a system to monitor and evaluate policy effects. Fourth, it determines the effectiveness of and the need for external assistance. Fifth, it reports on methods and schemes for ensuring broad participation in the formulation and implementation process and on the degrees of participation achieved.

These principles and contents were formulated based on critical reflection on past experiences in conditionalities and aid effectiveness on the part of the World Bank and the IMF. They are understandable as idealistic wish lists, but they may prove impossible to apply in practice. The two organizations admit that drawing up a PRSP in accordance with the above-mentioned conditions is not an easy task. One manifestation of this recognition is found in the fact that they have allowed interim PRSPs (I-PRSP) to be prepared and submitted to enable countries to obtain needed aid before full PRSPs are formulated. The only requirement for an I-PRSP is that the government

1. The organizational goals and guiding principles of the World Bank are spelled out in the following documents: *World Bank Group Strategic Framework* (World Bank 2001a) and *Strategic Directions for FY02-FY04* (World Bank 2001b).

concerned indicates its commitment to poverty reduction and the steps it will follow in drawing up a full PRSP. Another manifestation is the publication of a *Poverty Reduction Strategy Sourcebook* as an aid in drawing up PRSPs. The purported aim of the sourcebook is to shorten the time needed for formulating PRSPs by allowing officials and departments involved to work simultaneously on various components of the document. It also highlights the areas that World Bank/IMF assessment will focus on. The contents of the *Sourcebook* itself are very broad-ranging, however, which demonstrates the substantial burden imposed on governments in drawing up PRSPs.²

The World Bank and the IMF stress country ownership because they have learned, based on their experiences with structural adjustment lending (SAL), that policy conditionality will not be adhered to in the absence of the country's commitment. They also stress broad participation because they understand that without it, policies and programs coming out of the policy-making process will fail to reflect the interests of the poor. These are both correct recognitions of administrative-political reality, but that does not imply that these new emphases can actually be applied. The problem with the PRSP approach is that it makes inappropriate assumptions concerning the administrative capabilities and the domestic political process, particularly at the local level, of the poor countries concerned. Formulating and evaluating long-term poverty reduction strategies, and the policies and programs based on them, requires large human, organizational, and financial resources for collecting and analyzing the relevant information. The poorer the country, however, the more its government faces major limitations in administrative capability and has no choice but to depend on external assistance in formulating and implementing a PRSP. In most cases, however, it is also doubtful that broad participation in the decision-making process could be effectively carried out so that deliberation and dialogue could play a meaningful role in reflecting the voices of the poor in policy formulation and implementation. Similarly, it would be only in exceptional cases that the country would be able to take an initiative in aid coordination.

There is great significance in the PRSP approach insofar as the World Bank and the IMF, the two most well-funded and powerful international organizations, highlight poverty reduction as the single most important priority and make their poverty reduction strategy the basic framework for aid to poor countries. Their adoption of a joint policy also has a very large impact on aid coordination throughout the international development community. From the viewpoint

of poor countries receiving aid, they have no choice but to accept the PRSP approach as the new aid regime. First they must draw up a pro forma document meeting the requirements for country ownership and broad participatory process. This could have an ironic effect of drawing up an ostensible document without any commitment, as seen in the case of structural adjustment lending, which might be repeated on a larger scale. Through approval of PRSPs at their Boards and Joint Staff Assessments preceding this, the World Bank and the IMF have a major influence on the formulation process and the contents of PRSPs. It is the World Bank and the IMF which decide if the principles of country ownership and broad participation have been adhered to. It is no exaggeration to say that the PRSP regime actually operates with these two organizations effectively leading the countries in question and participating broadly in the process of drawing up their PRSPs.

IV. Japan's Contribution to Poverty Reduction

The Japanese government and aid agencies must respond promptly to this environment where the international development community has identified poverty reduction as the single most important goal and aid coordination will be carried out under the PRSP regime.³ The author would like to identify four important issues here and suggest directions for consideration.

