Contents

Contents

Keynote Address

The Hon Teresa Gambaro MP,
Parliamentary Secretary to the Minister of Foreign Affairs

I'd like to begin on a positive note. Over the past 20 years more than 500 million people in the Asia-Pacific region have been lifted out of poverty, that is, 500 million more people now live on more than $1 a day. That is a remarkable achievement in just a couple of decades and it is extremely encouraging.

But that still leaves 700 million people in the Asia-Pacific living on less than $1 a day and 1.9 billion people on less than $2 a day. There are many in the aid community who think that just throwing money at extreme poverty will fix the problem. And some of these commentators, frankly, should know better. I wish it was that simple.

Money helps of course. That is why Australia is increasing its aid budget to $4 billion by 2010. But poverty reduction needs be underpinned by something much more durable. To the Australian Government that 'something' is economic growth.

Over recent years, the term 'pro-poor growth' has gained enormous credibility in international development thinking. Even if there is no agreed definition for the term, there is broad support for the principle. The real value of the concept is that it symbolises a great convergence of thinking on how we should tackle poverty reduction.

Unlike in previous decades, there is no longer a debate over whether we should pursue a pro-growth or an anti-poverty strategy. It is now broadly accepted that in poor countries, economic growth is a key driver for long-term poverty reduction. The important question now, is: what kind of growth is required to reduce poverty in the quickest and most sustainable way? And that, I hope, will be the main theme for your discussions over the coming days.

The Australian Government believes that for economic growth to have the maximum impact on poverty it should be employment intensive, broad based and encompass regions that are currently lagging. The White Paper on Australian aid which was released earlier this year, and the Pacific 2020 Report, provides us with some very clear signposts as to how we might do this.

White Paper and Pacific 2020

Economic growth is essential not only to increase the incomes of those living in poverty but also to provide governments with the resources necessary to deliver basic services. We only have to look to China, Vietnam and India to see how sustained economic growth can massively reduce poverty.

Australia understands that private sector development is essential to growth. Under the strategic direction set by the White Paper, Australia's aid programme will support reforms in our partner countries that encourage private sector development.

At present, some of the constraints to development are

- low standards of governance;
- poor infrastructure;
- weak or unclear rules on land ownership and use;
- low levels of education and skills; and
- poor access to new technologies and to markets for small rural producers.

While the incidence of absolute poverty is greater in most of Asia, we must not dismiss the fact that the Pacific faces particular challenges in achieving sustainable growth and reducing poverty. With few exceptions most Pacific countries recorded slow or negative growth in real per capita incomes between 1990 and 2004. Accordingly, there is a very real need for faster rates of economic growth in the Pacific to reduce unemployment and poverty and to provide the resources to deal with other challenges.

Australia holds this view, but so do many others. This was emphasised clearly in the Pacific 2020 report earlier this year. The 2020 report was the outcome of detailed consultations in the region involving governments, the private sector, civil society and academia. 2020 acknowledges that although the region faces some natural disadvantages, such as remoteness, for example, it is still able to do better. It need not languish. There is plenty of scope for improvement. But it will take political will and improved governance.

Governance

The aid programme has learnt over its many years that without good governance it is much harder to make lasting gains in social and economic development. In just about every country that has high levels of poverty we see low standards of governance. Basic service delivery is poor, accountability standards are low, rule of law is vulnerable and political stability uncertain. Where governance fails, corruption becomes a part of everyday life. Corruption and poor governance are huge threats to pro-poor growth.

Helping countries reduce corruption will restore people's confidence in their governments. Working with partner countries to improve regulatory environments will make investment more attractive, and improve infrastructure and service delivery. Measures like these reassure people that they can build a future for themselves and their families.

One of the most impressive things about the White Paper is its pragmatism. It recognises that while reforms in governance are essential they take time. We do not expect change to happen overnight. Growth on the other hand cannot wait. It is needed now. Australia therefore takes a balanced approach that promotes incremental improvements in governance but also makes the investments and assists in the reforms that will promote growth in the short and long term.

Infrastructure

Poor infrastructure is one of the biggest constraints to growth and poverty reduction throughout the Asia-Pacific region. Developing countries in the Asia Pacific currently need more than $270 billion each year for the next five years in infrastructure investment. And well targeted infrastructure can make a very big difference.

Take Vietnam — the construction of the My Thuan Bridge across the Mekong, which was largely funded by Australia, led to the creation of 30,000 jobs in the first few years. It expanded trade. It enabled people to travel faster and further. But not everything has to be on such a grand scale. A small feeder road to a highway may require little in the way of resources but it can still make a big and welcome difference to people's lives.

The Australian Government believes in investing in infrastructure and we have established an $800 million Infrastructure for Growth Initiative to finance high priority projects in partnership with multilateral banks. At the same time we will help partner countries improve their infrastructure policies. Typical projects might include roads in rural areas, water and sanitation and solid waste management.

Land use

Land use is a complex issue for most developing countries and the Pacific is no exception. Opinions differ on its significance as a constraint to growth. However, there is an increasing demand within Pacific communities for more clarity in relation to land access. There is also a widely held view that strengthening land tenure and administration systems is important to improving social and economic development prospects of Pacific island communities. To that end we are initiating a Pacific Land Programme to survey and disseminate innovative land use practices — supporting reforms that take place within the framework of customary ownership.

Education

Education is central to reducing poverty, especially for women. As mentioned in the White Paper new funding will be devoted to strengthening national education systems to get more children into school for longer and for a better quality education. In line with the Government's commitment to gender equity, girls' education will be given particular attention.

Better and broader education at all levels will contribute to higher average incomes in the Pacific. And of course competitive workforces are a key driver of growth. We anticipate that the Australia-Pacific Technical College, which will open training centres in several Pacific countries next year, will play an important role in establishing such a competitive workforce. This is an excellent opportunity for young people to expand the economic bases of their countries and will give them the mobility to work within and outside the Pacific.

Rural and private sector development

In the Asia Pacific and globally, the majority of the poor live in rural areas. The economic vulnerability of this group is often disproportionately high compared with other groups.

I am pleased to say that over the years Australia has emerged as a leader in agricultural research and a prominent force in regional research collaboration. And our efforts are paying dividends.

Food security is improving and opportunities for income generation are growing. For instance, in East Timor it is said, sadly I might add, that there are three seasons, the wet season, the dry season and the hungry season. But there is some positive news. Our Seeds of Life project in East Timor has successfully introduced new varieties of familiar crops to farmers to increase food production. I am pleased to say that some farmers taking part in trials have reported doubling their harvests.

For a poor country with a rapidly growing population this is good news. In Cambodia, Australian research has led to about 80,000 poor farmers reaping higher yields from new varieties of high quality rice seed. And in the Solomon Islands Australia is funding a portfolio of rural development activities to make the agricultural sector more viable and more valuable.

Australian aid generally supports a range of measures to improve the environment for private sector growth, both directly and through our partners in the development banks. For more than a decade we have provided funds to the International Finance Corporation helping improve the business environment for small and medium sized enterprises in the Pacific through targeted programmes.

We contribute to the Asian Development Bank's work in the Pacific and East Timor to help governments with public enterprise reform, financial reform and improving business laws and regulation. And we work with the development banks in Asia to make the private sector stronger — to improve its managerial capacity and make businesses more sustainable.

And then there are our business volunteers. Over the past 25 years, the aid programme has placed more than 3,000 business volunteers in countries in the Asia Pacific region. These volunteers have willingly passed on their knowledge to counterparts who often have the will but not always the skills or means to run a successful business. Our volunteers have given up their time to be mentors and to give others that extra help and encouragement that can make the world of difference between persevering and giving up. They have been great ambassadors for Australia's business sector, and I want to put on record my admiration for the work they do.

Conclusion

Ladies and gentlemen, there is no magic formula to reducing poverty. There are no easy answers. But economic growth, more than anything else, has the potential to relieve people of the daily grind of poverty, to give them a better future. The discussions over the next couple of days as to how we best go about this will be instructive for us all. I wish you well with this conference. Thank you.

We also need to remind people that gender equality is a fundamental human right. And that people understand that gender issues are an important factor in promoting economic growth and reducing poverty. Quite simply, at the end of the day, it is about people, ensuring everyone — men, women and children — are given 'a fair go' regardless of their gender. A forum such as this is a great opportunity to discuss these issues.

References

UNDP (United Nations Development Program) 1995, 'Human development report 1995, gender and human development', <http://hdr.undp.org/reports/global/1995/en/>, (accessed online 19 July 2006).

UNIFEM (United Nations Development Fund for Women) 2002, 'Progress of the world's women 2002, Volume 2', <http://www.unifem.org/resources/item_detail.php?ProductID=10>, (accessed online 19 July 2006).

Addressing poverty: Alternative economic approaches

Pamela Thomas, Development Studies Network, Australian National University

Introduction

After 45 years of poverty reduction programmes and extensive social and economic research, poverty reduction remains the critical development issue in Asia Pacific and at the heart of the development debate. For many years, economic growth has been the major strategy for addressing poverty but, as the following papers outline, sustainable poverty reduction among the very poor remains elusive. A range of innovative economic strategies that address the specific needs of the poor are needed if chronic and entrenched poverty is to be reduced on a sustainable basis.

The papers in this issue provide results from research into a variety of new and innovative economic models implemented in Asian and Pacific island countries, and challenge the existing economic orthodoxy that national economic growth is the answer to reducing poverty. They point to the need for sharply focused strategies, linkages and policies that are pro-poor in their focus and include access for the poor to financial services.

The key themes are the need for small, poverty reduction programmes tailored to the specific needs of communities; a more community-based focus on poverty reduction; the provision of greater opportunities for the poor to access financial services; a greater consideration for improving livelihoods rather than focusing on increasing cash income; greater recognition of the need for approaches that do not put people's livelihoods in jeopardy; and the need to recognise what is feasible and what is not and to acknowledge that in some regions poverty cannot be alleviated. The papers here highlight the need for new and more inclusive economic policies that specifically address the needs of the poor and incorporate the role of the private sector in poverty reduction.

A common thread running through this issue of *Development Bulletin* is the way in which corruption (at government and household levels) and inappropriately focused and implemented strategies seriously reduce the opportunity for improving the lives of the very poor.

