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Escaping the Poverty Trap

Part Two Chapter 5

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National development strategies, the PRSP process and effective poverty reduction

Chapter 5

A. Introduction

The point of describing both the incidence and the depth of poverty in the LDCs, and also the main elements of an international poverty trap in which most of them are caught, is not to promote pessimism, but rather to obtain a realistic diagnosis of the policies which are required to reduce poverty in the LDCs. As argued in chapter 2, there are major opportunities for the rapid reduction of poverty in the LDCs through sustained economic growth and development. The critical policy issue is what national and international policies are required in order to enable LDCs to escape the poverty trap and realize those opportunities.

In recent years there has been much greater international recognition that many of the poorest developing countries are trapped in a cycle of stagnation and poverty, and have been unable to benefit from globalization. At the end of the 1990s, there was a radical rethinking by the IMF, the World Bank and the OECD/DAC of the national and international policies needed to tackle the problems of poor countries which were failing to prosper and where poverty rates were persistently high. This rethinking had its origins in the broad consensus that unsustainable external debt was acting as a major impediment to growth and poverty reduction, and in the elaboration of the enhanced HIPC Initiative as a response to this problem. But a new approach has been introduced which has gone far beyond debt relief.

There are major opportunities for the rapid reduction of poverty in the LDCs through sustained economic growth and development. The critical policy issue is what national and international policies are required in order to enable LDCs to escape the poverty trap and realize those opportunities.

The new approach, which is still evolving, has five key elements. Firstly, poverty reduction has been adopted as a central objective of international development cooperation. Secondly, national Governments will take responsibility for poverty reduction within their countries by developing nationally owned poverty reduction strategies. National ownership means that policies should be domestically formulated and implemented, rather than driven by donors or imposed by the IMF or the World Bank, and that the Government should develop policies through participatory processes which involve national stakeholders and, more generally, civil society. Thirdly, donor countries, which are also the main creditors of indebted poor countries, will selectively focus their aid and debt relief on those countries that have good poverty reduction policies, and good systems of governance for formulating and implementing policies and mobilizing and managing public resources. Donors will work with these countries in a spirit of development partnership. Policy conditionalities — that is, making aid and debt relief conditional on the implementation of particular policy measures — do not disappear with selectivity. But partnership is still possible since conditionalities should be derived from national priorities and strategies, and since aid and debt relief are focused from the start on what are regarded as good policy environments. Fourthly, different donors will increase the coordination of their financial support within countries, reduce the high transaction costs of their activities, and align their support behind national priorities and strategies. Fifthly, rich countries will increase the coherence of international policies to support poverty reduction in the poorest countries by providing greater market access for products from poor countries. Also, although this is much less developed, greater international policy coherence will be provided through efforts to encourage developmental foreign direct investment and other beneficial private capital flows to the poorest countries.

The new approach to national policies and international cooperation underpinned the Programme of Action for the Least Developed Countries for the Decade 2001–2010, which was agreed in Brussels in May 2001. However, for most of the LDCs, the new approach is being put into practice through the preparation and implementation of Poverty Reduction Strategy Papers (PRSPs). The PRSP is, simultaneously, the vehicle through which Governments are expected to elaborate their nationally owned poverty reduction policies, through which the IMF and the World Bank identify satisfactory policy environments, and through which donors are expected to align their assistance for poverty reduction. Effective poverty reduction in many of the LDCs will depend on how this innovative device, which has quite accurately been described, by the Director of the Poverty Reduction Group of the World Bank, as an "experiment", will work (IMF, 2001a: 4)

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This chapter examines whether the policy changes that are emerging in the initial stages of the PRSP process are likely to be sufficient to enable them to break out of the poverty trap. The central message of the chapter is that the introduction of the PRSP approach is a major opportunity to achieve greater poverty reduction, but realizing this opportunity will require a real break with the policies of the past. If poverty reduction strategies are simply a matter of integrating pro-poor public expenditure patterns with deeper and broader structural reforms and the macroeconomic policies of the 1990s, they are unlikely to produce the desired results. In situations of generalized poverty, macroeconomic stabilization together with opening the economy to the rest of the world and freeing markets from government interference will not result in rates of economic growth sufficient and sustainable enough to make a significant impact on poverty. It is necessary instead to elaborate development-oriented poverty reduction strategies.

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The chapter is organized into four major sections. It begins by considering the current engagement of the LDCs with the PRSP process and some of the achievements and weaknesses which have been identified in the first generation of PRSPs (section B). It goes on to assess the impact of past adjustment policies on poverty in the LDCs (section C). This experience shows why PRSPs are unlikely to result in more effective poverty reduction if they simply add a social dimension to past adjustment policies. Section D identifies some of the key elements which are likely to enter development-oriented poverty reduction strategies. The discussion draws in particular on UNCTAD's analysis of ingredients of East Asian development strategies and their application in Africa (UNCTAD, 1994, 1996, 1998, 2002a), the thinking of the Economic Commission for Latin America and the Caribbean (ECLAC) on ways of achieving development with equity in Latin America (ECLAC, 1990, 1995, 1996, 2000), and elements of a structuralist approach to poverty analysis that has been developed as an alternative to the weak explanatory frameworks that underpinned World Bank country-level Poverty Assessments in the 1990s and that are now being reproduced in the PRSPs (Pyatt, 1999, 2001a, 2001b). Finally, section E discusses the conditions for genuine national ownership and national policy autonomy, which are necessary conditions for the development of poverty reduction strategies that provide a real and improved alternative to past economic reforms and adjustment policies.[1]

The discussion does not deal with the difficult problem of countries so affected by conflict that there is a breakdown of internal sovereignty. The international policies which are the necessary complement of national policies are discussed in more detail in the next chapter.

B. LDCs and the PRSP process: achievements and challenges to date[2]

The idea of a Poverty Reduction Strategy Paper was first introduced in late 1999 by the IMF and the World Bank as a new approach to the provision of concessional assistance to low-income countries. Within this new approach, Governments in low-income countries prepare their own PRSP through a participatory process, and this document, after a satisfactory Joint Staff Assessment (JSA) and the endorsement of the Executive Boards of the Bank and the Fund, provides the basis for concessional assistance and debt relief provided to low-income countries by the Fund, the Bank and the international donor community as a whole.[3]

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For the IMF, which transformed its Enhanced Structural Adjustment Facility (ESAF) into the Poverty Reduction and Growth Facility (PRGF) in late 1999, the PRSP replaced the Policy Framework Paper (PFP), which had been prepared by the Fund and the Bank and which underpinned the structural adjustment programmes adopted in the LDCs in the 1990s. The production of a satisfactory Interim PRSP (I-PRSP), which is a shorter and less detailed document than a full PRSP, has also been a condition for highly indebted poor countries (HIPCs) to reach decision point (when interim debt relief begins) within the enhanced HIPC Initiative. Moreover, production of a satisfactory full PRSP and its implementation for a year is a condition for reaching HIPC completion point, when debt relief increases and is irrevocably locked in. The PRSP also provides the basis for the World Bank's Poverty Reduction Support Credits (PRSC), which were introduced in 2001 to support low-income countries implementing poverty reduction strategies.

The PRSPs are meant to be country-specific and should vary between countries. However, they are expected to describe the participatory process used in their preparation, and also to include three core elements: (a) a poverty diagnosis; (b) targets, indicators and monitoring systems; and (c) priority public actions over a three-year period. In presenting those public actions, PRSPs are expected to include a country's macroeconomic framework; a summary of the overall public expenditure programme and its allocation among key areas; and a matrix of key policy actions and institutional reforms and target dates for their implementation. The Joint Staff Assessments (JSAs) cover, amongst other things, (a) the adequacy of the poverty diagnosis; (b) the adequacy of the poverty reduction goals, indicators of progress and monitoring systems; (c) the appropriateness of the macroeconomic framework and the financing plan; (d) the adequacy of structural and sectoral policies; and (e) improvements in governance and public sector management.

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Thirty-four LDCs are currently engaged in producing or implementing full or interim PRSPs. As of March 2002, six LDCs — Burkina Faso, Mauritania, Mozambique, Niger, Uganda and the United Republic of Tanzania — had produced full PRSPs, and 24 LDCs had produced Interim PRSPs (I-PRSPs). It is expected that as of mid-2002, 17 of those LDCs that have produced I-PRSPs will have completed full PRSPs, and a further 7 LDCs will have completed I-PRSPs (table 38). Of the LDCs which are engaged in the process, all except 6 are highly indebted poor countries, and 23 are commodity-exporting economies. Of the 15 LDCs not engaged in the process, six are small island States and six of the others have been externally sanctioned or strongly affected by conflict in the recent past (Afghanistan, Haiti, Liberia, Myanmar, Somalia and Sudan).

There is a large spectrum of views on the achievements of the PRSP approach to date. It is generally agreed that it is too early to assess the impact of the implementation of PRSPs on poverty outcomes. However, many civil society organizations are deeply sceptical that any real change has occurred with the introduction of the PRSP approach.[4]

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On balance, it appears that there has been a much more significant break with the past in terms of processes of policy formulation than in the content of policies. The content of I-PRSPs and of the first generation of PRSPs has tended to reaffirm many of the policy directions and policies already in place. In a particularly frank assessment of the achievements and challenges of the PRSP process so far, HIPC Finance Ministers and PRSP Coordinators (2002) note that:

> "in interim PRSPs in particular, where some governments indicated that evidence shows some reforms were exacerbating poverty, their concerns were overruled on the grounds that short-term costs would give way to long-term benefits, or that the costs reflected failure to pursue policies tenaciously. As a result, there has been little evidence of important policy changes on macro or structural policies between PRSPs and PFPs [Policy Framework Papers of the past structural adjustment programmes]" (p. 4).

This, they note, "has begun to change". But many PRSPs have involved "adding large numbers of sectoral actions to structural policies brought forward from PFPs" (p. 4).

Particular weaknesses which other observers have noted in the content of the PRSPs are: the lack of a long-term growth strategy; the weak integration of sector plans into the PRSP; and a tendency to focus on improved and pro-poor public expenditure management rather than private sector investment and employment generation.[5] A general problem is that the PRSPs have a "missing middle" (European Commission, 2001b: 8; ODI, 2001), that is to say the mechanisms which lead from the policies to the outcomes are not elaborated. This is particularly evident in the I-PRSPs, which often have a similar structure (table 39). But the problem is also apparent in the full PRSPs, whose structure does not differ markedly from that of the I-PRSPs, although they all contain a section on costings and financing (Thin, Underwood and Gilling, 2001).

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The HIPC Finance Ministers and PRSP Coordinators, who are the ones at the centre of the PRSP process, have pinpointed key features of this problem of the "missing middle". They state that, in many PRSPs (and especially I-PRSPs):

> "the scale of growth planned under the PRSP is frequently adequate to halve poverty by 2015...[but] there is no in depth analysis of how the sectoral and structural measures in the programme will produce the targeted growth rates; nor have programmes examined sufficiently how macro, sectoral and strucural measures will translate into changes in the distribution of the benefits of growth. Savings, investment, domestic resource mobilization and employment remain underanalyzed; insufficient attention is being given to social inclusion and equity in many PRSPs. In contrast, a great deal of effort is being expended by governments and the international community to im-

TABLE 38. PROGRESS IN PRSP PREPARATION IN LDCS

	Interim PRSP	PRSP
Afghanistan	-	-
Angola	I	-
Bangladesh	-	-
Benin	June 2000	F
Bhutan	-	-
Burkina Faso	-	May 2000
Burundi	I	-
Cambodia	October 2000	F
Cape Verde	January 2002	-
Central African Republic	December 2000	F
Chad	July 2000	F
Comoros	I	-
Dem. Rep. of the Congo	I	-
Djibouti	November 2001	-
Equatorial Guinea	-	-
Eritrea	I	-
Ethiopia	November 2000	F
Gambia	October 2000	F
Guinea	October 2000	F
Guinea-Bissau	September 2000	F
Haiti	-	-
Kiribati	-	-
Lao PDR	March 2001	-
Lesotho	December 2000	F
Liberia	-	-
Madagascar	November 2000	F
Malawi	August 2000	F
Maldives	-	-
Mali	July 2000	F
Mauritania	-	December 2000
Mozambique	February 2000	April 2001
Myanmar	-	-
Nepal	I	-
Niger	October 2000	January 2002
Rwanda	November 2000	F
Samoa	-	-
Sao Tome and Principe	April 2000	F
Senegal	May 2000	F
Sierra Leone	June 2001	-
Solomon Islands	-	-
Somalia	-	-
Sudan	-	-
Togo	I	-
Tuvalu	-	-
Uganda	-	March 2000
United Republic of Tanzania	March 2000	October 2000
Vanuatu	-	-
Yemen	December 2000	F
Zambia	July 2000	F

Source: IMF, http://www.imf.org/external/np/prsp/prsp.asp; and World Bank, http://poverty.worldbank.org/files/Revised_Country_table_annex_1-sept3.pdf

Note: I and F indicate that countries plan to complete Interim PRSPs and PRSPs respectively before the end of June 2002. This is based on possible country timelines for PRSP preparation indicated by the World Bank in September 2001.