The first issue that must be considered is the extent to which the orientation of development assistance be focused on poverty reduction. This involves determining the weight placed on the approach of direct support to the poor and the weight on reducing poverty through overall economic growth, or exploring how these two approaches may be combined. Although simultaneously pursuing both approaches is the appropriate course, more emphasis should especially be placed on building stronger links with domestic and foreign NGOs to offer direct support to the poor. Planning and evaluation should be carried out with various dimensions of poverty in mind such as better income opportunities, providing social services, measures for addressing vulnerability, and promoting empowerment.

The second issue to be addressed relates to the relevance and significance of Japan's experiences in development or assistance when it comes to developing poverty reduction strategies and policies. This would entail determining what significant experiences Japan has had with respect to the two approaches described above and their combinations. In particular,

2. The *Sourcebook* (World Bank 2001c) is a lengthy document consisting of two parts: Part 1 - Core Techniques and Cross-Cutting Issues, and Part 2 - Macro and Sectoral Issues. Part 1 consists of two chapters (in 11 sections), and Part 2 of four chapters (in 14 sections). The cross-cutting issues in Part 1 include participation, governance, community-driven development, gender, and the environment. Part 2, covering sectoral issues, deals with rural and urban poverty, human development, the private sector, and infrastructure.

3. For more details and discussion concerning PRSP and aid coordination under PRSP, see *Basic Research on Poverty Reduction* (JICA 2002).

Japan's experience can make an important contribution in understanding the channels through which the fruits of growth can be widely shared, and of organizations and agents that contribute to improving aspects in daily life.⁴

Third is the issue of what position Japan should adopt regarding aid coordination under the PRSP regime. A strong appeal is now being made in favor of a more integrated approach to external assistance through sector programs or common funds, or even general fiscal support, and against uncoordinated provisions of project assistance by individual donor agencies. This appeal is based on the recognition of the problems inherent in the traditional practice of individual aid organizations promoting their own projects without mutual coordination or collaboration, thus failing to pay adequate attention to sector- or economy-wide goals or performances. There is a major question concerning aid effectiveness that restricting the use of funds or improving the efficiency of resource use at the level of individual projects does not guarantee that allocating funds will be appropriate at the sector level or in the overall economy. Disregarding these broader issues and focusing only on individual projects would inevitably result in criticism of not being able to see the forest for the trees. The conception of development assistance needs to be shifted to the level of sector or the overall economy.

Fourth is the question of how Japan can be involved in the PRSP formulation process. The paramount concern here is whether it is possible to set up a system where officials in charge can digest documents written in English or the language of the country concerned, formulate views and opinions based on their analysis of the documents, and take part in meetings and communicate in English or the local language. This issue can be approached on two levels. First, there is need for creating a system where information about the country in question can be collected and analyzed locally. This would probably necessitate strengthening such capabilities by employing local consultants as analysts or even as negotiators. Second, it would be advisable to set up a group in Tokyo in charge of all PRSP-related documents

and meetings in order to work out Japan's overall policies and positions on the PRSP approach. One of the important goals for such a group would be developing perspectives and proposals based on Japan's own experiences in development and economic assistance.

Conclusion

The foregoing has outlined issues that should be considered by the Japanese government and aid agencies in developing contributions to poverty reduction, but the scope of Japan's contributions should not be restricted to those from the government and governmental organizations. Civil society and the private business community could also contribute in ways that reflect their interests and capabilities; utilizing non-governmental channels would help broaden the scope of Japan's contributions to poverty reduction. Non-governmental actors would also be able to play an important watchdog role in prodding the government to adopt more appropriate policies, thereby increasing public support for poverty-oriented assistance. One especially important challenge for Japanese NGOs concerned with poverty reduction is to break out of the sole focus on direct involvement in each individual project and engage in more general analysis and proposals for promoting workable approaches to poverty reduction.

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4. Of particular importance in this connection is the attempt to document and draw lessons from the experiences of the Rural Life Improvement Program implemented in post-World War II Japan. This policy initiative in community development offers valuable insights into the roles of actors and factors impinging on the processes of group formation, participation, and empowerment. A series of research projects on this case have been organized by JICA under the leadership of Mr. Hiroshi Sato of the Institute of Developing Economies (IDE-JETRO).