Government and community approaches to addressing poverty

In Indonesia, the Government sought to address poverty by providing a 'social safety net' through three very large social protection programmes. The first provided unconditional cash transfers to poor households to assist with the cost of food, health services and education; the second sought to provide school assistance; and the third to provide support for community-driven development. In a review of an earlier social safety net programme, Sumarto and Suryadarma found that an average of 35 per cent of programme benefits went to non-poor households and that this rose to 70 per cent in a subsidised rice programme. The unconditional cash transfer programme, which began late 2005, benefited 15 million households through quarterly payments of around $A43. As with the earlier programme, inadequate targeting resulted in leakage and under coverage. The school operational assistance programme — which provided free education for 40 million students as well as funds for teachers, equipment and materials — had limited impact on the dropout rate of poor students; what is more, the poor students were given no additional assistance to facilitate their schooling. Sumarto and Suryadarma's review of the community project found that local bureaucracies dominated community meetings and captured the infrastructure projects. The poor had less than adequate access to rotating credit and those who did receive credit were not given technical assistance. The key lessons from this research were: involve the community not the bureaucracy in targeting the poor; make the duties of each ministry explicit; and in countries with decentralised administrative systems, government should refrain from implementing large-scale programmes — let local governments decide on the best programmes for their residents.

While on a very much smaller scale, in Fiji, Kaitani found similar problems with the Fiji Government's approach to addressing poverty. Poverty is increasing in Fiji and there are considerable differences between urban and rural areas and ethnic groups. As in Indonesia, the Fiji Government introduced free tuition from class 1 to form 6 as well as grants for school buildings and committees and tertiary scholarships, but with no special provisions for the very poor. As a result, free tuition did not assist the poor as they could not meet the other fees that schools charge. In the Government programme to assist poor Indian farmers forced off sugarcane farms when their leases expired (by providing small plots of land for root crop and vegetable farming), the public administrators failed to recognise that the plots were too small and farmers were not experienced in growing and marketing root crops. Most became urban squatters joining those below the poverty line. Kaitani concludes that 'ethnic-based programmes have not been a success as they have mostly given advantage to rich indigenous individuals ... and, there is no monitoring or any of the Government programmes as they have no systems to allow this.'

In their discussion of two successful, NGO-supported, community-based, cooperative microcredit programmes in Indonesia, McWilliam, Robinson and Curnow found that both projects were specifically designed to assist marginal and vulnerable households to participate in the market economy and to build household self reliance. The programmes included a stepped loan approach with a phased programme of borrowing as households gain confidence and can demonstrate their skills in managing small-scale community enterprises. NGOs as financial managers of the process ensure compliance and provide continuing advice. They conclude that this model has advantages for poor people excluded from commercial banking, but that it also has its limitations.

The impact of decentralisation on the economy and poverty reduction is increasingly an issue in China, where, as Price points out, 'the distance from the top to the bottom of the long chain of command in China ... means a high degree of autonomy'. Local pressures may actually resist state-level policy and regulation in a phenomenon of policies from above, counter-measures from below. Managing the market in the context of growing decentralisation poses significant challenges if benefits are to be shared equitably.

Decentralisation in the Philippines poses difficulties for local governments to access government or donor funding for programmes that would assist the poor. McKay, Cahill and Gibson review a community economies approach to local development in the Philippines which increased local economic diversity and community resilience without requiring outside resources. They find that an important key to successful and sustainable community programmes is supporting activities that fit in with existing economic practices and logics, and that encouraging group enterprise, rather than individual and household entrepreneurship, allow people to negotiate their continued participation in the social networks that build community resilience.

In the Pacific island countries, a community-focused approach that incorporates community values and customs is found by World Vision to be a critical factor in the success of their poverty reduction programmes. In his paper, Fox calls for greater understanding of people's responses to rapid change and instability, a circumstance now common in the Pacific. He also reminds us that conventional understandings of poverty are not helpful in most Pacific situations where very few poor people believe they are poor. He stresses the need to focus on poverty of opportunity rather than a definition of poverty based on cash income.

Poverty of policy and the very poor

Altman discusses the implications of Australia's current policies for Indigenous Australians and suggests that it is likely to exacerbate rather than alleviate poverty. Australia, he suggests, is looking to export a branch of development thinking that is focused only on the free market. Such an approach is not working in remote Indigenous Australia. Forty per cent of the Indigenous population already lives below the Australian poverty line and exhibits characteristics similar to those in the poorer developing countries. Current policies that focus on pro-economic growth and assimilation rather than on self determination and self management are disastrous. Altman suggests a hybrid economy model made up of economic activity in three sectors — the customary (non market) economy based on traditional hunting, gathering, fishing; the public economy (welfare); and the private/public (market) economy based on art sales and sale of traditional crafts. Greater recognition needs to be given to the fact that the Indigenous estate includes some of the most biodiverse land in Australia including the most intact and nationally important wetlands, riparian zones, forests and rivers. There is great opportunity for customary and community-based environmental management of these lands and for this to be included within the hybrid economy model.

Greater consideration is now given to economic and poverty reduction policy in Australia than in the past. The Australian Government's White Paper on Aid places considerable importance on the policy environment and on policy development in the region. Young discusses policy processes and the difficulties of developing policy that reflects research results or the real world. Policy makers, he states, are too busy to read research reports; there are many often opposing stakeholders; there are many political considerations; and researchers and policy makers often have different views on what constitutes good evidence. His advice to researchers or research organisations who would like their work to be useful in policy formulation is to identify the key issues, to identify who they need to influence, and identify how to move forward using these mechanisms.

Kilby discusses the White Paper and suggests that what is missing from it and the associated Core Group Recommendations is a broad analysis of the drivers of poverty in Asian and Pacific countries and the associated changes in poverty profiles in the key countries that the aid programme should focus on. Although the Core Group notes inequalities within borders, and that economic growth has brought sharp rises in inequality, the White Paper is more concerned with increases in aggregate growth.

Financial inclusion and economic opportunity for the poor

Currently, one of the most widespread strategies for increasing the economic situation of the poor is through community-based microfinance and microcredit schemes. The Grameen Bank model of microfinance has been adapted in many countries to suit local conditions and requirements, and is continually being adapted to meet changing needs. In the past, it focused on providing working capital to people to generate income through small businesses. Today it includes delivery of financial services to poor households so they can manage their finances more effectively, so the current imperatives within the sector are 'outreach' and 'sustainability'. Mathison outlines current initiatives in the use of mobile computing in microfinance programmes and the opportunities that computers and e-banking provide for reaching the poor with financial services. EFTPOS, palmtop computers, mobile phones, ATMs and card services now allow rural business people to access urban financial services.

Sibley outlines the role of financial literacy and financial competence in poverty reduction and in particular the ways in which differing attitudes to money can influence opportunities to increase cash incomes and to engage in the cash economy. Sibley uses a case study of the role the ANZ Bank has played in providing banking facilities to remote rural communities in Fiji. To counter the rapid withdrawal of banking services from rural Fiji, the ANZ Bank, working with UNDP, introduced a financial literacy training programme undertaken in villages to suit the rhythm of rural life, and offered two banking services — both savings accounts with passbooks that are manually updated. Individual micro loans are offered and dedicated bank staff provide frontline services and back office coordination. This has achieved significant results. In the first 12 months, 40,000 new deposit accounts were opened and the service has provided outreach to an estimated 350,000 people who previously did not have a convenient and secure way of managing money.

It is often assumed by those in industrial countries that business opportunities for local people, such as those offered by the Porgera mine in Papua New Guinea (PNG), would lead to sustainable business ventures, increased local business skills and increased local investment. Banks explores what actually happened in the ten years since the opening of the Porgera mine and how local people used the many business opportunities. He concluded that *bisnis* was not business, and the bulk of earnings from any kind of business was not regarded as a source of capital accumulation but is consumed. Although contracts were offered to local people, they quickly recognised that fulfilling contracts required time, discipline and effort. Few local contractors had the skills or inclination to work this way. Rather than building sustainable business ventures, the Porgerans leased out their contracts to non-locals and became rent extractors. Banks concludes that Porgerans get into business primarily to serve their local, socio-political agendas and, from this perspective, local *bisnis* is less adaptation or accommodation with Western-style economic systems, tools and structures, and more outright co-option of these practices.

Economic and poverty reduction models seldom consider that there are geographic areas where poverty reduction and successful involvement in the cash economy are not possible — where there are severe environmental barriers to development. Through a longitudinal study of PNG that maps poverty as well as the areas with the greatest environmental constraints, the least developed and most disadvantaged districts — where access to education, health and other services are poor or non existent, where agricultural pressure is highest, infant mortality and maternal mortality highest, and where malnutrition is most serious — Allen and Bourke have shown that poverty in some areas of PNG is entrenched and that the poorest people live where there are multiple disadvantages. Yet among economists and development planners, there remains considerable optimism over the country's natural resources to drive economic development.

Allen and Bourke's premise that environmental factors have a strong influence on development is supported by Manoka's research which was conducted in a small coastal community where overfishing and declining coastal and marine resources, together with growing environmental waste problems, are associated with increasing poverty. The community of Barakau is now attempting to put into place a marine protected zone, regulations that might help control overfishing, use of dynamite and fish poison, and safe disposal of waste.

Disasters can sometimes provide opportunities that previously did not exist. Shaw outlines the impact of the tsunami on a coastal town in Sri Lanka and the opportunities that now exist for women's enterprises if conservative approaches to development and their wish to restore the pre-tsunami economic activities can be overcome and new approaches taken.

Across both Asia and the Pacific a developmental problem is the very large number of young people and the shortage of employment opportunities. Poor education and very limited opportunities on the land can result in explosive situations and increased conflict. Curtain reviews the situation in Timor-Leste and the need for special initiatives to promote rural livelihoods for young people. Tourism can also be seen as a way of employing local young people and of providing sustained economic opportunities for rural communities. Levantis considers the role of tourism in pro-poor growth in the Pacific and suggests it be given higher priority in government policy.

Conclusion

The conclusion that could be drawn from these papers is that while there may be quite rapid economic growth in some countries in the region and some people are being lifted out of poverty, sustainable poverty reduction is more difficult to achieve, and economic growth is being accompanied by increasingly rapid urban and rural inequalities within communities, within countries and within the region.

While some of the papers consider more conventional poverty reduction strategies, the overall emphasis is on the need for smaller, much more clearly focused poverty reduction programmes that are designed around specific situations and specific needs. What is also highlighted is the importance of community-based initiatives, the need for more informed policy that allow for flexibility and new and innovative initiatives. Addressing poverty requires that the lessons of the past four decades be embraced, and this is the way that alternative economic solutions to poverty reduction in Asia Pacific can be found.