TABLE 39. THE STRUCTURE OF INTERIM PRSPS

1.	**General background:** history, changes in policies, events, and structures in the recent past; purpose of drawing up a PRSP; processes involved in drafting the IPRSP.
2.	**Poverty profile:** national statistics on income poverty and (usually) "human development" indicators, and how/when these were derived (sometimes involving comparisons across time, and comparisons with aggregate statistics for sub-Saharan Africa or low-income countries; often includes regional and rural–urban comparisons, plus basic information on specific categories of poor people; sometimes includes explicit analysis of causes of poverty, and sometimes assesses deficiencies in available data; occasionally includes sections explicitly on people's perceptions of poverty (but rarely assesses validity and/or policy relevance of these).
3.	**Current policies and strategies:** recent history of specific anti-poverty interventions and associated policies and structures; policies on macroeconomic management (inflation, exports, debt, fiscal management), on governance (administrative efficiency, transparency/accountability, corruption, participation), on provision of basic "social services" (health, education, water/sanitation), on infrastructure (energy, transport and communication), on environmental management, on productivity and employment (always includes agriculture, usually also non-agricultural production), and on specific social processes and categories of people (conflict, gender, age, and very occasionally social capital and ethnicity); and on HIV/AIDS.
4.	**Poverty reduction objectives and strategic changes:** all the same categories as above under "policies and strategies" (sometimes also includes sections on intersectoral linkages and integration); usually includes sections on major sectors (typically including a "rural sector", which in practice refers to 65–80 per cent of the population).
5.	**Plans for development of the full PRSP:** (normally including plans for participatory processes and for costing and financing).
6.	**Monitoring and evaluation:** plans (indicators, responsibilities, processes, institutions) for monitoring and evaluation of the PRS.

Source: Thin, Underwood and Gilling (2001: box 1).

prove governance and public sector management, as well as comprehensiveness of expenditure allocation, presentation and tracking" (HIPC Finance Ministers and PRSP Coordinators, 2002: 4).

Turning to macroeconomic policy, the HIPC Ministers and PRSP coordinators state that "our main concern is not realism, but that many programmes continue to be too restrictive...especially for countries which have achieved sustained low inflation. Nor has there been much evidence of exploring possibilities for alternative macroeconomic paths, taking into account non-demand causes of inflation, recovery of demand for money, and private sector credit needs" (ibid.: 4).[6]

In terms of policy processes, the PRSP approach has led to some significant achievements.

In terms of policy processes, country-level analyses reveal more changes than have occurred in policy content.[7] Significant achievements of the PRSP approach include: an increase in country-level leadership in strategy design; greater involvement of civil society in the process of strategy formulation, although according to many NGO participants their involvement has often been tokenistic; increased efforts to improve medium-term public expenditure frameworks and to link budgetary processes to poverty reduction targets; and the mainstreaming of poverty reduction policies through a shift in departmental responsibility for poverty from previously marginalized social welfare departments to Ministries of Finance and of Planning. But a number of countries are also reporting an increase in transaction costs with the new approach, which are particularly related to reporting requirements.

Moreover, increased national ownership, which is a central goal of the PRSP approach, remains constrained in various ways. It is clear that with the introduction of the PRSP approach there is increasing leadership in the technocratic processes of policy formulation. But often this does not extend far outside the central economic ministries, and the degree of political support which the process is receiving is mixed (ODI, 2001). A major flaw in the PRSP process which the HIPC Ministers and PRSP Coordinators (2002) point out is that "it has often bypassed existing parliamentary structures in favour of new and different consultative structures", and thus "parliaments have virtually no involvement except to endorse and debate final versions of PRSPs" (p. 3). Genuine national ownership also involves careful management of the tension between policy conditionality, the building of in-country capacity and changes in behaviour by the donor countries. These issues will be taken up later in section E.

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C. The need to move beyond adjustment policies

The PRSP process is rightly seen as one which is in evolution, and in which all participants are engaged in learning-by-doing. In order to maximize the effectiveness of the approach in the LDCs as it evolves, it is essential to have a careful and frank assessment now of the impact of past structural adjustment policies on poverty. Many LDCs have been heavily engaged in structural adjustment programmes since the late 1980s, particularly following the introduction by the IMF of the Structural Adjustment Facility and Enhanced Structural Adjustment Facility.[8] Many of these programmes have had intermittent interruptions; some countries have gone further than others; and all policy conditionalities have not been equally met. But in spite of interruptions and policy slippages (which have been generally due to problems of meeting fiscal targets), these programmes have led to significant changes in the policy environment in many LDCs. The impact of these programmes on poverty is a vital issue.

The PRSP approach is founded on the hypothesis that the major weakness of the structural adjustment programmes was that they were not nationally owned, and thus were not well implemented. The expectation is that sustained poverty reduction can follow if national ownership is improved, and if more attention is also paid to social outcomes by integrating a pro-poor and outcome-oriented public expenditure pattern with existing macroeconomic policies and broader and deeper structural reform. However, another interpretation is possible. It is that the policies themselves — in such areas as agriculture, trade, finance, public enterprise, deregulation and privatization — are not the right ones to promote economic growth and reduce poverty in situations of generalized poverty. In these circumstances, different policies are needed to enable countries to break out of a low-level equilibrium economic trap in which productive capacities, markets and the entrepeneurial class are all underdeveloped.

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Table 40 shows economic and poverty trends in LDCs before and after the adoption of ESAF-supported structural adjustment programmes. It focuses on 20 LDCs for which data are available. The table compares various indicators of economic performance and poverty trends three years before the year of adoption of an ESAF-funded programme with two three-year periods after that year. For this group of countries, the average real GDP per capita was declining by 1.4 per cent per annum in the three years before the programmes were initiated; they grew by 0.5 per cent per annum in the three years after, and then

TABLE 40. ECONOMIC PERFORMANCE OF THE LDCS, BEFORE AND AFTER THE ADOPTION OF SAF/ESAF PROGRAMMES

	3 years before	1st 3 years after	2nd 3 years after	1997–1999
Average annual real growth rates (%)				
GDP per capita	-1.4	0.5	-1.4	1.4
Exports of goods and services	0.1	6.1	3.4	6.2
Gross capital formation	0.8	2.1	-2.6	7.6
Average per capita private consumption (1985 PPP$)	0.1	-0.1	-2.4	2.0
Average annual ratio (as % of GDP)				
Exports of goods and services	19.6	19.2	18.8	21.0
Gross capital formation	16.1	18.7	18.3	18.5
Gross domestic savings	0.7	2.5	1.1	4.1
Genuine domestic savings	-5.6	-4.1	-5.9	-3.6
Average poverty incidence (% of population)				
Living on less than $1 a day (1985 PPP$)	51.3	52.0	53.3	51.8
Living on less than $2 a day (1985 PPP$)	83.1	83.7	84.1	83.3
Average per capita private consumption (1985 PPP$)	493.2	486.7	477.6	481.2

Source: UNCTAD secretariat estimates based on World Bank, *World Development Indicators 2001,* CD-ROM.

Note: The figures are simple averages. The sample includes all LDCs for which data are available and which are identified by the IMF as ESAF-programme countries, except Equatorial Guinea, Guinea-Bissau, Rwanda and Sierra Leone, which are outliers. The countries are: Bangladesh, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Gambia, Guinea, Haiti, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nepal, Niger, Togo and Uganda.

declined by 1.4 per cent in the next three years. Average annual private consumption per capita (in 1985 PPP dollars) fell from $493.2 in the three years before to $486.7 in the first three years after and $477.6 in the next three years. The proportion of the total population living below the $1-a-day poverty line rose from 51 per cent to 52 per cent in the first three years after the adoption of the ESAF-funded programme and 53 per cent in the next three years. Moreover, the proportion of the population living below the $2-a-day poverty line rose from 83 per cent in the three years before adoption to 84 per cent in the two three-year periods afterwards.

The main conclusion that can be drawn is that ESAF-funded adjustment programmes have not delivered sustainable growth sufficient to make a significant dent in poverty.

The main conclusion that can be drawn from this is that ESAF-funded adjustment programmes have not delivered sustainable growth sufficient to make a significant dent in poverty. The main positive effect of these programmes seems to be on the export growth rates. But any growth which is occurring may not be sustainable owing to a weak domestic investment response, the perpetuation of very low domestic savings rates and negative genuine domestic savings (indicating environmental degradation) — see table 40. There is no evidence that these reforms have catalysed private capital flows. For a sample of 29 LDCs undertaking SAF/ESAF-funded reform programmes, the ratio of net FDI to GNP declines between the five years before and after the initiation of reforms in almost half the cases, increasing by over 1 per cent in just five cases (UNCTAD, 2000: 111). Moreover, from the evidence of the composition of exports presented in chapter 3, the reforms have been unable to promote economy-wide structural change towards more dynamic export sectors, although market share is being gained in a number of traditional export sectors. There are indeed examples of domestic business success at the micro level (ITC, 2001), but these islands of success are not yet translating into more widely shared sectoral and economy-wide development.

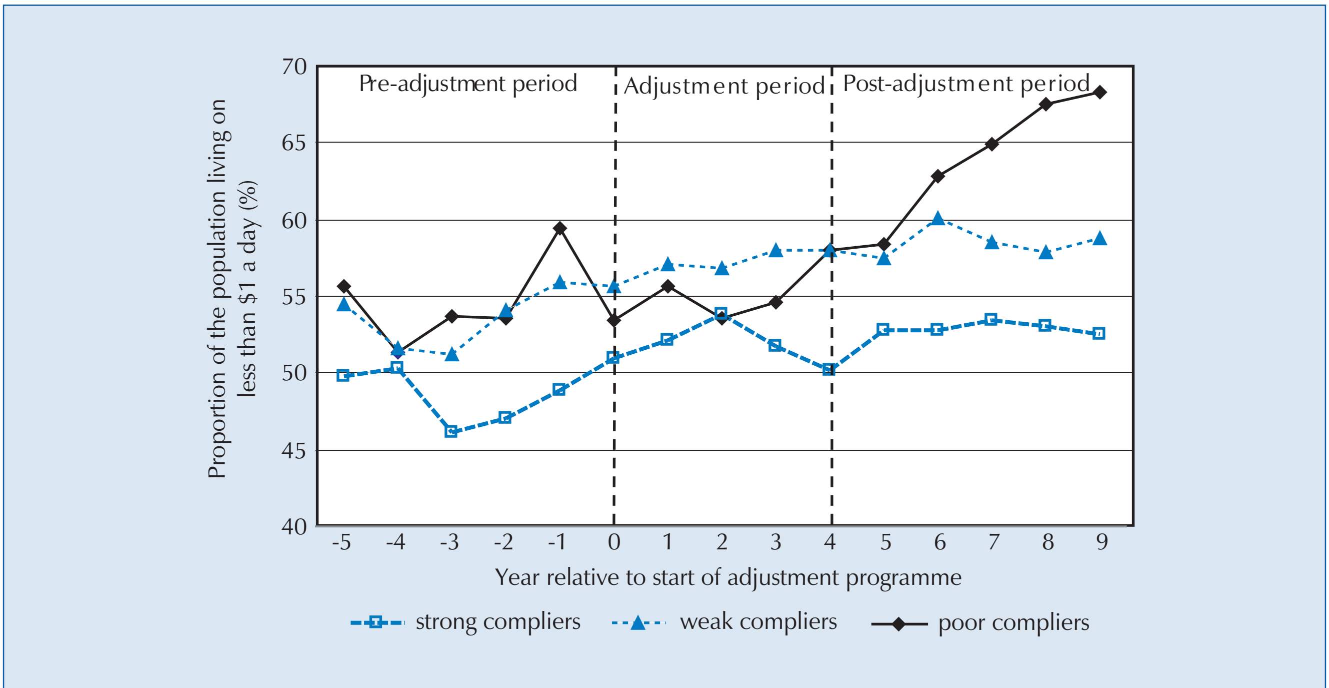
There are, of course, variations amongst countries around these averages. These differences are due to various factors, including the degree to which programmes were adequately financed, the initial level of external debt, and movements in international commodity prices, as well as the seriousness with which the reform programmes were implemented. The last factor is often singled out as the critical one, and, as noted above, is a central theme underlying the PRSP approach.

Chart 45 seeks to examine this issue by focusing on poverty trends before and after the implementation of adjustment programmes in three groups of countries, which are defined according to the degree of compliance with the policy conditionality of adjustment programmes. The sample is different from the one in table 40, and owing to data constraints is limited to African LDCs. The groups are taken from World Bank (1997), which classifies countries into "strong", "weak" and "poor compliers" on the basis of the degree of compliance with conditionality in relation to: (i) macroeconomic policies (fiscal deficit reduction, public expenditure levels and exchange rates), (ii) public sector management (including civil service reform, public expenditure reform and public enterprise restructuring, and privatization), and (iii) private sector development (financial sector reform, trade policy reform, regulatory environment, and pricing and incentives). The countries which comply the most are defined as "strong compliers"; those which comply the least are "poor compliers"; and those in-between are labelled "weak compliers".

As with all exercises of this nature, the results are dependent on the sample, and there are variations around the average in each group. However, three generalizations can be made from the chart. First, the incidence of poverty clearly increased in countries that are classified as poor compliers. Second,

CHART 45. TRENDS IN THE INCIDENCE OF POVERTY IN AFRICAN ADJUSTING LDCS, CLASSIFIED ACCORDING TO THEIR DEGREE OF COMPLIANCE WITH POLICY CONDITIONALITIES OF STRUCTURAL ADJUSTMENT PROGRAMMES

(Percentage)



Source: UNCTAD secretariat estimates. The classification of countries and years in which adjustment is estimated to have begun are those of World Bank (1997).

Note: Group averages are unweighted. The countries and the years in which adjustment is estimated to have begun (year 0) are: strong compliers (Benin, 1989; Gambia, 1987; Malawi, 1981; Mali, 1988; Mauritania, 1986; Mozambique, 1988; Sierra Leone, 1992; and United Republic of Tanzania, 1987); weak compliers (Burkina Faso, 1991; Guinea, 1986; Guinea-Bissau, 1985; Madagascar, 1985; Niger, 1986; Senegal, 1986; Togo, 1983; Uganda 1988; and Zambia, 1991); and poor compliers (Burundi, 1986; Central African Republic, 1987; Chad, 1989; Democratic Republic of the Congo, 1986; Rwanda, 1991; Somalia, 1986; and Sudan, 1980).

during the adjustment period, poverty increased by more than two percentage points in the countries classified as weak compliers whilst it fell by more than half a percentage point in those countries classified as strong compliers. Third, after the adjustment period, the downward trend in poverty in the strong adjusters and the upward trend in poverty in the weak adjusters both ceased, leaving both groups of countries with higher poverty incidence than before the adjustment process. On average, 48 per cent of the population were living on less than $1 a day in the strong adjusters during the five-year pre-adjustment period as compared to 53 per cent during the five-year post-adjustment period. Inevitably, this implies that the numbers of poor increased in the strong adjusters.

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In short, it would appear that there may be an element of truth in the argument that the degree of compliance with conditionality affected poverty trends in adjusting countries. But the effect is asymmetrical. If you did not comply well, the incidence of poverty increased. However, if you did comply, even strongly, the incidence of poverty did not fall. In each case, given population growth, the numbers of people living in poverty can be expected to have increased, though more steeply in the worst compliers than in the best compliers.

It is difficult to say exactly what mechanisms are responsible for these different outcomes. Many observers have concluded that the elements of adjustment programmes which have contributed most to positive outcomes are the removal of gross macroeconomic imbalances, which were evident in very high rates of inflation and exchange rate misalignment. But there is little evidence that the structural reforms which have been undertaken have had any positive effects on growth. Indeed, one of the IMF's unduly neglected background studies for its own internal evaluation of the ESAF programme finds that the effects of structural policies on growth are "barely discernible when full account is taken of macroeconomic policies, human capital accumulation, initial conditions and exogenous shocks" (Kochhar and Coorey, 1999: 87). Finally, implementation of ESAF-funded programmes acted as a gatekeeper for access to concessional finance. Typically, the increased supplies of foreign exchange associated with the initiation of an ESAF programme enabled the rehabilitation and full utilization of existing capital stock. But expanded official flows also rendered many potential investments remunerative and also led to flourishing informal sector activities. These effects occurred in a wide range of countries. But strong adjusters are less likely to have had underfunded programmes and less likely to have suffered the problems of programme interruptions. The adequacy of the funding of programmes is likely to have been particularly important as an element explaining the different outcomes for different countries.

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Whatever the mechanism responsible for the different results, it is clear that even when well implemented, past adjustment programmes have not delivered sustainable growth rates sufficient to make a significant dent in poverty in most LDCs. This result conforms with the findings of many other independent evaluations of adjustment programmes.[9] Whether or not these programmes are actually increasing rates of poverty, as some observers argue, is difficult to say without more detailed analysis of what would have happened without the policies. But the present evidence is sufficient to demonstrate that in general past adjustment policies are not associated with sustained reductions in the incidence of poverty in the LDCs even when they are well implemented. The problem is not that they are excessively focused on economic growth, as is sometimes popularly asserted. The problem is that they cannot deliver accelerated and sustainable economic growth, which is essential for poverty reduction in countries with generalized poverty.

Adjustment programmes have not necessarily been a total failure. They have played an important role in reducing excessively high rates of inflation and correcting overvalued exchange rates. They have also fostered a progressive shift in policy thinking that gives more adequate recognition to the role of market forces and private initiative in the development process, and to the importance of integration with the global economy. But it is necessary to move beyond adjustment now. Getting the Government out of the way and opening up the economy to the rest of the world are not going to achieve the desired results in terms of poverty reduction. The policy model is wrong for this purpose in countries where poverty is generalized.

Adjustment programmes have not necessarily been a total failure... But it is necessary to move beyond adjustment now.

In moving forward, one must recognize the weak growth results of past adjustment policies, and reject "business as usual" in the content of policies as much as it is rightly being rejected in the processes of policy formulation. On the basis of past experience, we should not expect better results to be achieved if the new policies emerging from the PRSP process differ from those of the past in no other respect than that they are nationally formulated versions of past adjustment programmes. Moreover, although it is true that insufficient attention was given in the past to social outcomes, sustained poverty reduction is not going to follow automatically as the result of the integration of pro-poor public expenditure into traditional macroeconomic policies and structural reforms. Alternative policies need to be explored.

We should not expect better results to be achieved if the new policies emerging from the PRSP process differ from those of the past in no other respect than that they are nationally formulated versions of past adjustment programmes.

D. Long-term national development strategies and the PRSP process

The core of any PRSP is concerned with policy actions and public expenditure priorities to promote growth and poverty reduction over a three-year period. Although references are generally made to long-term objectives, the link between the PRSP and long-term development strategies is not as yet strong. Poverty reduction strategies will be more effective if they are anchored more firmly in long-term development strategies than if they continue to be dominated by the short-term macoeconomic goals of stabilization together with structural reforms which are geared to improving the efficiency of resource allocation. Long-term national development strategies are not, it must be emphasized, advocated here as a replacement for PRSPs. Rather, they provide the basis on which different policy options within PRSPs can be developed.

Poverty reduction strategies will be more effective if they are anchored more firmly in long-term development strategies.

A long-term development strategy contains a long-term vision of national objectives; the strategic elements required to achieve these objectives, and their sequencing; and the policy processes to pursue the objectives.[10] Central issues which must be addressed include the following: the nature of the growth mechanism underlying the development process, including accumulation of physical and human capital, and productivity growth through an increasing division of labour, technological progress and structural change, as well the efficiency of resource allocation; the type of structural transformation which may be encouraged as the economy grows; sources of finance for productive investment; the role of trade in the development process; mechanisms for promoting enterprise development and learning; environmental sustainability; and the generation and sustainability of livelihoods for all sections of the population. Creating capable and effective States, and also a dynamic domestic entrepreneurial class willing to commit its resources to domestic investment rather than to luxury consumption or holding private wealth abroad, is a central institutional issue which also must be addressed in a developmental approach to poverty reduction.

In the approach advocated here priority policy actions within the PRSP would be derived from the overall development strategy. In essence, they would be the steps to be taken in the short term, over a three-year period, in support of long-term goals.

In the approach advocated here priority policy actions within the PRSP would be derived from the overall development strategy. In essence, they would be the steps to be taken in the short term, over a three-year period, in support of long-term goals. Short-term macroeconomic needs would not be ignored. But there would be greater exploration of monetary policy options and fiscal flexibility within the limits of what is prudent, and also analysis of the trade-offs between long-run and short-run objectives. Sectoral policies would be integrated into the PRSP through the analysis of the overall development path. Trade issues are also currently not treated in depth in PRSPs. They are an important aspect of long-term development strategies, and it is from an understanding of the role of trade within the overall development strategy that one can build appropriate trade and complementary policies into the PRSPs.

Trade issues are currently not treated in depth in PRSPs. It is from an understanding of the role of trade within the overall development strategy that one can build appropriate trade policies into the PRSPs.

It is for individual Governments themselves to make their strategic choices. But the analysis of generalized poverty in the present Report suggests four general policy orientations that are likely to have wide, though contextually specific, application. These are: firstly, the central importance of promoting rapid and sustained economic growth; secondly, the establishment of a dynamic investment–export nexus, which, to be sustainable, must be increasingly based on domestic resource mobilization; thirdly, the elaboration of productive development policy options; and fourthly, the adoption of policies to ensure that social groups and regions within a country are not left behind and marginalized as growth takes place (see chart 46). These policy orientations are based on two key insights within the new Programme of Action for the LDCs. The first is that the basic mechanism to reduce poverty in the LDCs is through economic growth and development (United Nations, 2001b: para. 13). The second is that building productive capacities is essential to help LDCs integrate beneficially into the global economy. The overall approach seeks to reduce poverty through sustainable growth and development based on the building of domestic productive capacities.

1. The importance of rapid and sustained economic growth

The central task of government in situations of generalized poverty must be to double average household living standards as quickly as is feasible.

In situations of generalized poverty, the most effective mechanism of poverty reduction is rapid and sustained economic growth. As shown in chapter 1, average private consumption per capita in the LDCs during 1995–1999 was equivalent to just 57 cents a day (at current prices and official exchange rates) or \$1.39 a day (using 1985 PPP conversion rates). The central task of government in such a situation must be to double average household living standards as quickly as is feasible. A necessary condition for this is growth in GDP per capita.[11] A sufficient condition is that economic growth be of a type that is founded on the accumulation of capital and skills, productivity growth and the expansion of employment opportunities, and which thereby expands the consumption possibilities of households and individuals.

Some idea of the likely effects of rapid and sustained economic growth on the incidence of poverty in the LDCs is shown in table 41. One of the forecasts in that table is based on the assumption that a GDP growth rate of 7 per cent per annum is achieved. This is the target growth rate in the Programme of Action for the Least Developed Countries for the Decade 2001–2010, which was agreed at the Third United Nations Conference on the Least Developed Countries in

CHART 46. ELEMENTS OF A DEVELOPMENT-ORIENTED POVERTY REDUCTION STRATEGY IN LDCS

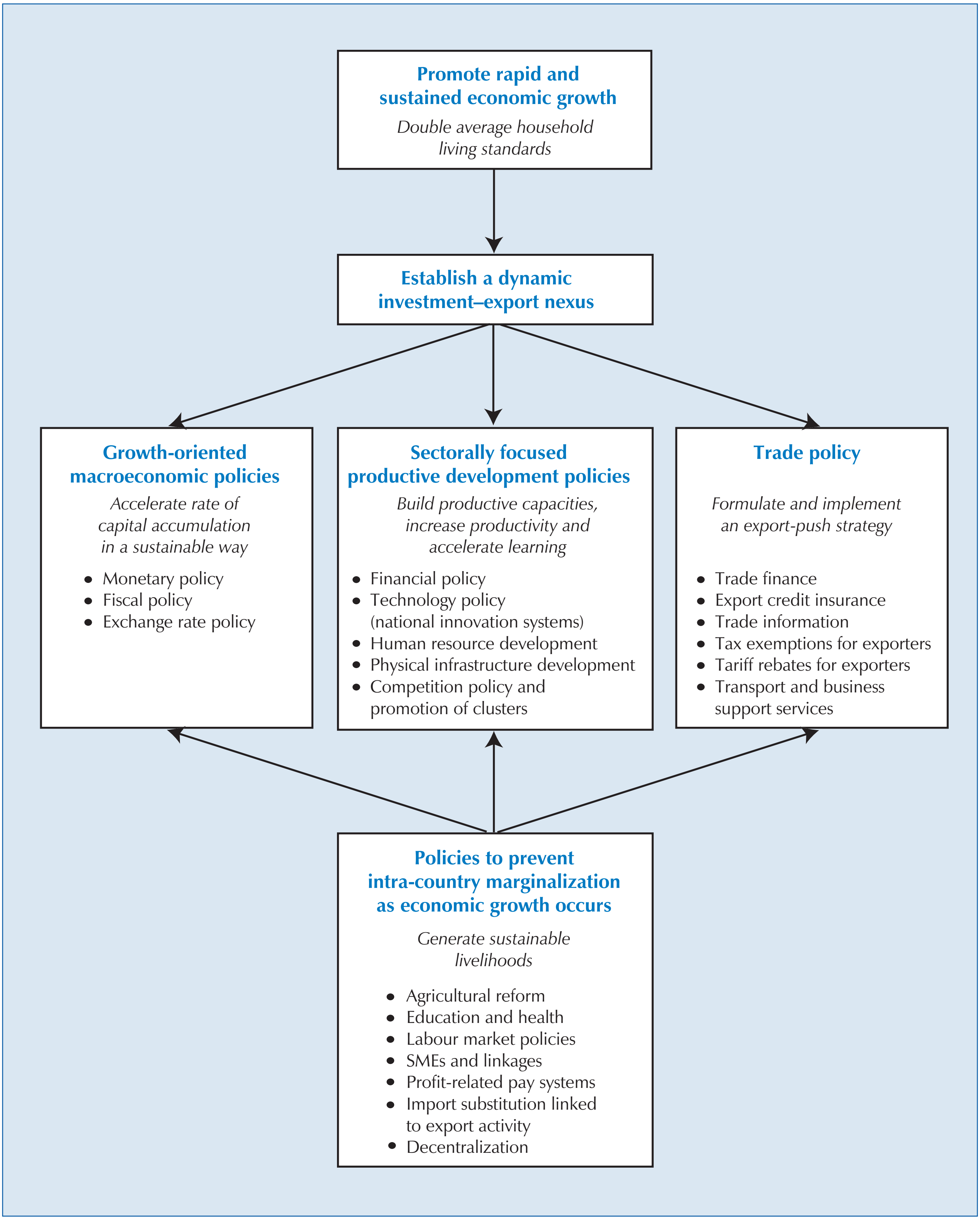

TABLE 41. PROJECTIONS OF THE INCIDENCE OF EXTREME POVERTY AND THE NUMBER OF EXTREMELY POOR PEOPLE IN LDCs[a] IN 2015: THREE ALTERNATIVE SCENARIOS

	1990	1999	Projection I 2015	Projection II 2015	Projection III 2015
Share of population living on less than $1 a day (%)[b]	49.1	50.5	50.6	43.7	24.0
Number of people living on less than $1 a day (millions)	214.4	270.5	383.6	331.0	181.8
Number of countries on target to halve the incidence of poverty between 1990 and 2015	-	-	7	6	28

Source: UNCTAD secretariat estimates.

Note: Projection I assumes that the trend of the 1990s persists. Projection II assumes that the average annual growth rate is 3.5% starting in 2000. Projection III assumes that the average annual growth rate is 7% starting in 2000.

a The sample includes 33 LDCs for which the projections can be made: Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Togo, Uganda, United Republic of Tanzania, Vanuatu and Zambia.

b Averages weighted by total population.

Brussels in May 2001. In the light of past experience, this target is no doubt ambitious. But the table shows what the effects on poverty would be if the 7 per cent growth target could be achieved, and if average private consumption per capita grew in line with GDP per capita. The projections assume the incidence of poverty declines in line with the poverty curves which describe the normal relationship between the average private consumption per capita and the incidence of poverty, and also that population growth rates match the UN projections.

If the 7 per cent growth target could be achieved, the numbers of people living in extreme poverty in these LDCs would be about 200 million lower in 2015 than if the growth trends of the 1990s persisted.