Implementing social programmes in Indonesia: Lessons for the future

Sudarno Sumarto and Daniel Suryadarma, SMERU Research Institute, Indonesia

Introduction

Poverty remains a major issue in Indonesia. In 2006 there was a net increase of four million poor people, reaching a total of 39 million and bucking a four year trend in poverty reduction. The number of the poor had been decreasing consistently since 2002, but a small shock can quickly push most of those who escape poverty back below the poverty line. Using the purchasing power parity $2/day line as a vulnerability measure, the World Bank (2006) found that 45 per cent of Indonesians are vulnerable to poverty.

Other indicators show that the poor are widely disadvantaged in terms of welfare. According to national socio-economic survey data, 45 per cent of poor households have no access to sanitation, more than half have no access to safe water, and around 20 per cent of children from poor households do not continue to junior secondary school (Widianto 2006). Following the Asian economic crisis of 1998, the central Government brought about numerous social programmes targeted at the poor, and has set up a number of new initiatives in the last five years. These programmes take up a significant proportion of the Government's budget, costing A$2.3 billion in 2005/2006, and with a 2007 allocation of A$6.5 billion.

Given the level of funds required for these programmes and the fact that millions of poor people depend on them, it is imperative that lessons are learned to ensure that subsequent programmes are improved and targeted to the needs of the Indonesian people. On a global level, the experiences of Indonesia might provide insight for other developing countries as they implement their own social protection programmes.

This paper provides an overview of three large social programmes: the unconditional cash transfer, school operational assistance, and community driven development. After outlining the characteristics of each programme, the paper then describes the results of an impact evaluation study conducted by SMERU, University of Indonesia, and World Bank and examines the programmes active both during the crisis as well as those which are ongoing. The paper also reviews the impact of current interventions, lists lessons learned and suggests how they might benefit similar programmes in the future.

Large scale interventions for the poor

Indonesia's social protection programmes can be divided into three groups. Firstly, during the crisis period, the Government instituted several programmes under the umbrella of social safety net (SSN) programmes. These range from subsidised rice, nutritional supplements for infants, education scholarships, free health services and employment creation schemes, to community empowerment programmes. Sumarto et al. (2002) reviewed the targeting accuracy of these programmes and found an average of 35 per cent leakage (the share of programme benefits that went to non-poor households) ranging from 70 per cent in the subsidised rice programme to only five per cent in the nutritional supplement programme.

As the SSN programmes were nearing completion, the Government merged some of the programmes into the so-called compensation programme for the reduction in fuel subsidy (PKPS BBM I), which was implemented between 2001 and 2004. During this period, programmes included education scholarships, subsidised rice, cash transfer, revolving funds, free health service, and community driven development (CDD).

Finally, in 2005/2006 the Government implemented the PKPS BBM II programme, which contained many components from PKPS BBM I but with an additional unconditional cash transfer (UCT) component. The UCT aimed to duplicate the success of an similar programme in Mexico, the Progresa/Oportunidades (for evaluations of Progresa see, for example, Gertler, Martinez, and Codina 2006; Skoufias and di Maro 2006; and IFPRI 2000). The next section of this paper discusses the characteristics and impacts of three key components of the current PKPS BBM II programme.

Characteristics and impacts of three large social programmes

Unconditional cash transfer

The UCT in Indonesia is the largest cash transfer programme in the world, benefiting more than 15 million households. It began in October 2005, after a major reduction in fuel subsidies, and was implemented for one year. During the programme, poor households received a quarterly payment of around A$43. An eligible household received a UCT card, which they used to withdraw the payments from local post offices on a given date. After the first tranche of payment in October 2005, an additional 2.5 million households were added as recipients.

A household's eligibility was determined through a census conducted by Statistics Indonesia (BPS), using a district-specific proxy means-testing methodology, based on 14 indicators of poverty including household size, assets and level of children's education.

SMERU conducted two impact evaluations of the UCT. The first was a rapid appraisal undertaken in Jakarta several days after the first payment period (SMERU 2006a), and the second was conducted in December 2005 in five districts across the country (SMERU 2006b).

While these evaluations found that UCT was helpful in assisting the poor to mitigate the impact of reduced fuel subsidies, the programme suffered problems both in its design and implementation. In terms of design, the main weaknesses revolved around a weak socialisation campaign; the lack of clear role for local governments in the programme; problematic targeting methodology; and the lack of any transparent complaints mechanism. In terms of implementation there was evidence that the census team only visited households that had been identified as poor by local authorities. This has caused the programme to suffer both leakage and under coverage, as shown in an example in Table 1.

Table 1: UCT recipients in Kedondong village, Demak, 2005

	UCT beneficiary by quintile		Distribution of UCT
	%	N	%
Q1	74.5	205	42.0
Q2	45.0	125	25.6
Q3	28.3	78	16.0
Q4	21.3	59	12.1
Q5	7.6	21	4.3
Total	35.3	488	100.0

Village population: 1,383 households
Quintile size: 275-278 households

This table shows the distribution of UCT in Kedondong village, where SMERU collected data on the welfare of each household. Treating those in the first and second quintiles as poor households, the table shows that only 60 per cent (325 household out of 550 in the first two quintiles) of the poor in the village received the transfer, indicating under coverage, while 33 per cent of the benefit was leaked to non-poor households. During implementation, meanwhile, there was some evidence that local authorities demanded a proportion of the transfer from recipients.

School operational assistance

BOS is a school operational assistance programme which began in July 2005, replacing the special assistance for students/school (BKM/BKS) which was implemented in the social safety net era that followed the economic crisis. BOS is given directly to both public and private schools across the country, and took up A$730 million in Government spending between July and December 2005.

The main objective of BOS is to enable schools to abolish tuition fees. Between July and December 2005, 40 million students were not required to pay tuition. In addition to making schooling more affordable, BOS also aims to ensure that schools have the sufficient resources to retain top teachers, provide sufficient educational materials and ensure that students do not leave school before graduating from junior secondary level.

SMERU was commissioned by the national development agency to evaluate BOS (SMERU 2006c). The study evaluated three aspects of BOS: its impact on schools, on students in general, and on poor students. In terms of its impact on schools, BOS did allow teachers to improve the quality of their teaching by providing better equipment and teaching materials. Also, funds were used to supplement teacher income and pay for extracurricular activities. The impact on students, meanwhile, was clear: reduced or free tuition, cheaper textbooks and a reduction in other fees related to extracurricular activities provided by the school. Finally, SMERU found that while only a small proportion of schools actually give special treatment to poor students; it has nevertheless increased the motivation of poor students to continue schooling.

However, there is still some room for improvement. Firstly, there is little evidence that BOS has reduced school dropout, especially at the junior secondary level. Secondly, teachers who are also school treasurers now spend more time administering BOS, rather than teaching. This is also often the case for school principals. In addition, there have been some problems with manipulation of the funds and reduced community participation in the day-to-day operations of schools.

Community driven development

The central Government has been driving two large CDD projects: the Kecamatan development programme (PPK) and the urban poverty project (P2KP). The two programmes have a similar basic design, both giving block grants to each area. They differ in so far as that PPK is implemented in rural sub-districts, while P2KP is implemented in urban areas. PPK began in 1998, a year earlier than P2KP, and its coverage has gone from 2,000 villages during the initial implementation to the current level of 34,000 villages. PPK is one of the world's largest CDD programmes, with a budget of $760 million. Both PPK and P2KP have two main components: small rotating credit and an infrastructure improvement fund. For both programmes, the focus is on community participation, which ranges from town hall meetings to decide which infrastructure projects should be undertaken to actually working together to carry out any required physical labour.

The University of Indonesia (2002) conducted an evaluation of PPK and found several problems (see World Bank 2006). Firstly, local bureaucracy often dominates community meetings and impedes real community involvement. This leads to significant local capture in deciding the infrastructure projects and, after the project is completed, an unwillingness of the community to maintain the project. Secondly, the study found that poor families have less access to the rotating credit. Thirdly, those receiving credit are not given technical assistance to ensure that the funds are used effectively. Finally, there is often a lack of financial transparency from those in charge of the block grant.

Contrasting with the largely negative tone of the University of Indonesia report on PPK, the World Bank (2004) claims that P2KP helps to increase democracy at local level, increases participation, and provides access to credit to poor families. Overall, the national development and planning agency, Bappenas, found both PPK and P2KP to be much more cost effective in terms of constructing and managing infrastructures (Bappenas 2005). It found that KDP was 55 per cent cheaper that contractor executed construction for similar infrastructure projects, while P2KP was 66 per cent cheaper.

Conclusion: Lessons learned

Before describing the lessons learned from these three programmes, it may be useful to outline the programmes which will be implemented from 2007-2009. Firstly, the Government plans to expand the CDD programmes to cover 5,623 sub-districts by 2009. Secondly, it will experiment with a conditional cash transfer programme (CCT), under an umbrella of the national people's empowerment programme. The CCT provides cash transfers to households with school age or infant children, on the condition that these children go to school and use the public health centre when they are taken ill. Furthermore, families that are expecting a child will also receive a cash transfer on the condition that the wife regularly consults with doctors at the nearest health centre during her pregnancy. The CCT will initially be pilot tested in six provinces, with a budget of A$570 million.

In addition to these two programmes, the subsidised rice programme will also be continued, providing 12.5 kilograms of rice per month to 15.8 million households; the free health care will be expanded to cover 15 million families; there will be a limited free education up to junior secondary level; and there will be a scholarship programme for senior secondary students from poor families.

There are four lessons to be learned from the previous programmes which could improve forthcoming programmes. The first lesson regards targeting of beneficiaries: there is evidence that the current targeting system has a weak methodology, which is often the case with top down programmes like UCT, in contrast to programmes that involve the community in one way or another. Therefore, it may be worth exploring ways to increase community participation within the targeting system.

The second lesson is in terms of coordination, both between central and local Governments and between line ministries. The rules and regulations of a programme must be well designed and the duties of each ministry should be made explicit to avoid any confusion. Thirdly, given that Indonesia now adheres to a decentralised government system, the central Government should refrain from implementing large scale programmes like the UCT, but rather play a more supporting role and let the local governments decide the best programmes for their residents.

To conclude, it is important to note that significant progress has been made on poverty reduction in Indonesia since the 1998 crisis. The Government is increasingly willing to make programme improvements based on impact evaluation studies. However, the state of poverty in Indonesia is still far from satisfactory, as widespread vulnerability to poverty remains and there is uneven progress towards several Millennium Development Goals, particularly in maternal health. Poverty remains a crucial issue in Indonesia and our efforts must improve both in quality and quantity, to ensure that more and more Indonesians move towards a poverty-free life.

References

Bappenas 2005, *Findings of post-construction economic impact analysis*, Bappenas, TF-05382IND, Jakarta.

Gertler, Paul, Sebastian Martinez and Marta Rubio-Codina 2006, 'Investing cash transfers to raise long-term living standards', *World Bank Policy Research Working Paper 3994*, World Bank, Washington, DC.

IFPRI (International Food Policy Research Institute) 2000, 'Is PROGRESA working? Summary of the results of an evaluation by IFPRI', IFPRI, Washington, DC.

Skoufias, Emmanuel and Vincenzo di Maro 2006, 'Conditional cash transfer, adult work incentives, and poverty', *World Bank policy research working paper 3973*, World Bank, Washington, DC.

SMERU 2006a, 'A rapid appraisal of the cash transfer program in Indonesia: The case of Jakarta', SMERU Research Institute, Jakarta.

SMERU 2006b, 'A rapid appraisal of the implementation of the 2005 direct cash transfer program in Indonesia', SMERU Research Report, SMERU Research Institute, Jakarta.

SMERU 2006c, 'A rapid appraisal of the PKPS-BBM education sector school operational assistance (BOS)', SMERU Research Report, SMERU Research Institute, Jakarta.

Sumarto, Sudarno, Asep Suryahadi and Wenefrida Widyanti 2002, 'Designs and implementation of the Indonesian social safety net programs', *Developing Economics*, 40(1), 3-31.

University of Indonesia 2002, *Evaluation of Kecamatan development program (KDP). Impacts on community organization and household welfare (second round survey)*, University of Indonesia, Depok.

Widianto, Bambang 2006, 'The role of UN development cooperation in pursuit of employment creation and a decent world', power point presentation, Bappenas, Jakarta.
World Bank 2004, 'Project information document: Third urban poverty project', <http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/02/19/000160016_2004021 9113003/Original/AB26801Appraisal011231041.doc>, (accessed online 14 November 2006).
World Bank 2006, *Making the new Indonesia work for the poor*, World Bank Office, Jakarta.

Local cooperatives and microfinance in eastern Indonesia: Autonomy and opportunity for community economies

Andrew McWilliam, Kathryn Robinson and Jayne Curnow,
Research School of Pacific and Asian Studies, Australian National University

Introduction

Pro-poor financial models for alleviating poverty have considerable policy support among donor agencies and development programming. In most developing countries access to financial and banking services is severely constrained, particularly in regions remote from urban areas and district townships, and limits opportunities for poorer communities to benefit from economic growth. This paper reports on strategies for financial inclusion that have addressed this problem in two regions of Indonesia. In both cases, local NGOs sponsoring the programme have realised the importance of savings as well as microcredit, as part of the financial participation.

Poor access to financial services characterises much of rural Indonesia. Despite improvements in recent years through activities such as the expansion of the 'Village Bank' system (BRI-Unit Desa) which offers financial services to the local level, coverage remains limited. Moreover, the commercial orientation of BRI (People's Bank of Indonesia) precludes participation in credit opportunities for many poorer households.

We report on strategies adopted by two NGOs in eastern Indonesia to support financial cooperatives which facilitate savings and credit while also promoting community-based economic enterprises that draw upon accumulated capital of the local financial institutions. The study arises out of a collaborative action research programme in Southeast Sulawesi and Flores Island to implement an asset based community development project promoting community partnering and an appreciation of the significance of diverse economies under Indonesian regional autonomy policies (Robinson et al. 2004; Robinson and McWilliam forthcoming).

In particular we highlight the comparative advantages of two strategic approaches to generating savings and credit opportunities for low-income households. The first approach comprises local Indonesian adaptations of the well-known Grameen Banking system for microfinancing community enterprise and household needs in Southeast Sulawesi and Flores. This is compared with a complementary programme, promoting self-regulating community-based financial cooperatives known as *Lembaga Ekonomi Desa* (Village Economic Institutions). We argue that while both approaches demonstrate successful pro-poor strategies to promote economic enterprises and alleviate poverty, there are distinct advantages to encouraging forms of community banking that also generate economic services for community benefits.

Microfinancing eastern Indonesia

The success of the Grameen Bank over the last 30 years from its humble origins in Bangladesh is reflected in the recent award of the Nobel Peace Prize to its founder and champion, Muhammad Yunus. As a microcredit programme lending to impoverished communities lacking the collateral to access conventional bank loans the approach has encouraged much adaptive imitation around the world including Indonesia. With its focus on poor rural women and their borrowing potential as microentrepreneurs, along with group liability and the promotion of a social ethic, the Grameen Bank principles have demonstrated the powerful impact of microcredit provision on poverty alleviation.

Support for microcredit programmes through direct government funding or in business partnerships has expanded rapidly across Indonesia in recent years. The emergence of organisations such as Gema-PKM (*Gerakan Bersama Pengembangan Keuangan Mikro*), the Indonesian Movement for Microfinance Development, and the Banking with the Poor Network, reflect a growing interest in the sector (see, for instance, Indonesian Stakeholder Workshop 2004). Similarly, many district governments across Indonesia are implementing their own version of microcredit financing of community-based economic enterprise (Ismawan and Budiantoro 2005).

Our collaborative action research partners in eastern Indonesia, NGOs Sintesa (Buton) and Sannusa (Flores) have also instituted Grameen inspired programmes to facilitate income generation among the poor and vulnerable — centralised loan facilities extending cash credit and collecting repayments from village based borrowers according to a fixed set of guidelines and regulations.

Sintesa and Bantesa

In Southeast Sulawesi, Sintesa has developed a microcredit system based on the Grameen Bank model, following a study tour by Sintesa staff to Bangladesh. Named Bantesa (village assistance), the programme has developed, over the last few years, into a significant component of their community development activities. Sintesa operates as a community development organisation in southeast Sulawesi with over 80 staff supporting diverse programmes including water supply and sanitation, community health initiatives, institutional strengthening and income generating activities. They orient their practice to three guiding principles, namely those of *silahturami* (social solidarity), *kemitraan* (partnership), and *kesinambungan* (continuity of engagement with participating communities).

The principles of Bantesa encourage the formation of small groups of five non-directly related community members who are able to borrow small amounts of money individually but with group responsibility for repayments. The familiar strategy of 'shared responsibility' (*tanggung rentan*) is used to effect compliance in repayments as well as the incentive of higher levels of borrowing following successful repayments. At the highest of four levels, borrowers may access up to Rp1 million (A$165). No collateral is required but each request for lending undergoes an assessment of its economic feasibility. People who successfully negotiate the higher level are then permitted to borrow for house improvements using a credit facility based on their capacity to repay.

The implementation of Bantesa is quite staff intensive. In Buton district for example, Sintesa has appointed 30 local staff based in four sub-districts to manage the programme there. They hold weekly meetings with the credit groups in the communities, and each field staff officer is encouraged to manage seven of these groups of five with expectations that coverage will increase over time.

There are clear advantages to the Bantesa system, both for impoverished households unable to access formal banking credit or who are prey to moneylenders, as well as the NGO managing institution. As Sintesa expands the scope of its lending activities across the region, it creates opportunities for poor people to access finance and generate economic activities that contribute directly to improved household welfare. For Sintesa, as the managing institution — the credit bank — they receive a portion of the 'profits' of the lending programme generated from the net proceeds of the two per cent per month repayment schedules for outstanding loans. This cash flow is dependent on timely and regular adherence to loan repayments from the participating groups, and is designed to ensure the viability of the NGO itself, into the future.

Sannusa and Senu

Sannusa is a small NGO based in the district of Ngada (central western Flores). Since 1998 they have managed a Grameen-inspired informal banking facility called Senu (an acronym for *Semangat Nurani* [Pure Spirit]). Senu began with a Rp5 million (A$1,000) grant from Oxfam. It provides individual and group access to greater amounts of cash than is available through small savings and loan groups. Interest on loans is charged at two per cent per month which contributes to the administration and operational core funding of Sannusa. Currently, 23 groups from Ngada district (with over 200 members) have access to the Senu credit facility. As of June 2006 Senu had operating capital of approximately Rp63 million (A$10,000), 80 per cent of which was circulating as loans.

In terms of practice, participating groups are able to borrow twice the amount of capital they have saved in Senu. Money is borrowed on agreed terms commensurate with the borrower's ability to repay. Unlike the Sintesa system, Senu requires that their groups put up some capital as collateral against the loans. This can include land titles, livestock or other convertible assets of value; however, Sannusa has never seized assets when loans are in arrears. Sannusa staff act as debt recovery agents and regularly visit groups to discuss management or repayment problems.

Under the Senu system, individuals may borrow directly and are responsible for repayments but, like Sintesa, ultimately the group takes responsibility for the full acquittal of the loan. There is also a strong ethical dimension to these loans with a limited range of options for expenditure on productive enterprise and consumption items such as school fees and house construction. Mutual trust is an important feature of the programme, and repayment schedules are generally maintained especially with the requirement that borrowers commit their own proportional matching funds.

The groups also serve to build community trust. For example, the Papa Laka group has 17 members, all migrants under a Government resettlement scheme which brings people from nearby locations to cultivate unused land. The group initially formed under a Government seed distribution programme in 2000. As with all Sannusa groups, it is a savings as well as a credit group; building trust and solidarity is prioritised over generating profit; and members articulate a fear of failure if they grow too fast.

The programmes of Senu and Bantesa represent comparable strategies designed to assist marginal and vulnerable households to participate in the market economy and to build household self reliance. The stepped loan approach provides a phased programme of borrowing as households gain confidence and demonstrate their skills in managing small scale community enterprises. NGOs as financial managers of the process ensure compliance and provide continuing advice for enterprise development, while generating a return on borrowed funds that helps sustain their own institutional services. This model clearly has advantages for poor people excluded from the commercial banking system, but Grameen-style arrangements such as these also have their limitations. Principal among these is the recognition that while the programmes may be expanded geographically to accommodate increased numbers of participants, the borrowers remain dependent on the schedules and fixed terms offered by the financial providers. Microcredit in this case remains simply that, with little opportunity for enhanced financial services or benefits under the programme design.

Alternative cooperatives: Sintesa and LED microfinance

In 2001, Sintesa instituted an innovative model of microfinance in Buton based on lessons gained from a study tour to Lombok, by Buton regional director, Syukri Rauf. Utilising an initial grant of Rp615 million (A$100,000) from a German church based donor the LED (*Lembaga Ekonomi Desa*) financial cooperatives programme was initiated to assist Butonese refugees from the violence and civil disorder in the Moluccan provincial capital, Ambon (1999-2000). In due course, 12 LED cooperatives were formed and legally registered as multi-purpose enterprise cooperatives (*Koperasi Serba Usaha* [KSU]) which allows for their expansion from savings and loan cooperatives into service provision and community based enterprises. As they have developed, membership of the LED cooperatives expanded to include local residents as well as refugee groups.