From table 41, it is apparent that:

- For the group of LDCs for which data are available, the incidence of extreme poverty will increase between 1990 and 2015 if the growth trends of the 1990s are maintained. However, it will fall by half if the 7 per cent growth target can be achieved.
- Twenty-eight out of 33 LDCs for which data are available would reduce the incidence of extreme poverty between 1990–2015 by half if the 7 per cent growth target could be achieved. By contrast, only seven countries would be able to do so that if the growth trends of the 1990s were simply maintained.
- If the 7 per cent growth target could be achieved, the numbers of people living in extreme poverty in these LDCs would be about 200 million lower in 2015 than if the growth trends of the 1990s persisted.
- If the 7 per cent growth target could be achieved, the numbers living in extreme poverty in these LDCs would be 89 million less in 2015 than in 1999, rather than 113 million more, which would be the case if the growth trends of the 1990s persisted.

The 7 per cent target growth rate of the Brussels Programme of Action is certainly ambitious. But it is only with more rapid and sustained growth that one may expect a significant reduction in the incidence of extreme poverty to be achieved. Moreover, given the high population growth rates in the LDCs, any reduction at all in the numbers of people living in extreme poverty in the LDCs depends on the achievement of such growth rates.

For comparative purposes, table 41 also shows projections of the incidence of poverty based on the assumption that all countries achieved growth rates of only 3.5 per cent per annum, i.e. half the UNLDC III growth targets. Out of the 33 LDCs, only six would reduce the incidence of poverty by half between 1990 and 2015. Moreover, the number of people living in extreme poverty in the LDCs for which we have data would increase by about 61 million between 1999 and 2015. The number of people living in extreme poverty in these 33 LDCs would be 151 million more than if the 7 per cent growth target were met.

2. The need to establish a dynamic investment–export nexus[12]

A sustainable growth process requires mutually reinforcing interactions between investment growth and export growth.

The current PRSPs tend to assume that higher rates of economic growth will occur than in the past. These growth rates are usually included in the PRSPs as an assumed growth rate that is part of the macroeconomic framework. It is unclear how they are derived, and also how they are related to the policies which are proposed. In general, it appears to be assumed that more vigorous implementation of policy reforms, which is expected to stem from national ownership, is the source of the accelerated growth. But, as argued above, this seems to be over-optimistic.

The Programme of Action for the Least Developed Countries for the Decade 2001–2010 envisages increased rates of investment as a basis for higher growth rates. Experience indeed suggests that increasing the rates of investment is the key to promoting rapid and sustained economic growth in developing countries. But it also shows that it is necessary to build a strong investment–export nexus. That is to say, a sustainable growth process requires mutually reinforcing interactions between investment growth and export growth.

Establishing a dynamic investment–export nexus requires the creation of profitable investment opportunities, reducing the risks and uncertainty of investment activity, and ensuring the availability of finance so that entrepreneurs are able to invest in expanding production.

Exports must play a significant role in output expansion in most LDCs. This is a necessary consequence of the limits of their domestic markets, which are a result of generalized poverty and, in the majority of cases, their relatively small populations. Some export expansion can take place by bringing idle land and underutilized labour into production. But sustained export expansion usually depends on the creation of additional production capacity, as well as on investments to improve productivity through the application of available modern technologies, and investments to diversify into more dynamic market segments. Increased investment — in capital equipment, technical know-how and market knowledge — enables sustained export growth, which in turn enables increased investment. The basic reason for this is that at the early stages of growth the balance-of-payments deficit is a particularly serious constraint on the expansion of economic activity. When investment is growing, imports of capital goods and intermediate goods normally must also grow, and adequate foreign exchange is required to ensure that these are reliably financed.

Establishing a dynamic investment–export nexus requires the creation of profitable investment opportunities, reducing the risks and uncertainty of investment activity, and ensuring the availability of finance so that entrepreneurs are able to invest in expanding production. Policy intervention of various kinds can play a key role by setting the general conditions for a faster pace of capital accumulation and by correcting specific market failures which impede access to finance, the adoption of technologies and the orientation of domestic production to external markets. Such interventions should be founded upon the recognition that in market-based systems capital accumulation is closely linked to the emergence of a domestic entrepreneurial class willing to commit resources to long-term investment in production and to the reinvestment of their profits in expanding production (UNCTAD, 1998: 212). The combination of public and private initiative that is needed is still best illustrated by the development experience of East Asian newly industrializing economies (UNCTAD, 1994, 1996).

The combination of public and private initiative that is needed is still best illustrated by the development experience of East Asian newly industrializing economies

The basis of the whole process is a good general "pro-investment climate" which improves the returns and reduces the risks of private investment. A critical policy issue is: What are the main elements of a pro-investment climate in a situation where over 50 per cent of the population is living in extreme poverty and where there is a poorly developed corporate sector? This requires much more research. But there is a consensus that political stability, a good legal structure and effective contract enforcement are needed to ensure rising levels of private investment. A stable macroeconomic environment is also desirable, although policies to achieve the short-term goal of macroeconomic stability, including the target rate of inflation and the size of the budget and current account deficits, should not be set without consideration of long-term development objectives and, in particular, the need to increase domestic investment. The quality of economic infrastructure, including power, telecommunications, transport and water, is also essential, since deficiencies in this regard can considerably increase transaction costs for business activity (Stern, 2001). Measures to improve health and education, quite apart from their intrinsic value, are critical in increasing the productivity of the working population. Moreover, when the majority of the population is very poor, food constitutes a major share of workers' expenditures on goods and services, and hence the price of food is a major element in the determination of the cost of living for workers. The price of food, which may be locally produced or imported, is thus an important determinant of the competitiveness and profitability of labour-intensive production (Wuyts, 2001) — see box 14. This suggests that measures to increase the productivity of domestic food production are also likely to be an important aspect of a good general pro-investment climate.

Two important market failures which Governments must now address are the limited access of small and medium-sized domestic enterprises to formal bank credit, and the mismatch between the short-term nature of available financing and the longer-term requirements of productive investment.

Within the general pro-investment climate, special efforts need to be made to ensure the availability of finance for productive investment and also to promote exports. Financial liberalization has been undertaken in many LDCs. It was introduced as a reaction to excessive and often misguided intervention in the financial sector, including public ownership of banks and controls on interest rates and credit allocation, which often resulted in negative real deposit and lending rates and preferential treatment for public entities. But the financial reforms have often resulted in high interest rates and financial instability (UNCTAD, 1998: 214–215). Two important market failures which Governments must now address are the limited access of small and medium-sized domestic enterprises to formal bank credit, and the mismatch between the short-term nature of available financing and the longer-term requirements of productive investment. As argued in UNCTAD (2000), a particular priority is to finance medium-sized domestic businesses which are not commercially bankable but which have the potential to be so if they have access to finance at more normal interest rates. There are no easy solutions to the problem of financing domestic enterprises. But suitable instruments and institutions must be created to provide financial services with different profit, risk and liquidity profiles, to channel resources into long-term productive investment and not simply real-estate development and short-term trading activities, and to ensure that credits reach agricultural smallholders and small and medium-sized domestic industrial enterprises, as well as broadly defined sectors which the Government believes are important for national development. Development banks and venture capital funds may both have a role to play (ECLAC, 1990: 143–148; 2000: 223–

Box 14. Strategic choices in creating competitive labour-intensive activities in latecomer countries

In her analysis of East Asian industrialization, Amsden (1994, 2001) argues that the central challenge which newly industrializing economies such as the Republic of Korea and Taiwan Province of China faced when establishing export-oriented textile industries was how to compete with countries such as Japan, where production was already well established. Wages were higher in the already established production centres, but the latecomer countries could not compete because their labour productivity was lower and thus their unit wage costs were higher. In this situation, Amsden argues, the latecomer countries faced a strategic choice in establishing competitive labour-intensive activities – either they lowered real wages or they raised productivity. She argues that the former approach is typical of structural adjustment policies, whilst the latter was widely used in East Asian newly industrializing economies, whose Governments intervened to subsidize capital investment and learning in order to increase productivity.

Wuyts (2001) extends this analysis in a way that enables it to be applied to least developed countries. He points towards a third route to establishing competitive labour-intensive activities. This involves making cheaper the basic consumer goods that constitute workers' subsistence, particularly food. If this occurs, it is possible for unit wage costs to fall in the latecomer countries without reductions in real wages. From this, Wuyts derives an important conclusion: "If the competitiveness and profitability of labour-intensive production in a newly industrializing country is not to be at the expense of real wages, an important condition is that the expansion of employment outside agriculture should not bring in its wake a rise in the price of basic foodstuffs" (p. 422). He thus argues, following Hayami (1997: 85–90), that agrarian reforms aimed at enhancing productivity in agriculture in general, and in food production in particular, played an important positive role in preventing industrialization processes from being undermined by rising food prices.

Wuyts also extends Amsden's framework in two further ways. The first is by recognizing the varied nature of employment relations, which in an African context for example, can range from protected wage employment, unprotected wage employment, and casual and irregular wage labour, to self-employment and marginal self-employment. Wuyts argues that subsistence costs are as important for the dynamism and competitiveness of informal sector activities as they are for the dynamism and competitiveness of those based on a wage relationship. The second way is by examining the diversified mixture of livelihood strategies that households use in order to secure a living. These involve production for own consumption as well as for the market, and may include "straddling" between agriculture and industry. In some parts of East Asia, the majority of workers in low-wage, labour-intensive rural industries belong to households with access to land, and the economic and social security that this provided effectively subsidized industrial wages. The moderation of the rate of urbanization also kept down the costs of subsistence for society as a whole.

The prices of food and of simple consumer goods, as well as the broader conditions that guarantee economic security for households, are thus essential elements of the competitiveness and viability of labour-intensive production in latecomer countries. The two central ways of making the price of food and simple manufactured goods cheaper are using imports or increasing productivity in the domestic production of food and simple manufactured goods. Making food prices cheaper through imports will give rise to problems of sustainability unless there is sufficient export growth.

Source: Wuyts (2001).

228), as well as the various kinds of micro-credit institutions which have sprung up following the pioneering innovation of the Grameen Bank in Bangladesh. National financial policies which create opportunities for "rents", returns in excess of those generated by a competitive market, can also be used to tackle key blockages in financial deepening, deposit mobilization in rural areas and the development of a private long-term credit market (Hellmann, Murdock and Stiglitz, 1996). Donor countries also need to give careful thought to financing domestic enterprise development through such instruments as the Japanese two-step loans (Okuda, 1993).

Promoting exports is also likely to require a special push. The reason for this is that in many of the activities in which the LDCs apparently should have a comparative advantage given their resource endowment, they are quite simply uncompetitive. Historically, this has been a general pattern at early stages of development (Amsden, 2001). In the LDCs, trade liberalization has not been sufficient to reverse the marginalization of commodity exporting LDCs in global trade because the structure of exports remains concentrated in products for which demand is growing slowly or declining in world markets. An export-push strategy, which provides special incentives for exporters, is now necessary.[13] There is a range of well-tried trade policy measures for export promotion, including tariff rebates so that export companies can have access to imported goods at international prices, tax exemptions, preferential credits allowing exporters can have access to finance at internationally competitive rates, export credit insurance, information provision through export promotion agencies, and subsidized infrastructure. The critical priorities for support, as identified by enterprises and business associations in the LDCs themselves, are shown in table 42. Strengthening trade finance and trade promotion institutions emerge as the leading priorities according to business associations and enterprises.

An export-push strategy, which provides special incentives for exporters, is also necessary.

Various difficult strategic decisions must be made by Governments that seek to establish an investment–export nexus. One important strategic choice that

TABLE 42. PRIORITIES FOR TRADE-RELATED TECHNICAL COOPERATION PROGRAMMES PROPOSED BY ENTERPRISES AND BUSINESS ASSOCIATIONS IN LDCS

(Percentage of all enterprises and business associations identifying each priority as a focus for technical cooperation)

Proposed priorities	Enterprises	Associations
Strengthening trade finance	84	74
Strengthening trade promotion institutions	72	79
Providing up-to-date information on market trends in international markets	64	79
Assistance in developing a national strategy for trade development	61	63
Assistance in improving human resource development facilities	54	65
Assistance in selecting trade and investment partners abroad	57	49
Development of transport services	50	44
Upgrading telecommunications, roads, electricity and water	50	42
Streamlining customs procedures	47	44
Providing up-to-date information on import tariffs and non-tariff barriers	35	47
Assistance in quality control	45	35
Training in international marketing management	30	47
Providing information on market access in the post-Uruguay Round context	24	30
Assistance in product adaptation and development	21	28
Steamlining national taxation	27	21
Training in packaging	21	21
Streamlining bureaucracy	23	14
Guidance in international purchasing and supply management	18	14
Support in acquiring relevant technology	10	16
Streamlining national import tariffs	16	7
Need for recognition of private-sector concerns	10	9
Development of the legal framework for international trade	10	9
Making policies more conducive to international business development	11	9
Reduction of import duties/non-tariff barriers in target markets	10	7
Facilitating access to international markets in general	7	9
Reducing corruption/bribery	7	0
Relaxing foreign exchange controls	7	0
Solutions to problems resulting from difficult geographical access	7	0
Assistance in reducing production costs	4	2
Developing trade support services in general	4	2
Strengthening local enterprises in general	4	2
Facilitating access to raw materials	1	5
Promoting privatization	1	0

Source: WTO (1997: table 1), based on questionnaire surveys.

emerges from the analysis in this Report is whether LDC Governments should seek to increase export growth by upgrading primary commodity exports, or by developing labour-intensive manufactures. The evidence in this Report shows that the latter route may be more effective in poverty reduction. But it is also clear that upgrading primary production exports can be part of a strategy of diversification into labour-intensive manufactures. It has been used in the second-tier newly industrializing economies (Reinhardt, 2000), and also by some of the LDCs which have diversified into textiles and clothing exports. Moreover, the earlier discussion also suggests that the opportunities for upgrading commodity exports have not as yet been properly exploited in the LDCs.[14] Thus the LDCs would be ill-advised to ignore the opportunities within primary commodity production. Export promotion is thus most likely to focus initially on natural-resource-based activities and simple labour-intensive manufactures. The International Trade Centre (ITC) has identified a number of key products which may be particularly promising for export promotion in the LDCs (table 43). These are: cotton fabrics, textiles and clothing; fish products; coffee; cotton and fibres; wood and wood products; oilseed products;

It is clear that upgrading primary production exports can be part of a strategy of diversification into labour-intensive manufactures.