The core component of the LED is a programme of microfinance services in the form of savings (with compulsory and voluntary components) and low interest loans. Lending limits are related to savings history and profits generated by the LED cooperative are distributed proportionally to members and held as cash reserves. Sintesa provides a continuing advisory role, since donor funding ceased in 2004, and importantly has been able to offer further injections of capital to the respective cooperatives to build their loan books as they meet lending and financial benchmarks. These loans are offered by Sintesa on a subsidised basis (one per cent per month reducing) allowing the LED to maintain their lending levels at two per cent per month. These partnering arrangements have enabled a number of the LED to show impressive results over the five years of operation. Two of the cooperatives in particular are standout performers. They include LED (KSU) Syukur Jaya from Kolowa-Wadiobero with over Rp2,000 million in circulation ($300,000) and 447 members, and another from Wolando village with over Rp500 million in circulation ($70,000+) and 172 members.

As legally autonomous financial institutions, the LED cooperatives have had to adjust and adapt their operating procedures to meet the growing demands of management and service to members. The larger LED effectively operate as small banks, with a dedicated office, over the counter services, passbooks, computerised transactions records, the use of safes and holding accounts with regional commercial banks. Local LED management committees take responsibility for most of the operational activities, lending policy, setting interest rates, profit distributions and repayment schedules. The success of the programme to date offers lessons in practical empowerment of village communities to become financially self reliant and active participants in guiding their own economic development. They are very much pro-poor in their orientation.

LED Syukur Jaya and enterprise partnering

The LED Syukur Jaya is a facilitated local initiative of the village communities of Desa Kolowa and Wadiobero, two coastal settlements on the south-eastern shore of Muna island in the district of Buton. From small beginnings under the enthusiastic leadership of LED chair La Paaga, the financial cooperative Syukur Jaya has become an important local vehicle for economic growth and development. It is a key banking facility for the local community and residents of neighbouring villages. Of its 447 members (June 2006), around half are out migrants, living outside the villages of Kolowa and Wadiobero.

One use of the microfinance offered by the LED is to secure capital to initiate trading activities outside the region. The practice of economic migration (*merantau*) has a long history in Buton and up to 35 per cent of cooperative members are reported to access LED funds for diverse trading interests which include trading in gold, clothing, shoes, tobacco, cosmetics, fish and transport, in distant markets including Ambon, Ternate, Kendari, Makassar Manokwari and Jayapura. Once they have established themselves in their economic enterprise, they utilise their family ties and the banking services of the LED to make direct deposits of remittances and loan repayments.

Kolowa-Wadiobero was selected as one site for a collaborative action research project undertaken with researchers from ANU. Following a community mapping and planning exercise, community members identified opportunities to develop a marketing cooperative to collect and manage bulk sales of locally cultivated seaweed (*agar agar*). Sintesa provided an interest free loan to construct a storage shed and buy weighing scales, and offered initial training for the local management group. A savings and loan system was established among the members of the cooperative, known as KMUM Agar Agar. Using a further loan facility from the LED Syukur Jaya, the group was able to immediately begin buying and bulking local seaweed.

Cooperative members and non-members alike were able to take advantage of the local marketing opportunity which facilitated the expansion of seaweed production along the seafront as poorer households, widows and school children, were able to sell to the coop amounts as little as 2-3kg of dried seaweed. The cost of transporting dried product to market by boat had previously precluded their involvement in this lucrative industry.

Soon after establishing the cooperative, the group was able to negotiate its first bulk sale to traders in the district capital, Bau Bau, a half hour boat trip across the narrow Buton straits. Now operating for less than 18 months, the cooperative has recently organised their 23rd shipment of dried seaweed to traders in Bau Bau. The trading netted profits of Rp10,400,750 (A$1500) and while the accounts of the trades this year show that some were sold at a loss, this was more than compensated by profitable trades averaging around Rp1 million (A$140) on a 2-3 tonne sale. At present the KMUM Agar Agar has become the largest private seaweed cooperative of its type in the region.

The example of the seaweed cooperative venture fostered and supported by the local LED highlights a further feature of the innovative possibilities of the LED financial cooperative model. This is the development of profitable supplementary enterprises and services to the local community developed out of cooperative profits (in 2005 this was approximately A$7500). They include:

A telephone booth at the LED office staffed by a local resident who is paid to run the service on a 25 per cent profit share basis. Under this system there is a Rp5000 'informing fee' for incoming phone calls when the local recipient is notified of the call. The business has been very successful, particularly as a direct form of communication with economic migrants living outside the region. On their profits, 55 per cent is used to pay back the capital loan to the LED, and 20 per cent of profit is distributed to cooperative members (in 2005 they shared Rp908,460 [A$150]). The installation of the phone has been very popular among non-resident members to communicate with family and organise their financial arrangements.

The LED purchased a photocopier for cooperative use and for the wider community on a fee paying basis.

The LED also collects the monthly tariff for electricity use on behalf of PLN (state electricity board). For this they receive a commission fee and after costs of there is a profit share to members of the cooperative.

A new kerosene depot business planned at the annual LED meeting was opened in 2006 in response to escalating fuel prices. After acquiring a licence the drums of kerosene were purchased at Rp2,600/litre and sold for Rp2,700/litre retail. Local residents who sell kerosene from home based kiosks are able to purchase the fuel at cost price. The latter arrangement reflects the intention of the LED membership to facilitate the extension of services to the community, not to harm local small businesses.

A 50 per cent profit share business in the nearby sub-district town, Lombe, was established in 2006 with a local shopkeeper. Under this arrangement, the LED set aside Rp30 million (A$5,000) for investment in a range of commodities including cooking oil, tobacco products and sugar, with profits allocated for capital return and distributed to members of the LED cooperative.

The remarkable growth of the LED Sykur Jaya, under the energetic and committed leadership of local resident, La Paaga and his fellow committee members, highlights the potentialfor innovative microfinance approaches in eastern Indonesia. They extend well beyond limited microcredit schemes and illustrate the multiplier effects that can be generated when local communities are encouraged to draw on their own capacities and strengths to address local needs and economic opportunities.

Pro-poor community economies and microfinance

Case studies of Grameen-style microcredit programmes and the forms of financial cooperatives exemplified in the Sintesa LED model illustrate complementary approaches to economic growth and pro-poor development in local contexts. The benefits of these programmes are well demonstrated where access to formal banking credit is restricted or absent, and informal money lending creates long term indebtedness through punitive interest rates. Both models of village financial institutions present opportunities for impoverished households to participate in economic enterprise through facilitated access to low interest loans, and both approaches encourage self reliance with social support and censure strategies to achieve repayment compliance. Where they differ lies in the significant potential for LED type arrangements, with their emphasis on community savings and community self-management, to expand financial and economic services to the wider community in profitable and ethical ways. As decision making and enterprise development rests with the LED cooperative owner-members, the financial advantages of building accessible savings and loan accounts and profitable community based enterprise produces multiple benefits and beneficiaries at the local level.

Notes

1. The recent 'White Paper on Australia's Aid Program 2005' is a case in point.
2. The BRI–UD microcredit program is called Kupedes and lends between $3 and $5,000 for collateralised loans achieving high rates of repayment (>98 per cent). <http://www.bwtp.org/arcm/indonesia/II_Organisations/MF_Providers/BRI.htm>.
3. Bank Indonesia defines a microcredit loan as one under Rp50 million (about US$5,500), still way beyond what most rural households could contemplate or be qualified to receive, <http://www.bwtp.org/arcm/indonesia/Indonesia.html>.
4. For example, the Gerbang emas programme in Ngada District, Flores.

5. The Evangelische Zentralselle fur Entwicklungschiffe, and subsequently renamed as the Evangelische Entwicklungdients e.V (Evangelical Development Service).
6. Subsequently three further LED were formed in conjunction with the collaborative action research project with researchers from ANU.
7. The senior management of Sintesa has elected to promote the Bantesa model as its preferred microfinance initiative, but Syukri Rauf has argued that the LED model may well serve the NGOs interests more effectively as a source of revenue given its lower cost structure.
8. KMUM stands for *Kelompok Mitra Usaha Masyarakat* (community enterprise partner group).
9. In 2005 the profit of the cooperative was Rp52 million (A$7,500), which was distributed according to a formula [40 per cent to cash reserves, 20 per cent to borrowers, 20 per cent to savers, 15 per cent to the management committee and five per cent to a social fund (*dana sosial*)] which in 2006 is funding educational materials for the local schools and a fund to assist poorer families with school fees.

References

Ismawan, Bambang and Setyo Budiantoro 2005, 'Mapping microfinance in Indonesia', *Jurnal Ekonomi Rakyat*, Maret, <http://www.ekonomirakyat.org/edisi_22/artikel_5.htm>, (accessed online 16 January 2006).

Indonesia stakeholder workshop 2004, 'Sharing microfinance resources and knowledge in Indonesia 2004, Jakarta, 27th August,' <http://www.bwtp.org/arcm/indonesia/IV_News_and_Events/BWTPworkshop/speakers_materials_Indonesia_eng.html>, (accessed online 18 January 2007).

Robinson, Kathryn, Katherine Gibson, Deirdre McKay and Andrew McWilliam 2004, 'Negotiating alternative economic strategies for regional development', *Development Bulletin*, 65, 46–50.

Robinson, K and A McWilliam forthcoming, 'Asset based community development in Indonesia: Case studies in the diverse economies of Buton and Ngada (Flores)', *Masyarakat Indonesia*.

E-banking with the poor: Opportunities and implications for microfinance providers

Stuart Mathison, Programme Manager, The Foundation for Development Cooperation

E-banking and microfinance

Over the last three decades, banks in developed economies have transformed their business management and service delivery from paper based systems to integrated ICT-enabled systems. Consequently, e-commerce has become so ubiquitous that cash is now almost superfluous. Cash is used for only the smallest transactions and even this is poised to be replaced by a 'micropayments' service, where consumers pay for small items through their mobile phone, or through a value carrying smart card.

Might the same evolution occur in less developed economies? If so, what are the opportunities and implications for microfinance providers that aim to serve the many people who, for various reasons, are excluded from the traditional banking system? Increasingly, practitioners see ICT innovation as a key strategy in taking the microfinance sector to the next level in terms of outreach and sustainability. However, the roll out of ICT-enabled microfinance is likely to change the business models and methodologies that have been core to the microfinance enterprise, and microfinance institutions (MFIs) will need to respond accordingly. Furthermore, e-banking will enable commercial banks to do microfinance more profitably, especially in serving the upper strata of the typical microfinance client group, and this may put significant pressure on the financial viability of specialist MFIs.

Introduction to microfinance

Microfinance is the provision of relevant and affordable financial services to poor households. The 'micro' prefix refers to the size of the financial transactions; it does not imply that the MFIs themselves are small. In Bangladesh, for example, a number of MFIs — ASA, BRAC and Grameen Bank — each have more than four million clients. Microfinance is primarily concerned with credit and savings although, in recent times, allied services such as insurance, leasing, payment transfers and remittances are being introduced to the mix. In the early days, microfinance was focused on providing working capital to people who generate income for themselves in very small business activities. While this important emphasis remains, the sector has broadened its objectives to the delivery of financial services to poor households so that they can manage their financial resources more effectively.

Providing microfinance to poor clients requires innovative operating methods to manage risk and reduce transaction costs. Poor households do not usually have physical assets to offer as collateral for loans, so MFIs have developed substitutes. The most common form of substitute collateral has been the formation of groups of borrowers and the establishment of joint liability procedures, where loan group members effectively guarantee one another's loans at risk of losing their own access to credit. To reduce transaction costs, MFIs primarily deal with these loan groups rather than with individual clients and they outsource certain administration tasks to the groups.

Since the early 1990s, a major emphasis within the microfinance sector has been on institutionalisation, including building the governance and management capacity of microfinance providers. This emphasis has a number of motivations. First, if a MFI accepts deposits from clients, it will be required to meet prudential requirements as defined in local banking laws, and this demands high standards of governance and management. Second, institutional maturity is needed to enable and manage growth in the client base, which allows the MFI to reap advantages of scale and achieve a greater degree of financial sustainability. Third, institutional maturity is necessary to attract capital investment from external sources.

The overriding mission of a MFI is to provide financial services to poor households on a sustainable basis. While most MFIs have a pro-poor, development oriented emphasis, they are more correctly understood as banks rather than as development organisations. Indeed, some microfinance providers are licensed, commercial banks.

In this paper, MFI is used as a generic term for all categories of microfinance providers, including specialist microfinance institutions, commercial banks that have microfinance programmes and generalist development organisations that offer microfinance services.

Outreach and sustainability

There are two current imperatives within the microfinance sector: 'outreach' and 'sustainability'. There is, however, a creative tension between these imperatives. On the one hand, if 'outreach' is taken to mean 'more clients from a similar demographic', then 'outreach' and 'sustainability' are effectively synonymous.

Client outreach provides economies of scale that in turn makes the MFI more efficient and therefore more financially sustainable.

On the other hand, if 'outreach' is taken to mean 'targeting hard-to-reach clients' such as people living in remote areas, then 'outreach' and 'sustainability' are effectively competing terms. Reaching clients in remote areas is relatively expensive, which makes the MFI less efficient and therefore less financially sustainable. This is the real outreach challenge for MFIs because it requires new business models and processes, including technological innovation.

Microfinance and ICT innovation

Back office management information system

The most fundamental ICT application is the back office management information system (MIS). A suitably functional, computerised MIS is prerequisite for a MFI to monitor the quality, sustainability and efficiency of its loan portfolio, to measure development impact, and to manage general administration tasks. It is difficult for a MFI to upscale significantly and maintain the accuracy and transparency of its loan portfolio without an MIS that can grow with the institution.

The larger MFIs have sophisticated back office systems based on the same functionality provided by mainstream banking software. Indeed, some MFIs use off-the-shelf packages that might be found in any commercial bank. There are, however, a number of difficulties that arise when using these packages. Microfinance differs from traditional banking in a number of fundamental ways, with respect to products offered, clients served, the environment in which it operates, and the non-financial information that needs to be recorded and tracked. Many off-the-shelf software packages lack the functionality to deal with these realities and requirements. This raises the need to either modify off-the-shelf software or develop in-house software, which assumes that the MFI has the internal capacity to develop and maintain software or the resources to outsource this work. More needs to be done to make standard and affordable MIS software accessible to smaller but expanding MFIs (Ahmed 2003).

While these MIS might not be the most exciting ICT innovation they are, nevertheless, the most fundamental aspect of a MFI's hi tech infrastructure. Indeed, ICT innovation for the delivery of microfinance services is not possible without an appropriate back office MIS.

Mobile computing

While the back office MIS enables the MFI to monitor its loan portfolio, this functionality is undermined if the data analysed by the MIS is not up-to-date or accurate. With dispersed branch offices, paper based transaction records and manual data entry, there can be a data delay of days or even weeks, and the possibility of introducing errors during the data entry process is high.

A recent innovation that serves to overcome these issues is mobile computing applications — palmtop computers that loan officers take to the field so that transactions can be recorded directly into the MIS, negating the need for intermediary data entry at the branch office. The data entered into the palmtop computers is typically uploaded to the MIS at the end of the day, either directly in the branch office or via a remote communications link. Furthermore, the roll out of wireless broadband infrastructure will enable these systems to be 'always online', resulting in true real-time data collection and monitoring of the loan portfolio at branch and institutional levels (Rao 2004).

These mobile computing solutions do not alter the operational methodologies employed by the MFI. Therefore, while bringing immediate efficiency and accuracy benefits, they can be implemented with very little disruption to ongoing operations.

Correspondent banking

Providing services to clients in remote locales is a key outreach challenge for MFIs. These locales include rural areas where the population density is low, the market is smaller and service provision is more expensive. One approach to meeting this challenge is through 'correspondent banking', where a bank links with third party retail merchants located in remote areas. Correspondents manage transactions on behalf of the partner institution, and they are remunerated on a fee-for-service basis (Kumar et al. 2006).

The key qualities needed of bank correspondents are that they are long-term businesses, respected and trusted in their communities. They also need to be 'ICT enabled'; they will generally be equipped with technology such as an EFTPOS device, barcode readers and/or keypads, a personal computer, and so on. They will be linked to the partner institution's servers using a telephone line, cable or satellite link. Typical correspondents include post offices, supermarkets, general stores and gas stations. Examples of correspondent banking in Australia include the 'bank@post' services offered by Australia Post and the 'EzyBanking' service offered by the largest supermarket chain, Woolworths. A recent player in this mix, notably in South America and India, are the rural telecentre networks that are particularly suited to serving as retail outlets for a distributed microfinance network, because of their innovation-business orientation and their familiarity with IT systems and telecommunications services.

With respect to the regulatory environment, bank correspondents must be legally empowered to provide a full range of services for customers, while not neglecting risks of fraud, theft and money laundering. An innovative approach to banking policy and regulation is needed if bank correspondents are to achieve their full potential for delivering inclusive financial services.

Card services, EFTPOS and ATMs

There are a number of similarities between microcredit services and consumer credit cards. Like microfinance methodologies, credit cards were introduced to reduce the high costs associated with small transaction lending. Common characteristics include unsecured credit, small transactions, and predefined credit limits. Other salient features of credit cards, which many microfinance clients would like their providers to duplicate, include on demand borrowing, a redraw facility, and repayment flexibility within predefined guidelines. We know that microfinance clients desire these features because they continue to utilise local moneylenders for these very services where they are not provided by their MFI.

Given the similarities between credit cards and microcredit services, the concept of a 'microcredit card' arises as a likely innovation. The introduction of card based services also requires the roll out of either EFTPOS functionality with third party merchants and/or Automatic Teller Machines (ATMs).

The delivery of card based microfinance offers even more opportunities. MFIs can implement microfinance tuned, credit scoring algorithms allowing clients who have proven their creditworthiness over time through successful repeat business to have their borrowing limit automatically increased, be given access to additional products and services, and be granted greater borrowing and repayment flexibility (Salazar 2003).

MFIs can also consider smart card technology as part of their 'microcredit card' solution. Smart cards have an embedded computer chip that can store client and transaction data, as well as process information. Smart cards function as electronic passbooks, thereby reducing reliance on printed receipts (Whelan 2003c). Because all relevant client data is stored on the card, MFIs can utilise EFTPOS systems and ATMs that do not need to be always online. This is a significant advantage in areas where telecommunication services are unreliable and/or expensive (Whelan 2003a). Finally, smart cards can be used in conjunction with biometric technologies (such as fingerprint scanners) to enhance the process of client identification, thereby enhancing privacy and data security (Whelan 2003b).

For example, all of the functionality mentioned above is being developed for the microfinance sector in India by Financial Information Network and Operations Pvt. Ltd. (see www.fino.co.in).

Internet banking

Internet banking provides clients with real-time information about their accounts, and the ability to transfer funds between their accounts. It is an empowering tool because it gives bank clients the flexibility to manage their financial resources at their own leisure, without having to visit a bank office during opening hours. In particular, it is a vital accompaniment to card based services, allowing clients to keep track of numerous small electronic transactions.

From the bank perspective, internet banking is an efficiency tool because it reduces the work of human tellers and therefore reduces labour costs. It is a relatively easy and inexpensive service to offer, and the incremental cost of having 1,000, 10,000, or 100,000 internet banking clients is negligible.

The main constraint to MFIs implementing internet banking is their clients' minimal access to the internet. In some areas, this constraint is being overcome somewhat with the roll out of rural telecentre networks.

Electronic community banking

Electronic community banking (ECB) is a concept that exploits the benefits of electronic banking while at the same time incorporating microfinance principles that have proven effective all over the world for building community economy and social capital. The objective is to help promote local economic development in disadvantaged communities by facilitating investment in local enterprises.

The ECB facility is a product offered by commercial banks and is located within the mainstream banking infrastructure. It exploits the benefits of electronic banking, allowing cash to be transferred electronically into and out of the ECB account, thus reducing transaction and fraud risk. It has a specially designed internet banking interface, enabling centralised support and upgrading of functionality.

ECBs incorporate those 'peer support/peer pressure' aspects of microfinance that help to ensure high loan repayment rates. They require local management and administration, and allow local configuration of lending terms and conditions.

To retain the emphasis on 'local investment in local enterprise', the ECB loan fund is capitalised through member investment. The ECB includes a 'mini share register' to manage buying and selling of units in the loan fund. Any profits earned by the loan fund are distributed periodically to investors on a pro-rata basis. While it should not depend exclusively on external capital, the facility can nevertheless allow external contributions to the loan fund, thereby creating the possibility of issuing more, larger loans (Mathison 2006).

Mobile phone banking

GSM cellular phones are becoming increasingly accessible and affordable for the poor. The World GSM Association reports that during the years 2003-2006, more than 800 million mobile phones were sold in developing countries. Mobile phones are now not only the preferred means of telecommunication but, in many cases, the only option. Furthermore, the world GSM Association (2007) reports that that the mobile phone is the first and only communications technology to have more users in developing countries than in developed ones.