TABLE 43. PRODUCTS WITH EXPORT DEVELOPMENT POTENTIAL IN LDCS

Sectors	All LDCs: average annual exports, 1995–1999 ($ million)	Countries with potential
Goods		
Cotton fabrics, textiles and clothing	2 681	Bangladesh, Nepal, Malawi, Madagascar, Mozambique, Benin, Ethiopia
Fish products	1 800	Bangladesh, Myanmar, Madagascar, Mozambique, Solomon Islands, Equatorial Guinea, Mauritania, Senegal, Maldives
Coffee	1 300	Uganda, Ethiopia, United Republic of Tanzania, Democratic Republic of the Congo, Burundi, Madagascar
Cotton and fibres	1 010	Mali, Benin, Sudan, Chad, Burkina Faso, Togo, Zambia, Madagascar, United Republic of Tanzania
Wood and wood products	856	Myanmar, Solomon Islands, Cambodia, Equatorial Guinea, Democratic Republic of the Congo, Lao People's Democratic Republic, Myanmar, Madagascar
Oilseed products	405	Sudan, Senegal, Solomon Islands, Benin, Myanmar
Vegetables	288	Myanmar, Sudan, Ethiopia, Senegal, Bangladesh, Zambia, Burkina Faso, Gambia, Afghanistan, Madagascar
Fruits and nuts	249	United Republic of Tanzania, Mozambique, Madagascar, Guinea-Bissau, Afghanistan, Somalia, Bhutan, Malawi, Myanmar
Spices	92	Madagascar, Comoros, United Republic of Tanzania, Uganda, Myanmar, Malawi, Lao People's Democratic Republic, Niger, Zambia
Cut flowers and foliage	31	Zambia, United Republic of Tanzania, Uganda, Malawi, Ethiopia, Rwanda, Yemen, Haiti, Madagascar
Medicinal plants	31	Sudan, Democratic Republic of the Congo, Vanuatu, Myanmar, Madagascar, Lao People's Democratic Republic
Services		
Tourism	2 360[a]	United Republic of Tanzania, Maldives, Nepal, Myanmar, Senegal, Uganda, Haiti, Lao People's Democratic Republic
Business-related services	1 254[b]	Myanmar, Nepal, Angola, Madagascar, Ethiopia, Yemen, Senegal, Solomon Islands, Togo, Vanuatu

Source: ITC (2001: table 2).

a 39 LDCs.
b 19 LDCs.

vegetables; fruits and nuts; spices; cut flowers and foliage; medicinal plants; business-related and professional services; and tourism. This, it should be noted, is not a complete list. Petroleum and gemstones play a major part in the economies of several LDCs. Moreover, cultural industries, and particularly music industries, have much potential in the LDCs (see box 15). Within these sectors, particular efforts should be made to upgrade production and capture more value-added.

International competitiveness in some branches of commodity production in LDCs will necessarily start with regaining the national market.

Another strategic issue is the role of import substitution in the development of an investment–export nexus. Historical experience in East Asia shows that exports often developed out of import substitution industries, and it is clear that in Africa as well a major mechanism through which export industries have developed is through expansion from sales in national markets to sales in international markets (Wangwe, 1995). International competitiveness in some branches of commodity production in LDCs will necessarily start with regaining the national market. Moreover, the poverty-reducing effects of export growth are likely to be enhanced if there are backward linkage effects in which local suppliers provide inputs of various types to support export production.

Another strategic issue is the role of domestic and foreign savings in financing the investment-export nexus. External finance is vitally important in the initial stages of building an investment–export nexus, particularly to jump-start this process. But the sustainability of the whole growth process can best be

Box 15. Economic opportunities for the music industry in LDCs

Changing trade patterns in cultural goods and services, especially music, offer new opportunities for least developed countries, rich in cultural assets, which can be transformed into lucrative business opportunities. The tremendously varied and rich store of music in the least developed countries, as witnessed by the growing popularity of World Music in the markets of the North, occupies an increasing place in contemporary popular music. LDCs have vast cultural assets in all arts, especially music, which have so far not been sufficiently exploited in the commercial arena. Not only is the basic resource — musical talent — abundantly available, but also regional musical tastes offer significant opportunities to establish markets for producers in the South.

Global trade trends in the music industry indicate that between 1980 and 2000 exports of recorded music discs and tapes from developed market economies to LDCs grew in nominal terms by 642 per cent, or 10.5 per cent per annum; while imports of developed market economy countries from LDCs rose by 321 per cent — that is to say, 7.4 per cent per annum (see box table 2). LDCs' exports in this sector have been steadily increasing over the last two decades. Despite the dominance of the five major corporations from the developed countries in this field, many LDCs also have internationally recognized brand names — Wyclef Jean, Lauryn Hill, Youssu N'Dour, Salif Keita, Cesaria Evora, Angelique Kidjo, Tabu Ley, Franco Huambo and Kester Emeneya are just some of the world-class musicians from LDCs with a strong presence in Western markets, together with Baba Maal, Kadjia Nin, Lucky Dube, and many others.

Can even the world's poorest countries with their proven excellence in music convert their home-grown talent into export-oriented business opportunities? There are positive signs. The famous Senegalese musician Youssu N'Dour records and exports directly from Dakar, while Salif Keita has set up his own music company in Bamako (Mali) that records young musicians from all over Africa. Both represent relatively successful attempts at starting up domestic music businesses based in LDCs. The efforts of these two internationally acclaimed artists to break free from the major corporations by establishing their own independent record companies in West Africa form part of the attempt by African musicians to change the highly imbalanced situation that currently prevails between African artists and the major media corporations. The popularity of African music in high-information and communication technologies income markets and the increasing use and vast potential of Africa's own largely untapped market are some of the advantages that can be built upon (UNCTAD, 2002b). Some symbolic but supportive international initiatives are taking place in this area; for example, in 2001 the World Bank made available financial support to the music industry in Senegal as a pilot project in its programme to fight poverty.

Ongoing work by UNCTAD on the music industry has shown that many LDCs, despite their strong cultural assets, lack competitive domestic enterprises and business skills to bring musical products to global markets (Andersen, Z. Kozul-Wright and R. Kozul-Wright, 2000). The absence of entrepreneurial and exporting skills poses a serious barrier to exports to high-income markets. But this may be changing with the advent of electronic commerce, which can provide

Box 15 (contd.)

LDCs with new opportunities to reach global markets. Here the digital divide is not only real but may also be bridgeable. A part of this agenda should include the building of the specialized skills for commercializing LDC music products through training and upgrading specifically in business skills, marketing and international partnerships in the export of music products from the LDCs.

Given the objective of increasing the rents earned in the music industry through investment in capacity in all relevant forms, two major policy issues clearly emerge. The first is the critical significance of copyrights and the appropriate regulatory framework (including a pro-local broadcasting media framework). Secondly, a solution should be sought to reduce the various types of market failures that impinge on the development of music and other cultural industries. The most important of these concerns is the lack of access of domestic entrepreneurs to long-term credit and working capital. Private capital markets are unresponsive to music industry participants in most LDCs. The paramount area for policy is the provision of abundant credit, and its provision to local entrepreneurs and music industry participants.

Box Table 2. LDCs in global trade in music,[a] 1980–2000

(Current $ millions)

	Exports from developed market economy countries to:				Imports to developed market economy countries from:			
Year	World	Developed market-economy countries	Developing countries	LDCs	World	Developed market-economy countries	Developing countries	LDCs
1980	876.0	640.4	91.3	2.8	811.1	788.2	19.9	0.3
1985	1 415.7	1 033.4	160.9	3.1	1 474.0	1 424.6	44.0	0.3
1990	6 809.6	5 820.5	615.9	11.7	6 755.7	6 556.2	173.2	0.2
1995	12 913.5	10 410.2	1 623.7	19.2	12 532.1	11 864.4	601.8	0.4
1996	14 118.8	11 605.2	1 585.5	16.5	13 509.9	12 713.1	731.0	0.4
1997	14 195.3	11 953.8	1 871.1	17.5	13 029.0	12 232.6	703.7	0.6
1998	14 562.9	12 001.5	1 738.9	16.5	14 028.8	13 048.7	862.1	0.6
1999	15 887.1	13 102.4	1 902.9	22.3	14 991.2	13 780.7	1 045.2	0.8
2000	15 510.1	12 405.1	2 179.4	21.0	14 581.5	13 189.6	1 229.9	1.1
Average annual growth rates (%)	15.5	16.0	17.2	10.5	15.5	15.1	22.9	7.4
% change from 1980 to 2000	1 670.7	1 837.2	2 286.1	642.3	1 697.8	1 573.3	6 068.8	320.8

Source: UNCTAD secretariat estimates based on UN COMTRADE data.

a Recorded discs and tapes.

Policy support is also required for the creation and establishment of effective national copyright regimes and marketing (ibid.). The responsible policy makers may need to assist participants with the development of the capacity to market the product that runs the least risk of piracy. This would include the development of classic venues for the staging of shows and festivals, with adequate arrangements for market differentiation and assistance with innovative forms of Internet marketing. Another relevant support is a taxation regime that targets the users of consumer hardware in the music and entertainment industry and seeks to recoup some of the losses from piracy of intellectual property.

The development of the domestic marketing capacity of the music industry should become a major focus of policy-making. To develop this market, it is necessary that each developing country adopt a package of initiatives, including research, training, apprenticeship, and development of physical and institutional infrastructure, in order to encourage reliance on local knowledge and culture in the marketing of products. Such initiatives would involve market differentiation mechanisms that increase the visibility of products and processes, and thus of artists and festival producers. At the same time, it is necessary to enhance the capacity of the local industry to market its products through the collaborative or commercial use of modern information technology for distribution, particularly marketing-oriented websites, while increasing the use of available means to limit piracy. For example, it might be necessary for incentives to be given to the private sector entities in the music industry to develop Internet malls for the music, entertainment and related industries. Such sites use an appropriate browser (with appropriate search engines) to sell simultaneously a cafeteria of services and products, such as a wide variety of CDs, films, music clips, and other entertainment-related goods and services, to both the consumer and the creator, and therefore bring the latter together for information and distribution purposes. They are widely used by all the major participants in the industry, and are typically not cost-effective for any single artist or operator to develop and use.

ensured if domestic savings start to grow along with investment and exports, and over time increasingly drive the process (Akyüz and Gore, 2001). As a corporate sector expands, corporate profits become increasingly important as a component of domestic savings and their reinvestment becomes a central motor of the accumulation process. But where the majority of the population earn their livelihoods in agriculture, and the main form of production is one in which work is organized by households, increased domestic savings will require increased agricultural productivity. Increasing the overall rate of capital accumulation will depend on the way in which surplus investable resources are channelled into further productive investment both inside and outside agriculture (see Teranishi, 1997). The marketization of agricultural production can be particularly important since it leads to an increasing division of labour and specialization within a country, and also the development of a growing national market. This will contribute to the general pro-investment climate. Recent developments in Vietnam show how a high rate of agricultural growth can provide an important underpinning for export-led growth in low-income countries (Arkadie, 2001).

The sustainability of the whole growth process can best be ensured if domestic savings start to grow along with investment and exports, and over time increasingly drive the process.

In dealing with the agricultural sector, some Governments are likely to face particularly difficult choices in terms of the priority given to the promotion of export crops or staple food crops for home or domestic consumption. Productivity gains in food crops can provide important poverty reduction gains in the early stages of development (Lipton, 2000). If land and labour resources are abundant, there may be no trade-off between export and food crops. Moreover, food can be imported. But in some African LDCs it is clear that the situation is complex and that it is difficult to develop agricultural exports out of local production of staple foods (UNCTAD, 1998).

3. Productive development policy options

Growth-oriented macroeconomic policies are an essential aspect of establishing a dynamic investment–export nexus.

Growth-oriented macroeconomic policies are an essential aspect of establishing a dynamic investment–export nexus in the LDCs. Short-term macroeconomic objectives of internal and external balance should be pursued through means which are consistent with long-term development objectives and which do not require investment levels so low as to compromise future growth. Low and stable interest rates to finance productive investment and competitive exchange rates are ingredients of a growth-oriented approach. But too tight credit ceilings can effectively undermine the ability of local firms to obtain the finance they need to expand production and improve supply capabilities. Fiscal measures, such as tax breaks and special depreciation allowances, can also be used to increase corporate profits and encourage retention in order to accelerate capital accumulation (UNCTAD, 2002a).

Alongside appropriate macroeconomic policies, it is important to adopt mesoeconomic and microeconomic measures that are specifically designed to improve the supply capabilities of the economy.

Experience suggests that, alongside appropriate macroeconomic policies, it is important to adopt mesoeconomic and microeconomic measures that are specifically designed to improve the supply capabilities of the economy.[15] Such measures can enhance macro–micro linkages in a way which supports national development and poverty reduction goals. UNCTAD has identified such measures as an important element of East Asian development strategies. They are also central to the neostructuralist approach which has been elaborated by ECLAC to achieve development with equity whilst integrating into the global economy.[16] The absence of such measures, and of mutually supportive links between macroeconomic, mesoeconomic and microeconomic policies, is a key weakness of the PRSPs at the present time.