GSM phones can become 'mobile wallets' by facilitating electronic payments in exchange for goods and services. This development in m-commerce has been applied to facilitate savings deposits, loan repayments and other funds transfers. For the cost of sending an SMS message, the phone user/ microfinance client uses an application stored on his mobile phone to initiate a transfer from his mobile phone account to his bank account. Examples include Globe Telecom's 'G-Cash' (www.myglobe.com.ph/gcash/) and the 'WIZZIT Bank' (see www.wizzit.co.za).

Conclusion

Most of the above examples of ICT innovation in microfinance are being trialled or implemented in various MFIs or banks around the world. However, they are yet to become widespread. There is much to learn and more experimentation to take place. Nevertheless, the microfinance sector stands at a junction point, where its business models and processes are going to be challenged by these innovations.

There are many constraints to the roll out of ICT-enabled microfinance. First, all of the usual digital divide issues apply: ICT regulatory regimes that hinder rather than enable innovation, non existent or unreliable ICT infrastructure, and the lack of human capacities needed to fully engage with the ICT applications. Second, there are challenges from the microfinance perspective as well: financial sector regulation that restricts innovation in e-banking and m-commerce, technical capacities of MFIs to manage the roll out of ICT systems, and managerial capacities of MFIs to manage the necessary changes in business processes that will accompany the ICT innovations.

One cautionary observation is that some ICT-enabled services, especially card based services, tend to individualise the banking process and isolate the client from his/her peers. This conflicts with those group based methodologies that are held up as the key reason for the high repayment rates that are typical in the microfinance business. This concern cannot stop the transition to electronic services, but it is something that will need to be monitored.

Some people will say 'it cannot be done in microfinance, electronic banking with the poor will not work'. To this attitude, we can reply with two salient points. First, it has to work, because economies and enterprises that have embraced electronic banking and commerce will find it increasingly difficult to do business with those that have not, leaving the latter at a continuing disadvantage. Second, we do well to remember that more than 20 years ago when microfinance was in its infancy, there were many who said 'the poor cannot repay, the poor will not repay, the poor cannot save'. On all counts they have been proven wrong. Perhaps the same will be the case with e-microfinance.

References

Ahmed, A 2003, 'Management information systems for microfinance', in S Mathison (ed.) *Electronic banking with the poor*, The Foundation for Development Cooperation, <www.fdc.org.au/100458.php>, (accessed online 9 September 2005).

GSM world 2007, <http://www.gsmworld.com/index.shtml>, (accessed online 1 February 2007).

Kumar, A, A Nair, A Parsons and E Urdapilleta 2006, *Expanding bank outreach through retail partnerships. Correspondent banking in Brazil*, World Bank, Washington DC.

Mathison, S 2006, *Financing small and microenterprises in remote indigenous communities through electronic community banking*, Foundation for Development Cooperation, Brisbane.

Rao, VC 2004, 'Mobile computing for micro finance', i4d, 2(1), 22-25.

Salazar, DG 2003, 'Credit scoring', *CGAP IT innovation series*, <www.cgap.org/docs/IT_credit_scoring.html>, (accessed online 30 September 2005).

Whelan, S 2003a, 'Automated teller machines', *CGAP IT Innovation Series*, <cgap.org/docs/IT_atm.html>, (accessed online 30 September 2005).

Whelan, S 2003b, 'Biometrics technology', *CGAP IT Innovation Series*, <www.cgap.org/docs/IT_bio.html>, (accessed online 30 September 2005).

Whelan, S 2003c, 'Smart cards', *CGAP IT Innovation Series*, <www.cgap.org/docs/IT_smart_card.pdf>, (accessed online 30 September 2005).

Financial competence as a tool for poverty reduction: Financial literacy and rural banking in the Pacific

Jonathan Sibley, Central Queensland University, Heretaunga, New Zealand

Financial competence, the understanding of, attitude to and management of, money is a potentially powerful tool in the fight against poverty. A range of financial literacy and financial inclusion programmes targeted at the disadvantaged have been developed and implemented in several developed economies. However, to date few programmes to increase the financial competence of the poor have been implemented in developing economies. This paper outlines the financial competence construct and the role financial competence can play in poverty alleviation. It examines a successful multi-jurisdictional, financial literacy and financial inclusion, collaboration between the United Nations Development Programme (UNDP) and ANZ Bank to enhance the financial competence of rural communities in the Pacific, and discuss the potential for replication in other contexts, and the implications for development actors, commercial organisations and regulators.

Financial competence and poverty

Sen (1999) has conceptualised poverty as the absence of capability, often evidenced by an economically driven absence of choice. Sen cites the example (1999:75) of an affluent person who fasts and may have the same functioning achievement (in terms of eating) as a destitute person who is forced to starve. The affluent person, however, has choice whereas the destitute person has no choice.

Nussbaum (2006:48) has argued that by focusing on those things people can do and be, we come closer to understanding the barriers societies erect against the poor. The alleviation of poverty requires a focus beyond the 'income poverty paradigm' (Bourguignon 2006:76). Within this context, alienation from the money economy is the denial of an essential capability and a denial of choice. An absence of financial capability, whether driven by a lack of knowledge or skill, or the denial of access to the formal financial system, is the denial of the freedom to participate in the money economy.

Poverty is, however, not simply a lack of money. The alleviation of poverty cannot be achieved by merely increasing the household's ability to purchase food, access health and obtain shelter (although these factors are, of course, essential). The sustainable alleviation of poverty requires financial competence at both the individual and household level.

In a subsistence economy with high levels of informal exchange the inability to participate in the formal money economy may not, of itself, be a significant impediment to accessing basic nutrition and shelter requirements. However, in a globalising economy requiring participation in the money economy in order to access basic commodities, health, education and shelter, access to money, the ability to manage money and the opportunity to participate in the formal financial system become basic freedoms.

In this paper I propose that control over money, both the ability as well as the opportunity to exercise control over money, be considered an essential human capability. The management of money within the household is as important as the quantum of money the household receives. A core focus of development, therefore, must be to ensure individuals have adequate access to the instruments of the money economy and the required skills to manage participation in the money economy.

Poverty in the Pacific

The money economy is increasingly impacting Pacific communities. To date little has been done to ensure households and communities faced with the challenge of monetisation have the tools to be able to manage and control their interaction with the money economy.

Abbott and Pollard (2004:3), developing a definition of poverty relevant to the Pacific, define poverty as an inadequate level of sustainable human development manifested by:

- a lack of access to basic services such as primary health care, education and potable water;
- a lack of opportunities to participate fully in the socio-economic life of the community; and
- lack of adequate resources (including cash) to meet the basic needs of the household or the customary obligations to the extended family, village community, and/or church.

There appears to be a nexus between monetisation and poverty. Abbott and Pollard found evidence that an increasing number of Pacific Islanders are disadvantaged, and consider themselves to be disadvantaged. People in the Pacific are concerned that monetisation is placing an increasing burden on cash resources, causing in turn an increased requirement for cash income. The view of Pacific countries as places of 'subsistence affluence' is no longer correct.

Importantly, poverty is described by households in monetary or monetary related terms: the requirement for income, the requirement for a reasonable standard of basic services and the requirement for skills to meet opportunities and challenges. A quarter of households in the Pacific now have income/ expenditures below the national poverty line (ibid:29).

Inclusive financial sectors

Access to a well-functioning financial system can economically and socially empower people (United Nations 2006). The development of an appropriate financial services environment specifically for the unbanked poor can play an important role in enhancing positive participation in the money economy, enabling the poor to access the formal payments system (both domestic and international), secure savings and well regulated and affordable credit. The development of inclusive financial sectors is therefore a potentially powerful tool in the fight against poverty.

Financial exclusion

Financial exclusion is a situation in which a person does not have access to, or elects not to access, financial products or services which would enable them to make informed decisions or organise their money effectively. The consequences of financial exclusion are significant. Lack of access to transaction banking facilities restricts access to the formal payments system. This imposes increased transaction costs and reduces ability to access a range of common transaction and payment services. Financial exclusion restricts access to regulated credit and forces individuals to utilise higher cost (and potentially predatory) sources of credit. Financial exclusion also limits opportunities for secure savings — both short/medium-term and longer-term savings.

Levels of banking exclusion vary across the developed countries. Kempson et al. (2004) found financial exclusion levels varying between one per cent and 17 per cent of the adult population. This headline figure is, however, deceptive. Those who are excluded from the formal financial system are typically people who live on low incomes or live in disadvantaged areas (ANZ 2004; Kempson et al. 2004; Kempson et al. 2000). For example, in the UK eight per cent of the total population are estimated to be without any form of bank account. However, this rises to 65 per cent among households in the bottom three income deciles (Clark, Forter and Reynolds 2005). At a broader level, Kempson et al. (2000) noted a fifth of people in the UK are on the margins of financial services and usually have little more than a bank account, and at least a quarter have no savings, home contents insurance or private pension (long term savings).

Research in developing countries is limited. However, it appears financial services are typically available to a minority of the population (United Nations 2006:1). Given the higher proportion of the population in developing countries living on low incomes and in disadvantaged areas, it is probable the extent of financial exclusion is higher than the levels evident in developed countries. Research in Fiji (Sharma and Reddy 2002) suggests two thirds of rural dwellers may not have access to reliable banking services. The level of financial exclusion experienced by urban dwellers is not known.

Financial literacy

Financial literacy encompasses the knowledge and skills required by individuals to function effectively in the money economy and make informed judgements in respect to their own and their family's financial circumstances. There is evidence of a correlation between financial literacy and positive financial behaviour, although the direction of causality is unclear (Hilgert, Hogarth and Beverly 2003).

Financial illiteracy can lead to self-exclusion from the formal financial system. Those who are financially illiterate are more likely to be intimidated by the complexity of the financial system. Financial illiteracy can also result in people making inappropriate decisions due to lack of knowledge or understanding. It is, for instance, common for predatory lenders to prey on those with limited financial knowledge and understanding.

As the financial system becomes increasingly complex, the requirement for financial literacy increases. The array of financial elements with which individuals must be competent also increases. The level of required literacy aligns with the level of an individual's participation in the financial system. Financial literacy is therefore both dynamic and situational.