Much more is known about the elaboration of productive development policies — which is the term that Latin American economists use to describe these policies — in more advanced developing countries than in the LDCs. However, some general remarks can indicate the types of policy options. Elements of a productive development policy include financial policy, technology policy, human resource development, physical infrastructure development, and industrial organization and competition policy. These elements are coordinated with trade policy. They can form part of, but should not be simply equated with, a selective industrial policy. They are directed at improving productivity and competitiveness in agriculture and natural-resource-based activities as well as in manufacturing.[17] They are designed to accelerate capital accumulation and learning both in specific sectors and throughout the economy, and to manage the complementarities, between enterprises and between productive sectors which can block profitable investment in any single one. These measures should seek to improve the environment within which enterprises operate, both in the economy as a whole and in specific sectors within it, and also help enterprises to identify and acquire competitive advantages through investment and learning. A particular aim is to promote the imitation and adaptation of internationally available technologies in order to reduce costs, improve quality, and introduce goods and services not existing in the country, and to promote the diffusion of best practices from more advanced to less advanced enterprises within the country, including from foreign-owned to locally owned firms.[18]

An important aspect of productive development policies is that they are not simply designed to improve capital accumulation and learning in the economy as a whole, but they also have a sectoral focus.

An important aspect of productive development policies is that they are not simply designed to improve capital accumulation and learning in the economy as a whole, but they also have a sectoral focus. The basis for this approach is the insight that "economic growth is intrinsically tied to the structural context, which is made up of productive and technological apparatuses, the configuration of factor and product markets, the characteristic of entrepreneurial agents, and the way in which these markets and agents relate to the external environment. The leadership exercised by certain sectors and firms is the essential dynamic factor that propels economic growth" (ECLAC, 2000: 219). It is clear that a major aspect of the weak export performance of many LDCs is the composition and concentration of their exports. Also, an important constraint on investment in the early stages of development is that the profitability of investment in one sector is often blocked by conditions in related sectors. Policy needs to tackle these strategic complementarities. In order to ensure that sections of the population are not marginalized as growth occurs, it is also necessary to consider the sectoral pattern of growth and structural heterogeneities such as the divide between the formal and informal sectors.

Agriculture is likely to be an initial sectoral focus. As agricultural productivity is low and often stagnant, attention must be directed in many countries to promoting agricultural growth by inducing technical change.

The sectoral focus of policy may be defined in broad terms. Seventy-five per cent of the LDC population now lives in rural areas, and in most LDCs, most people derive their livelihoods from farming. Thus agriculture is likely to be an initial focus. As agricultural productivity is low and often stagnant, attention must be directed in many countries to promoting agricultural growth by inducing technical change (Mosley, 2001). But it is clear that non-farm rural activities are an important element of the agricultural accumulation process, and these activities should therefore not be ignored. Moreover, certain manufacturing activities and services are also important for some LDCs, and are becoming more important in many LDCs since urbanization is proceeding rapidly (see UNIDO, 2001).

Productive development policies are implemented as far as possible through private or mixed (both public and private) enterprise rather than pure public ownership. The key role of the Government is to harness the entrepreneurial drive, which is the motor of the whole system, to support national development and poverty reduction. The Government guides the process of capital accumulation and learning, but these policies are best developed and implemented through institutions that enable business perspectives to be incorporated, and through policies which channel activities and energies rather than limit them. Sectoral policies, for example, should arise from joint efforts between the public and private sectors which together formulate a vision and reach a consensus on the way in which support mechanisms should be tailored to particular sectors. These would cover such matters as what institutions are required to support the technological development of a specific sector, what are the collective requirements in terms of labour skills, and how financial resources can be ensured for the expansion of the sector.

This is not a return to the old-style development plans of the past as it is based on plural forms of ownership and entails a developmental partnership between the State and the private sector.

This is not a return to the old-style development plans of the past as it is based on plural forms of ownership and entails a developmental partnership between the State and the private sector. The Government must also ensure that any subsidies or rents which are provided as part of productive development policies are designed to encourage the development of supply capabilities. It is possible to do this by making subsidies or rents conditional on investment, exports, technological learning and productivity targets, by making them temporary, and by establishing "contests" amongst the private sector as an allocation mechanism.[19] The aim is to avoid unproductive rent-seeking by creating rent opportunities that induce economically efficient developmental actions that private markets would not otherwise undertake. Policies should focus on overcoming specific problems which impede the achievement of national development objectives, notably missing markets and the lack of an entrepreneurial base, imperfections in technology and capital markets, and the risks associated with exporting, and on dynamic complementarities between firms and sectors which render competitiveness and productivity systemic rather than merely dependent on firm-level capabilities.

Successful implementation of productive development policies requires enhancement of State capacities. There is a widespread belief that Governments in LDCs, particularly African LDCs, lack the institutional capabilities to manage such policies. State capacities have certainly been eroded over the last 20 years, but experience in other countries shows that, with application, it is possible to learn quickly what does and does not work (Mkandawire, 2001). There is no reason to deny that engagement in a limited number of policies during the initial stages of investment and export promotion will allow Governments in LDCs to learn how to design productive development policies, to find out what incentives are effective and for what purpose, and to learn about the drawbacks that a policy that looks good on paper may have in practice.

Perhaps a greater problem in promoting sustainable growth and building a dynamic investment–export nexus in the LDCs is the weakness of the domestic enterpreneurial class.

Perhaps a greater problem in promoting sustainable growth and building a dynamic investment–export nexus in the LDCs is the weakness of the domestic enterpreneurial class. There are not enough businesses with the capacity and capability to compete internationally, and this is a major constraint on growth in the LDCs. As noted earlier, financing medium-sized domestic businesses is an important issue (see also UNCTAD 2002c). It may be helpful to stimulate local production clusters, to encourage collaborative links with TNCs aimed at encouraging learning and knowledge expansion in domestic enterprises, to expand links with local (and international) universities, technical institutes, research centres and metronomy institutes to guarantee quality, and to provide technical support services to SMEs. Existing entrepreneurial skills may also be focused on short-term trading and housing rather than on long-term production. Particular efforts may be made to ensure that the structure of profitability and the availability of investment funds are biased towards productive investments that can create employment.

4. Policies to prevent marginalization within LDCs

As economic growth occurs, it is highly likely that some groups and regions will be left behind in poverty. A final key element of long-term development strategies is therefore the adoption of policies that prevent marginalization within countries.

The surest way to ensure that economic growth is more inclusive is through the wide distribution of assets, the expansion of productive employment, creating linkages that incorporate marginal sectors into the space of productivity growth, and greater balance between export promotion and import substitution. Particular policies which may be important are the following: agrarian reform and rural development policies (land tenure, agricultural productivity growth, rural industries, rural labour markets); high rates of reinvestment of profits and the establishment of profit-related pay systems; micro-credit; labour market policies; support for small and medium-sized enterprises; promotion of backward linkages from export activity; broad-based human resource development through investment in education and health; and decentralized fiscal systems.[20] Application of principles of good governance can also help to ensure inclusion.

The surest way to ensure that economic growth is more inclusive is through the wide distribution of assets, the expansion of productive employment, creating linkages that incorporate marginal sectors into the space of productivity growth, and greater balance between export promotion and import substitution... Application of principles of good governance can also help to ensure inclusion.

The identification of appropriate policies to prevent marginalization of groups and regions within a country can be aided by the application of an approach to poverty analysis which has been elaborated by Pyatt (1999, 2001a, 2001b). This approach, which he calls a structuralist approach to poverty analysis, can neatly dovetail with the productive development policies. It directs attention to the generation and sustainability of livelihoods, their location within the structure of the economy and the way in which they are affected by the relations of the national economy with the rest of the world (box 16). A particular concern is the vulnerability of people to becoming destitute or dependent on unrequited transfers. It is this focus on vulnerability which is important in understanding how different groups may be marginalized as a national economy grows.

E. Strengthened national ownership and policy autonomy

A necessary condition for the elaboration of alternative poverty reduction strategies that do not reinforce existing adjustment policies but seek to promote poverty reduction through development is strengthened national ownership and policy autonomy. Indeed, enhanced ownership is potentially the most important change which can occur through the PRSP approach (United Nations Development Group, 2001). But enabling genuine national ownership of policies is a complex process. This section focuses on five aspects which require attention: managing the tension between policy ownership and policy conditionality; capacity-building within countries; donor alignment behind PRSPs; joint programming between countries and donors to tackle the poverty reduction financing deficit; and the nature of WTO rights and obligations.

A necessary condition for the elaboration of alternative poverty reduction strategies is strengthened national ownership and policy autonomy.

1. The tension between national ownership and policy conditionality

The basic way in which national ownership is supposed to be strengthened is by international financial institutions (IFIs) and donor countries stepping back

Box 16. Graham Pyatt's structuralist approach to poverty analysis

Pyatt argues that a structuralist approach to poverty analysis should be adopted as the preferred approach to drafting poverty reduction strategies. This approach has three basic features. Firstly, it is founded on the view that household living standards derive from the generation and sustainability of livelihoods. A starting point for developing a poverty reduction strategy should therefore be an understanding of how households in different socio-economic groups make a living. Secondly, the approach locates the generation and sustainability of livelihoods of different groups within the structure of the economy, which is understood to include both the structure of production and the institutional relationships between households, the corporate sector and government. Locating livelihoods within the structure of the economy focuses attention on the influence on living standards of such factors as the sectoral and regional structure of the economy, the importance of, and connections between, the formal and informal sectors, the division of value added between capital and labour, and the influence of macro policies. On the basis of a mapping of the structure of the economy and interactions between different groups and sectors, it is possible to understand how the level and distribution of living standards are jointly determined. Thirdly, the approach examines the relationships between the structure of the economy and the rest of the world. This brings international aid, private capital flows, debt repayments and trade flows into the analysis of the generation and sustainability of livelihoods at the national level.

The approach involves the adoption of a multi-level framework for locating the causes of poverty, which runs from household characteristics, through the meso structure of the economy, to macroeconomic conditions and the global context. The links between the micro, meso, macro and international levels of analysis are all part of the structuralist approach. Simple social accounting matrices would be constructed on the basis of existing sources to locate livelihoods within the structure of the national economy. Models should then be developed to explore the implications of different strategies, and to develop a range of policy scenarios. For example, the likely impact of different tourist export development policies, with their associated linkages and leakages, could be analysed in this framework.

Pyatt contrasts the structuralist approach with what he calls the "statistical approach" to poverty analysis, which, he argues, was used in the World Bank country-level Poverty Assessments in the 1990s and is now being replicated in the poverty diagnoses of the PRSPs. The statistical approach adopts the household as the basic unit of analysis, divides the population into the poor and the non-poor on the basis of a chosen income or consumption poverty line, and then focuses on the characteristics which distinguish the poor from the non-poor. There is a strong temptation to see these characteristics as important factors which are causing poverty and thus as central ingredients of poverty reduction policy. But various policy errors and biases can result, including a general tendency, which was widespread in World Bank Poverty Assessments and is now being reproduced in the PRSPs, to ignore the critical role of employment generation and labour markets in poverty reduction.

In his own elaboration of the structuralist approach, Pyatt argues that the poor should be identified not through the adoption of an arbitrary national or international poverty line, but as those "individuals who are destitute or otherwise dependent on unrequited transfers" (Pyatt, 2001b: 30). The focus of poverty reduction policies, in his view, should be both these people and also the vulnerable, who are those at risk of becoming destitute or dependent on unrequited transfers. This directs attention to the sustainability of households and their livelihoods, as well as to the generation of the latter. From the perspective of the argument developed in this chapter, it is this focus on vulnerability which is important in understanding how different groups may be marginalized as a national economy grows.

In developing this approach, Pyatt has advocated a holistic approach to monitoring outcomes which may include both monetary and non-monetary measures of living standards. The approach does not need the definition of income/consumption poverty lines. But equally it does not need to reject them. Thus it is possible for the $1-a-day and $2-a-day international poverty lines to enter the policy process, along with other measures of affluence and deprivation, at the monitoring stage.

Source: Pyatt (1999, 2001a, 2001b).

from policy formulation processes and not imposing what they consider to be the right policies, but rather allowing countries to which they are supplying concessional aid to establish their own poverty reduction strategies. But there is clearly an inherent tension between country ownership and the need for the international financial institutions and other donors to be assured that their assistance will be well used to support what they regard as credible strategies (Lipumba, 2001). Given the high level of dependence of poor countries on aid and debt relief, there is a danger that country-prepared PRSPs presented to the

Boards of the IMF and the World Bank for endorsement will seek to anticipate what is endorsable. Ownership would actually then be deeper internalization of the norms of the IFIs.

The IMF and the World Bank are certainly signalling that, given the experimental nature of the PRSP approach, there is flexibility in terms of what they expect. Moreover, at the country level their staffs "are widely credited with delicate handling of PRSP processes as such" (ODI, 2001: 60). But the PRSP process remains a compulsory process in which Governments that need concessional assistance and debt relief from the IFIs find out, through the endorsement process, the limits of what is acceptable policy.[21] In such a situation it is very difficult for government officials to take the risks which would enable the full potential of the PRSP approach to be realized. Even if there is no outside interference in the PRSP preparation process, and also no signs of threat to interfere in the process, the mere awareness of dependence on the Joint Staff Assessment and on endorsement by the Boards of the IMF and the World Bank places constraints on the freedom of action of those designing the PRSPs. In effect, the country owns the technical process of policy formulation, but it still lacks the freedom which would release the creative potential of the approach.

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It is widely recognized that the rush to complete Interim PRSPs (I-PRSPs) and PRSPs in order to reach the decision and completion points for the enhanced HIPC Initiative and/or to secure a Poverty Reduction and Growth Facility (PRGF) arrangement has reduced the quality of the PRSPs in terms of country ownership. Some country-level studies also indicate that there has been a degree of "self-censorship" by national authorities, whereby they have held back certain policy ideas which they believed to be heterodox in IMF and World Bank terms, in order to ensure the acceptability of the PRSPs (ODI, 2001).

True country ownership and policy autonomy in the preparation of PRSPs require that the IFIs have total open-mindedness as to what is regarded as a "credible strategy". If this is lacking, the consequences for governance will be adverse, as politicians and policy makers will feel inhibited from saying and doing certains things, and thus the political qualities of a free-thinking society, which are meant to be encouraged through the PRSP process, will atrophy. The nature of policy conditionalities must also be subject to more radical review. The streamlining of conditionality is a welcome trend,[22] but it is not in itself sufficient to enable the development of policy alternatives. There is, rather, a need for both fewer conditions and greater flexibility in their content. Also, as the Co-Chairs of the Special Programme for Africa (SPA) Technical Group have pointed out, donors must "recognize that programmatic support to PRSs [poverty reduction strategies] cannot be based on traditional stop-go mechanisms" (SPA, 2001: 138).

True country ownership and policy autonomy in the preparation of PRSPs require that the IFIs have total open-mindedness as to what is regarded as a "credible strategy".

Even if the PRSP as a document is itself country-owned, a further problem which is emerging is the relationship between the PRSP and the policy conditionalities specified in HIPC decision and completion point documents, PRGF arrangements or Poverty Reduction Support Credits (PRSCs). It is a matter of great concern in this regard that research by the European Commission, covering 10 countries up to November 2000, observed a wide divergence between I-PRSPs and conditionalities for HIPC completion point (European Commission, 2000), and that follow-up research, which extended the coverage by 14 countries, including all countries that reached decision point before September 2001, confirmed the pattern, finding "unclear links between I-PRSP and HIPC documents, with the risk of having parallel (or incoherent) reform tracks" (European Commission, 2001a: 1). This may well reflect the early phases of the application of the PRSP approach. However, it is important that this be continually monitored. The HIPC Finance Ministers and Coordinators of PRSPs (2002) have stated that "countries need to be empowered to verify that conditions spring from the PRSP and to refuse to accept those which do not, in the knowledge that alternative more flexible finance will be available" (p. 5).

2. The crucial role of capacity-building

There is excessive pessimism on the potential for establishing capable States... But nevertheless, a concerted effort and financial resources will be required to build institutional capacities and human resources.

Establishing capable States is essential for enhanced national ownership and policy autonomy, and also for the effective implementation of PRSPs. There is excessive pessimism on the potential for doing this, particularly in Sub-Saharan Africa (see Mkandawire, 2001). But nevertheless, a concerted effort and financial resources will be required to build institutional capacities and human resources. Key specific skills required are capacities for: establishing comprehensive and coherent budgets and medium-term expenditure plans (IMF/IDA, 2001a); developing costings for the implementation of PRSPs; economic forecasting; and debt management. Investment in national statistical systems, which allow policy debate to be carried out on the basis of facts, is also vital. Another important technical capacity which requires strengthening in many LDCs is financial auditing and accounting. Technical capacity for auditing and accounting is the backbone of government accountability, but it is extremely weak in many sub-Saharan African LDCs. Enhanced capacity in poverty analysis is also essential. However, weaknesses here may reflect a more general problem in terms of what is known about poverty in poor countries and what responses are possible.

A further necessary condition for enhanced country ownership is donor alignment behind the PRSP approach.

Capacity-building will be enhanced through the institution of learning mechanisms, which should include South–South exchange of experience. But it is also important that the nature of technical assistance be carefully reconsidered. According to HIPC Finance Ministers and PRSP Coordinators (2002), "a huge amount of technical assistance is being provided but much of it is replacing rather than building capacity within our administrations". Past evaluations of the impact of technical cooperation in the LDCs, particularly African LDCs, indicate very poor results in terms of technology transfer and capacity-building (Berg, 1993). According to Berg, multiplicity and duplication, wrong incentives and a lack of integration with domestic structures have all played a role in the failure of technical assistance. In addition, there have been important negative externalities associated with technical assistance, ranging from distorting government pay structures, and discouraging learning and capacity-building in public institutions, to additional monetary costs for recipient Governments.

Without simultaneous support by the donors, and without an effort by them to coordinate their aid with one another and with the domestic economic processes, efforts by the countries themselves to enhance national ownership will necessarily be limited.

3. Donor alignment behind national PRSPs

A further necessary condition for enhanced country ownership is donor alignment behind the PRSP approach. The importance of this stems from the fact that the accumulation and budgetary processes in most least developed countries are highly dependent on external resources. Without simultaneous support by the donors, and without an effort by them to coordinate their aid with one another and with the domestic economic processes, efforts by the countries themselves to enhance national ownership will necessarily be limited. The internal processes of consultation, transparency and consensus-building around the budget would be rendered futile without timely and accurate financial information from the donors. The lack of synchronization of donors' and recipients' budget cycles, the use of different accounting conventions and classifications, provision of incomplete information on aid disbursement, and lack of information on aid strategies and future expenditure plans of donors are well-known deficiencies of the aid delivery system which have made the task of financial management in the recipient countries difficult, if not impossible (UNCTAD, 2000).

Quite apart from capacity constraints, a major impediment to comprehensive medium-term public sector expenditure planning and financial management in the LDCs is that a large part of the donor-funded projects and programmes bypass the central government budget. In fiscal year 1999 in the United Republic of Tanzania, for example, only 30 per cent of ODA was estimated to flow through the government budget. In addition, Governments often have little information on aid flows. The OECD's important study of aid in Mali found that the aid flows given in Malian statistics represent only between one and two thirds of the official figures published by the OECD and UNDP in their development cooperation reports.[23] In these circumstances, improved public expenditure management by the national Government will be a necessary, but by no means a sufficient, condition for improved public expenditure.

It is clear that donors are committed to supporting the PRSP process, but "progress in alignment is uneven across partners and countries" (IMF/World Bank, 2002b: 24). As the HIPC Finance Ministers and PRSP Coordinators (2002) put it, "many donors continue to provide off-budget aid, or aid tied to projects which are not essential to the PRSP, and to 'sell' projects to countries which do not have a long-term development or poverty reduction focus, or whose associated financial terms are not sufficiently concessional" (p. 5).

Donor assistance should be delivered through government systems unless there are compelling reasons to the contrary.

Donors need to end the prevalent practice of parallel staffing and remuneration arrangements for stand-alone projects, which has undermined recipient Governments' ownership, accountability and capacity. Also, donor funds should increasingly take the form of budget support or collaborative sector-side programmes. New forms of aid which bypass the budgetary and monitoring scrutiny of government administration, and are not coordinated with national priorities, need to be restrained. A general principle of partnership, which has been articulated by African countries, is of relevance to LDCs: "Donor assistance should be delivered through government systems unless there are compelling reasons to the contrary; where this is not possible, any alternative mechanisms or safeguards must be time-limited, and develop and build, rather than undermine or by-pass, government systems. This applies to budget processes and procurement systems amongst others" (SPA, 2001: 2). The principle recognizes that some donors and international financial institutions are unlikely to channel assistance through government budgets immediately. Transitional measures are required, and these should be designed in a way that does not undermine government capacity.

A concrete proposal to promote partnership is that donor performance monitoring indicators be introduced at the country level. The approach to improving the aid relationship which is being elaborated in the United Republic of Tanzania could serve as a model for this (see box 17).

4. Partnership and the poverty reduction financing gaps

In developing nationally owned poverty reduction strategies, Governments need to be able to programme future public expenditure jointly with donors. A central thrust of the PRSP process is to ensure that government revenue and aid are used more effectively for poverty reduction, and are shown to be used more

Box 17. Instituting systems for donor performance monitoring at the recipient country level as part of the PRSP process

One practical way to improve aid effectiveness and promote greater partnership in aid relationships is to institute systems for donor performance monitoring at the recipient country level as part of the PRSP process. At the present time, the major official source of aid performance data and performance evaluation is the Development Assistance Committee (DAC) of the OECD. The DAC reports such items as total ODA flows (disbursements and commitments) and flows to principal recipients by donor; total ODA flows as a percentage of donor gross national income by donor country; aggregate composition of aid commitments by major use and purposes, and aggregate technical cooperation commitments; and the tied status of total commitments. Donor performance evaluations are also undertaken through peer reviews by other DAC members.

Instituting donor performance monitoring systems at the national level could complement this activity by gathering and evaluating information in a way which is more closely related to aid recipients' needs. On the basis of close examination of the aid relationship in the United Republic of Tanzania, Helleiner (2000) has suggested various types of indicators which could be useful to recipients. These include the following: the degree to which ODA expenditures flow through the government budget of recipients; the degree to which donor projects and expenditures are coordinated and integrated with national and sectoral plans and are aligned behind the declared priorities of the recipient Governments; the predictability and reliability of aid inflows, including, in particular, the relationships between disbursements and prior commitments; the degree to which the time profile of donor disbursements is responsive to shocks which generate needs for liquidity and increased budget and balance-of-payments support; the degree of tying of procurement; the percentage of aid spent on donor-country-tied technical assistance; the degree to which donors are making long-term commitments; the degree to which donors are enabling national ownership of development programmes; and the extent to which aid is being allocated for development rather than provided as humanitarian assistance or debt relief. For effective partnership, it is also vital that information be provided by donors in the statistical categories of recipient countries and that donors comply with recipient countries' requests for information.

Donor performance monitoring systems at the recipient country level are of particular relevance with the introduction of the PRSP process. They offer a practical method of encouraging and monitoring donor alignment behind individual PRSPs, and of increasing partnership by ensuring that information is available to recipients on a timely basis and in a form which can facilitate national programming and budgeting. This is a practical way to achieve some of the key aims of the PRSP approach.

Such a system has already been set up in the United Republic of Tanzania. Efforts have been made to improve the aid relationship since 1995, when an independent assessment of that relationship, funded by the Danish Government in agreement with the Tanzanian Government, made a number of concrete recommendations for the Tanzanian Government and the donors. Agreement was reached between the Government and the Nordic countries on how the aid relationship could be improved, and this led to a broader discussion with the donor community on concrete steps which needed to be taken. At the meeting of the Consultative Group in 1999, it was agreed in principle that an independent process of monitoring of aid relationships should be instituted. This was followed in 2000 by the preparation of the Tanzanian Assistance Strategy (TAS) to govern the ongoing aid relationship between the Tanzanian Government and its development partners. At the meeting of the Consultative Group in 2000, it was agreed that implementation of the TAS would include independent monitoring and evaluation of donor performance as well as of Tanzanian performance.

Since then the Economic and Social Research Foundation, an independent Tanzanian not-for-profit NGO, has been appointed to work as an honest broker coordinating the independent monitoring with donor funding coordinated by UNDP. The Independent Monitoring Group consists of three Tanzanians, three experts from donor countries and one African non-Tanzanian. All members of the Group were selected on the basis of their independence from the Tanzanian Government and from donor administrations. The work of the Group started in early 2002, and its report will be presented at the Consultative Group meeting in 2002. All parties are committed to supporting the work of the Group up to the end of 2003, after which the situation is to be reviewed in the light of the experience gained.

effectively. However greater poverty reduction can be achieved by enlarging the fiscal space for poverty reduction as well as by improving the poverty-reducing efficiency of public expenditure. The gains from enlarging the fiscal space cannot be realized unless Governments work with donors jointly to examine the trade-offs between different levels of external assistance and poverty reduction, and thus explore the policy options, and poverty-reducing effects, that stem from expanding the resource envelope. Until this happens, the poverty-reducing impact of the PRSP process will necessarily be constrained.

Countries are currently expected to submit PRSPs which are "realistic" in terms of external financing projections. It is hypothetically possible, as the IMF notes, for medium-term projections to be based on "a more normative scenario for grants and concessional loans driven by poverty and growth goals, rather than a continuation of declining trends with unfilled financing gaps" (IMF, 2000). If prior commitments of substantial donor assistance are obtained as programmes are being formulated, higher public spending, compatible with a prudent fiscal stance, can be built in at the outset. But in practice, this is not happening and poverty reduction financing gaps are emerging as Governments prepare their PRSPs. The pace of poverty reduction is then being scaled back to ensure that the PRSP is deemed realistic and thus worthy of donor support.

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Examples of this are found in the PRSPs of Uganda and the United Republic of Tanzania. In the latter case, technical studies indicated that the financing of acceptable levels of health care would cost about $9 per head. This would entail a doubling of the present budget allocation for the health care sector. But this was considered unfeasible in view of projections of the overall resource envelope. Therefore, budgetary provision for the sector had to be restricted to available resources, which implied that the delivery of health services under the present circumstances would fall below acceptable levels in the short term (Tanzanian Authorities, 2000). Similarly, in Uganda, discussion with the sector line ministries revealed that there was a gap of the order of 37 per cent between current and required spending levels for full funding of PEAP/PRSP-related programmes.[24] Although such increases were believed by national authorities to be necessary to meet initial PEAP/PRSP targets, the Joint Staff Assessment notes that "Increases of this magnitude are clearly incompatible with macro-economic stability, and accordingly, the government is in the process of refining costing figures, and adjusting and prioritizing activities and targets" (IMF/IDA, 2001b: 5). As the Government paper puts it, the implication is that "the implementation of the PEAP/PRSP will take longer than initially expected and that Government needs to prioritize the different actions to get a more realistic program which can then be used to guide the MTEF" (Uganda, 2001: 12).

A further problem for Governments is the unpredictability of aid flows. This creates major dilemmas for Governments in designing and implementing PRSPs. If a Government takes the commitments at face value and they are surpassed, not only is the resource envelope for poverty reduction underestimated but there are also difficult problems of absorbing unexpected increased flows. If, on the other hand, disbursements fall short of donor commitments, there is a difficult problem of adjusting to the shortfall and redistributing cuts in public expenditure. The overall effect of uncertainty of external financing, together with the supreme requirement for macroeconomic stabilization (small budget deficits and low domestic borrowing by government), implies that Governments have to downscale the public expenditure requirements of poverty reduction. An important feature of HIPC assistance is that Governments know exactly what its time profile is. It would help poverty reduction efforts if ODA flows also had a much higher degree of predictability over a long time horizon.

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With greater aid predictability, fiscal flexibility can also be further enhanced through calculating the size of the budget deficit after taking account of grants and the grant element of loans. This can make a great difference to the size of the fiscal deficit. Current practice is to distinguish between the deficit before and after grants, and the deficit after grants has increasingly been seen as more appropriate for countries which will effectively rely on grants and concessional finance into the long term. However, just as the stock of concessional debt can be split into its implicit grant and market loan components, so can the current flow of loans. A measure of the budget deficit can then be calculated after "augmented" grants, namely grants plus the grant element in soft loans. Failing to account for the grant element in concessional finance "may lead to an inappropriately tight fiscal stance" (Bevan and Adams, 2001: 3). In the United Republic of Tanzania, for example, where this augmented deficit has been applied, the projected deficit before grants was 1 per cent of GDP in 2000–2001, but after grants and concessional loans, the fiscal position was estimated as a surplus of 5 per cent of GDP. This broader concept of the deficit can be more widely applied, and can work if donors increase the predictability of their aid commitments.

Many of the financial, fiscal and macroeconomic policies that can help create the basic conditions for faster capital accumulation in LDCs and upgrading through learning are not constrained by WTO obligations.

5. WTO RIGHTS AND OBLIGATIONS

A final aspect of national ownership and policy autonomy is the nature of WTO rights and obligations. Many of the financial, fiscal and macroeconomic policies that can help create the basic conditions for faster capital accumulation in LDCs and upgrading through learning are not constrained by WTO obligations. Nor to a very large extent are the institutions and informal networks required to support such policies. Various forms of direct and indirect support for export promotion are still allowed for the LDCs, and various forms of protection and other support, especially temporary, are still allowed in order to promote the establishment of particular industries with a view to raising the general living standard of the population.

It is important in this regard that the WTO Agreement on Subsidies and Countervailing Measures recognizes that "subsidies may play an important role in economic development programmes of developing country Members" (GATT secretariat, 1994: Article 27). Least developed countries that are members of the WTO, as well as developing country members with GNP per capita of less than $1,000 per annum, are exempted from the prohibition on export subsidies. Moreover, they are also exempted from the prohibition on subsidies that are contingent upon the use of domestic over imported goods, for eight years from the date of entry into force of the WTO Agreement rather than five years (as is the case for other developing countries). It is also relevant that the contracting parties to the Uruguay Agreement "recognize that the attainment of the objectives of this Agreement will be facilitated by the progressive development of their economies, particularly of those contracting parties the economies of which can only support low standards of living and are in the early stage of development"...[and] recognize further that it may be necessary for those contracting parties, in order to implement programmes and policies of economic development designed to raise the general living standard of their people, to take protective or other measures affecting imports, and that such measures are justified in so far as they facilitate the attainment of the objectives of the Agreement" (GATT secretariat, 1994: Article 18). Furthermore, the Decision on Measures in Favour of Least-Developed Countries states that the least developed countries, while complying with the general rules of the instruments negotiated in the Uruguay Round, "will only be required to undertake commitments consistent with their individual development, financial and trade needs, or their administrative and institutional capabilities" (ibid.: 440). It agrees that "the rules set out in the various agreements and instruments and the transitional provisions in the Uruguay Round should be applied in a flexible and supportive manner for the least-developed countries" (ibid.: 440–441).

It is important that the LDCs familiarize themselves with their rights and that technical assistance helps them to do so.

It is important that the LDCs familiarize themselves with their rights and that technical assistance helps them to do so. It is also important that their effective obligations, as they work out in practice, reflect the spirit of the WTO Agreements. Artificial and arbitrary time frames, such as that regarding subsidies for the use of domestic goods, need to be avoided. WTO rules, as they evolve, must enable the adoption of the type of policies which are necessary to enable the very poor countries to break out of the poverty trap. Implied in what is now being described as the "Doha Development Agenda" is a recognition by the WTO membership of the need to establish an objective link between WTO rules and national policy autonomy to promote development and poverty reduction in countries where living standards are low.

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F. Conclusion

There is a strong risk that the policy changes which are emerging in the initial stages of the PRSP process may not be sufficient to promote more effective poverty reduction in the LDCs. The ongoing PRSP process has generated high expectations. It has resulted in significant achievements in terms of policy processes at the country level. In particular, there has been an increase in country leadership in the technical formulation of poverty reduction strategies; major efforts are being made to improve public expenditure and to link budgetary processes to poverty reduction targets; departmental responsibility for the poverty problem has shifted from previously marginalized social welfare ministries to ministries of finance and planning; and there is more involvement of civil society in designing national strategies. But effective poverty reduction in situations of generalized poverty will require a bolder rethinking of policies which moves beyond adjustment policies and anchors the PRSPs, which are three-year plans of action, within long-term development strategies.

Experience shows that adjustment policies can lead to a positive export response. However, the domestic investment and savings response, as well as structural transformation, are weak, and spurts of growth, where they occur, generally prove unsustainable. The first generation of I-PRSPs and PRSPs are tending to build on existing adjustment policies. But integrating pro-poor public expenditure patterns with deeper and broader structural reforms and the macroeconomic policies of the 1990s is not going to produce the expected results in terms of poverty reduction. Rather, there is a danger that countries will end up with the worst of all worlds. The policies adopted in the new poverty reduction strategies will increase exposure to intensely competitive global markets but without facilitating the development of the productive and supply capacities necessary to compete. At the same time, there will be increased institutional dependence and arm's length regulation and administrative guidance of social welfare through international development cooperation.

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There is an alternative. This is the elaboration of development-oriented poverty reduction strategies. Such poverty reduction strategies would promote broad-based economic growth and development through less restrictive macroeconomic policies, through active government policies to increase investment, exports and savings, and through sectorally specific measures to enhance production and supply capabilities and to ensure that groups vulnerable to marginalization are not left behind as economic growth takes off. Private enterprise should play the leading role in the achievement of the goals of development-oriented poverty reduction strategies. However, this is not a call for laissez-faire. Rather, the development process should be catalysed and guided by a pragmatic developmental State which, through good governance of markets, harnesses the profit motive for the purposes of national development and poverty reduction.

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Particular attention needs to be paid to ensuring that small and medium-sized domestic enterprises have access to finance at interest rates which will enable them to compete internationally, and that internationally available best practices in production and marketing are diffused more widely. Measures to promote supply capabilities must be embedded within a supportive macroeconomic environment that is designed to achieve long-term development objectives rather than simply short-term stabilization. Complementary policies to prevent the marginalization of particular social groups and regions within a country should also be implemented and should pay particular attention to the generation and sustainability of livelihoods within the context of the growth and structure of the economy.

Realizing such an alternative requires enhanced policy autonomy for national Governments. It should be possible, through the PRSP process, to elaborate poverty reduction strategies that provide a real and improved alternative to past economic reforms and adjustment policies. But genuine national ownership, which all participants agree is the bedrock of the whole process, is essential. The rebuilding of State capacities, which have been strongly eroded in the era of adjustment, is essential for the success of any poverty reduction strategy. Governments also need policy autonomy to be able to explore different national policy options and to elaborate, with national stakeholders, poverty reduction strategies which are more closely anchored in long-term development strategies. The ever-present possibility of withdrawal of external concessional assistance is dampening the creativity that could be released through greater national ownership, and inhibiting the political qualities of a free-thinking society. There is a need for less conditionality and more flexible conditionality rather than simply the streamlining of conditionality according to the mandates of international financial institutions. Moreover, policy conditions must be derived from the PRSPs.

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Donors should support alternative thinking about how poverty reduction can be achieved through development. Aid inflows need to be coordinated around the policy objectives and actions of the poverty reduction strategies which Governments formulate, and be delivered through government systems as far as possible and provided on a more stable long-term basis. The poverty-reducing impact of expanding the resource envelope through aid inflows should be jointly explored by Governments with donors. Donor performance monitoring systems should also be established at the recipient country level, to encourage, and measure progress towards, partnership in practice.

Finally, it is necessary that further attention be given to the external financial, technology and market constraints that necessarily impinge on what can be achieved through national policy.

Notes

1. The chapter contains a long list of references as it is intended to provide a resource for thinking about national development strategies and poverty reduction.
2. This section draws heavily on discussions at the World Bank International Conference on Poverty Reduction Strategies held in Washington DC from 14 to 17 January 2002, and submissions circulated at the conference. Many of these are reproduced in IMF/World Bank (2002a), and at the related website, www.imf.org/external/np/prspgen/review/2002/conf/index.htm
3. For the initial conception of the PRSP approach, see IMF/IDA (1999a, 1999b), IMF/World Bank (1999) and World Bank Group (2000); for recent progress in the application of the approach, see IMF/IDA (2001c, 2001d), IDA (2001) and IMF/World Bank (2002). The ways in which the PRGF is intended to differ from the ESAF are well summarized in IMF (2000).
4. For some civil society views on the PRSP approach, see EURODAD (2001), Jubilee South (2001), North/South Coalition/IBIS (2001), OXFAM International (2001), Tanzanian Social and Economic Trust (2001) and World Vision (2001). An evaluation of the approach from a human rights perspective is to be found in United Nations (2001a), Hunt, Nowak and Osmani (2002) and Lizin (2002).
5. See, for example, Department for International Development (2001), Kitta (2002), OECD (2001a), ILO (2002) and WHO (2001).
6. For further discussion of the macroeconomic framework of PRSPs, and the need for greater fiscal flexibility, see Adam and Bevan (2001) and Bevan and Adam (2001).
7. For an overview of changes in policy processes, see UNDP (2001). For country-level studies of what is happening in some LDCs in terms of changes in policy processes, see ODI (2001) for sub-Saharan Africa, and Malaluan and Guttal (2002) for some Asian LDCs. Douangdy (2002) gives a summary of views of Asian government officials involved in the PRSP process, and McGee (2001) provides a very detailed desk-based assessment of participation processes associated with the preparation of PRSPs in sub-Saharan Africa.
8. Thirty-four LDCs have been engaged in SAF- or ESAF-financed programmes since 1988, and of those countries, one third were under IMF-supported programmes for over half the total number of months between the beginning of 1988 and the end of 1999, when the ESAF was transformed into the Poverty Reduction and Growth Facility, and 27 countries have been engaged in implementing agreed policies for three or more years in that 12-year period (see UNCTAD, 2000:103–108).
9. Recent assessments of IMF programmes include Przeworski and Vreeland (2000) and Bird (2001). Easterley (2001a) identifies the fact that developing countries continue to stagnate, despite policy reforms which appear to improve what are regarded as the right fundamentals for growth, as a key puzzle of the 1980–2000 period. Examining the economic effects of the number of adjustment loans from the IMF and World Bank received during 1980–1998, he finds 'no systematic effect of adjustment lending on growth' (Easterley, 2001b: 4), and also that the adoption of the adjustment programmes is statistically associated with a lowering of the amount of poverty reduction which follows a given growth rate. EURODAD (2001) includes discussion between the World Bank and NGOs of the findings of the SAPRIN review of adjustment programmes.
10. For a clear statement, made in a different context, of what is meant by a development strategy, see OECD (2001b).
11. The approach advocated here is similar to one of the points in the "Spirit of Monterrey" discussion at the Heads of State retreat at the UN International Conference on Financing for Development, held in Monterrey from 18 to 23 March 2002, which stated: "We undertake to assist the world's poorest countries to double the size of their economies within a decade, in order to achieve the MDGs [Millennium Development Goals]".
12. This section draws in particular on UNCTAD's work on East Asian development strategies and its application in other contexts. See, in particular, UNCTAD (1994, 1996, 1998, 2002a).
13. For a theoretical exposition of the nature of export promotion policies which go beyond the removal of anti-export bias, see Bhagwati (1988). The World Bank (1993) argues that export-push strategies were central to East Asian development success, and puts forward an interpretation of the precise elements of the export-push strategies adopted in East Asia. For a clear view of the precise nature of East Asian export push strategies, see Bradford (1986, 1990, 1994). On export platforms for promoting manufactures exports, see Radelet (1999).
14. For options for upgrading commodity exports in the context of the global organization of production, see Gibbon (2001).
15. For a discussion of the importance of mesoeconomic policies for poverty reduction in adjustment programmes, see World Bank (1990).

16. ECLAC has developed these ideas in a series of publications, particularly notable ones being ECLAC (1990, 1995, 1996, 2000). Some important conceptual foundations are discussed in French-Davis (1988, 1993), and an application to resource-based development is to be found in Ramos (1995). Recent summaries of the approach in the context of elaborating practical alternatives to Washington Consensus policies are contained in Ocampo (1999, 2001).
17. FAO (2001) and UNIDO (2001) argue for the importance of increasing productive capacities, in agriculture and industry respectively, for poverty reduction in LDCs. IFAD (2001) also puts agricultural production improvements as central in its strategy of rural poverty reduction in developing countries notes the importance.
18. This can entail the promotion of national innovation systems. See, for example, UNCTAD (1999) and UNCTAD (2002d) for Ethiopia.
19. For discussion of what has worked and not worked in the context of late industrialization, see Amsden (2001). The way in which now developed countries also actively used 'heterodox' trade and industrial policies in the early stages of their development is discussed in Chang (2002).
20. For discussion of common principles underlying programmes to provide credit and create employment through public works, see Lipton (1996).
21. Some observers would put this in a more extreme form. In the IMF external consultation on conditionality, a World Bank official is quoted as saying that "The PRSP is a compulsory process wherein the people with the money tell the people who want the money what they need to do to get the money" (Alexander, 2001, in IMF, 2001d: 147).
22. For discussion of changes in IMF conditionality, see IMF (2001b, 2001c).
23. For further discussion of these cases see UNCTAD (2000: chapter 6).
24. Uganda's Poverty Eradication Action Plan (PEAP) was formulated in 1997, before the PRSP approach.

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