A significant number of financial literacy programmes have been launched in recent years in developed countries, in particular the UK, USA and Australia (see, for example, Vitt et al. 2000; Fox et al. 2005; Braunstein and Welch 2002). A broad range of financial, consumer and educational institutions are now providing programmes targeted at both students and adults, most of which have been launched within the past decade (Fox et al. 2005). These programmes are augmented by a wide array of popular financial books and guides, covering topics such as financial planning, investment management, and management of personal finances, insurance, and tax planning.

In contrast to the focus on financial literacy by a broad range of providers in an increasing number of developed economies, it appears limited attention has been paid to financial education in the context of poverty reduction programmes in developing countries (see Piprek et al. 2004; Sebstad and Cohen 2003).

Attitude to money

In developed economies money takes a variety of forms and has a variety of often conflicting meanings. Money has become a primary (if not the primary) measure of value — including a measure of self-worth (Gresham, Austin and Fontenot 1989). Conversely, money is also widely regarded as the 'root of all evil'. Concurrently, however, additional money is commonly considered a means of solving many everyday problems. In contemporary Western society 'money is probably the most emotionally meaningful object in contemporary life; only food and sex are its close competitors as common carriers of such strong and diverse feelings, significances, and strivings' (Kreuger 1986:3).

In developed economies people generally appear to have a positive attitude to money (Tang 1992, 1993, 1995). Money represents material success, not evil, and careful budgeting is generally valued. Attitude to money appears to be independent of a person's income (Yamauchi and Templer 1982). Different ethnic and national cultures appear to hold different attitudes to money (Furnham and Argyle 1998:48).

Little attention has been paid to attitude to money, and the meaning of contemporary money, in developing economies. However, given the importance of money in developed economies and the significant influence money can have in determining behaviour, it is likely attitude to money will also be important in developing economies — in particular as monetisation spreads. It is also likely that attitudes to money in developing countries will also be affected by current and prior experiences with money and the individual's level of financial knowledge and skill.

Financial competence

Competent participation in the money economy requires an appropriate level of knowledge and skill, an appropriate attitude to money, and the adoption of positive financial behaviours (including financially inclusive behaviours), enacted within an accessible financial system trusted by those participating in the system. There are indications that a correlation exists between financial literacy, financial inclusion and standard of living (although the direction of causality is at present unclear). We can begin to construct a theory of financial competence relevant to poverty alleviation.

Financial competence can be conceptualised as a set of financial capabilities operationalised across a range of financial activities. Financial activities can be categorised. The categorisation adopted for the competency model discussed in this paper is that developed by the UK Financial Services Authority (FSA 2005).

Figure 1: A model of financial competence

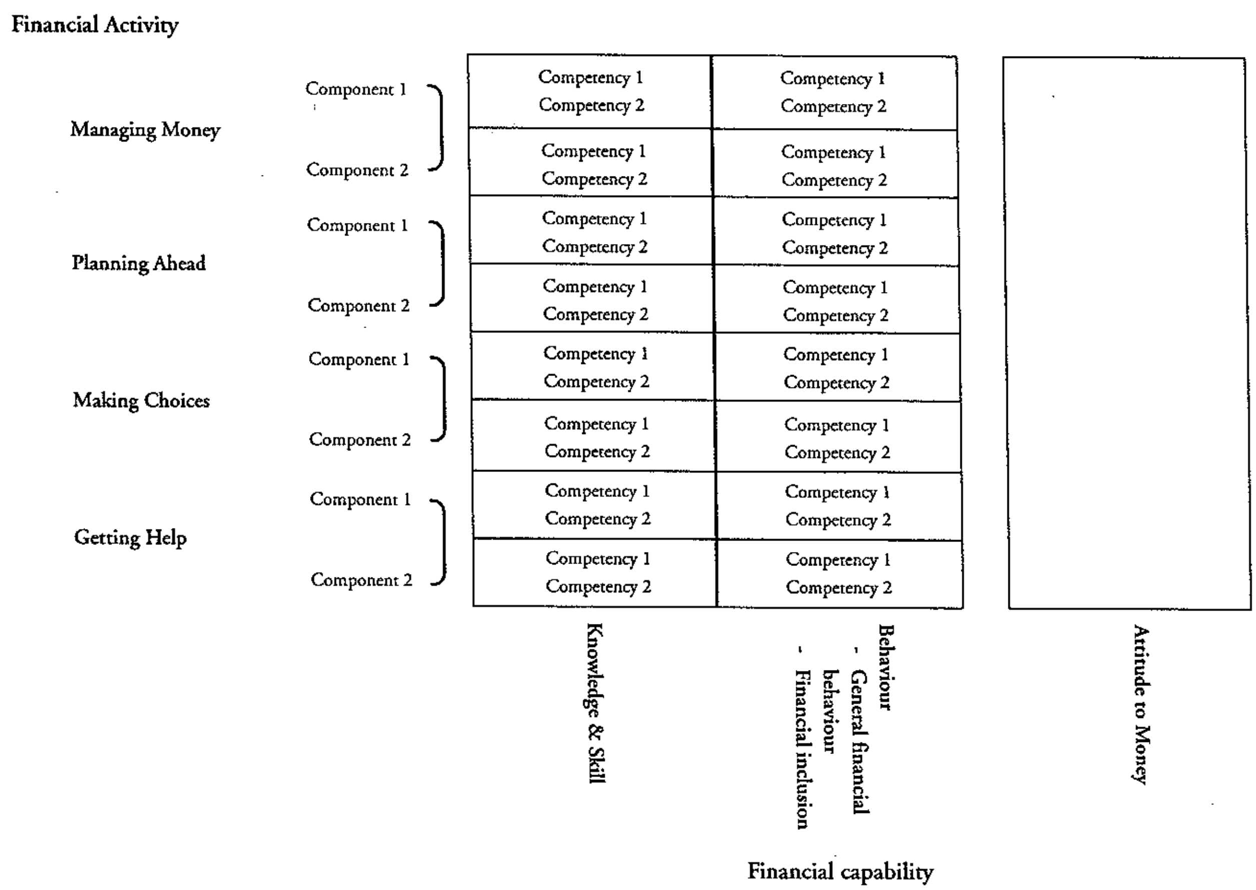
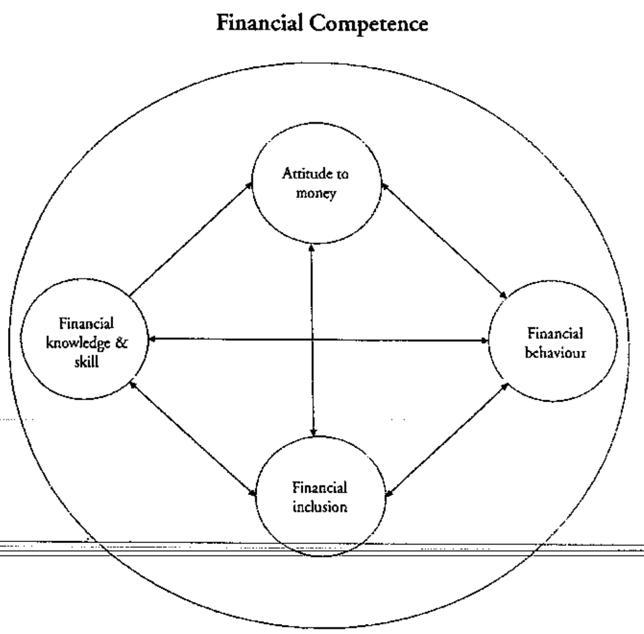


Figure 2: Set of relationships



In order to perform a given financial activity, financial capability must be employed. Capability can be either latent (knowledge and skill) or enacted (behaviour). To be effective, capabilities must be deployed at an appropriate level of competence. An individual's attitude to money will influence the financial capabilities utilised and the financial activities undertaken.

The Adult Financial Capability Framework developed by The UK Financial Services Authority and the Basic Skills Agency (FSA and BSA 2003), proposed three inter-related dimensions of financial capability/financial literacy: Financial knowledge and understanding, financial skills and competence, and financial responsibility. Importantly, the FSA/BSA framework introduced the concept of competence to the financial literacy/ financial capability construct. Competence provides a lens through which to view the complex interrelationship between financial knowledge and skill, attitude to money and financial behaviour (including financial inclusion).

While competencies are situation specific, the set of competencies developed by the FSA and BSA does, however, provide a base framework for the determination and measurement of competence and the development of outcomes relevant for interventions to increase competence.

The principal drivers of change in financial competence are therefore a change in latent capability (knowledge and skill), a change in financial behaviour (including financial inclusion), and a change in attitude to money. This can be depicted as a set of relationships, as indicated in Figure 2.

A change in the overall level of an individual's financial competence can therefore affect the individual's economic well-being and subjective well-being (self-reported happiness). A change in the well-being of those in the household principally responsible for managing the household's finances (both shorter-term and longer-term finances) can also, therefore, affect the well-being of those dependent on the individual. An increase in the financial competence of the principal financial actors in a household is therefore likely to positively affect the well-being of the household generally. This relationship will be mediated by a range of environmental factors (for example access to transport, environmental and political stability), socio-cultural factors (for example social obligations, socio-cultural conceptualisations of money/wealth, familiarity with contemporary money, and traditional modes of economic exchange) and individual factors (for example an individual's level of functional literacy, habits and personal relationships).

We can illustrate this by way of example. Remittances are becoming increasingly important in several Pacific countries. A recipient of a remittance who has a low level of financial knowledge and skill is more likely not to have a bank account to receive the remittance or to place emphasis on deferred spending. Consequently the financial behaviour adopted is more likely to require receipt of the remittance in cash via informal transaction channels (with consequent higher costs) and there is a greater likelihood funds will be used for short-term consumption. Therefore there is more likely to be small impact on household economic well-being. Conversely a recipient of a remittance who has a higher level of financial knowledge and skill is more likely to have a bank account to receive the remittance and to place emphasis on deferred spending. Consequently it is more likely funds will be deposited directly to a bank account (with lower transaction costs) and funds will be split between immediate and deferred spending. Therefore it is more likely the remittance will lead to both an increase in household income and assets, as in Figure 4.

Intervening to enhance participation in the money economy is a potentially powerful tool in the alleviation of poverty. To be successful, intervention must encompass the ability to exercise control over money and the opportunity to exercise control over money. Two interventions are therefore required to improve the position of the financially excluded: a targeted programme to enhance financial knowledge and skill, and an accessible, trusted, financially inclusive environment.

The following is a brief example of a successful Pacific-based intervention to enhance both the ability and opportunity to exercise control over money by financially excluded rural villagers in Fiji. It illustrates how a well structured and targeted financial literacy and financial inclusion programme can be quickly and cost effectively developed and can achieve significant results within a relatively brief time frame.

Figure 3: Theory of financial competence and household wellbeing

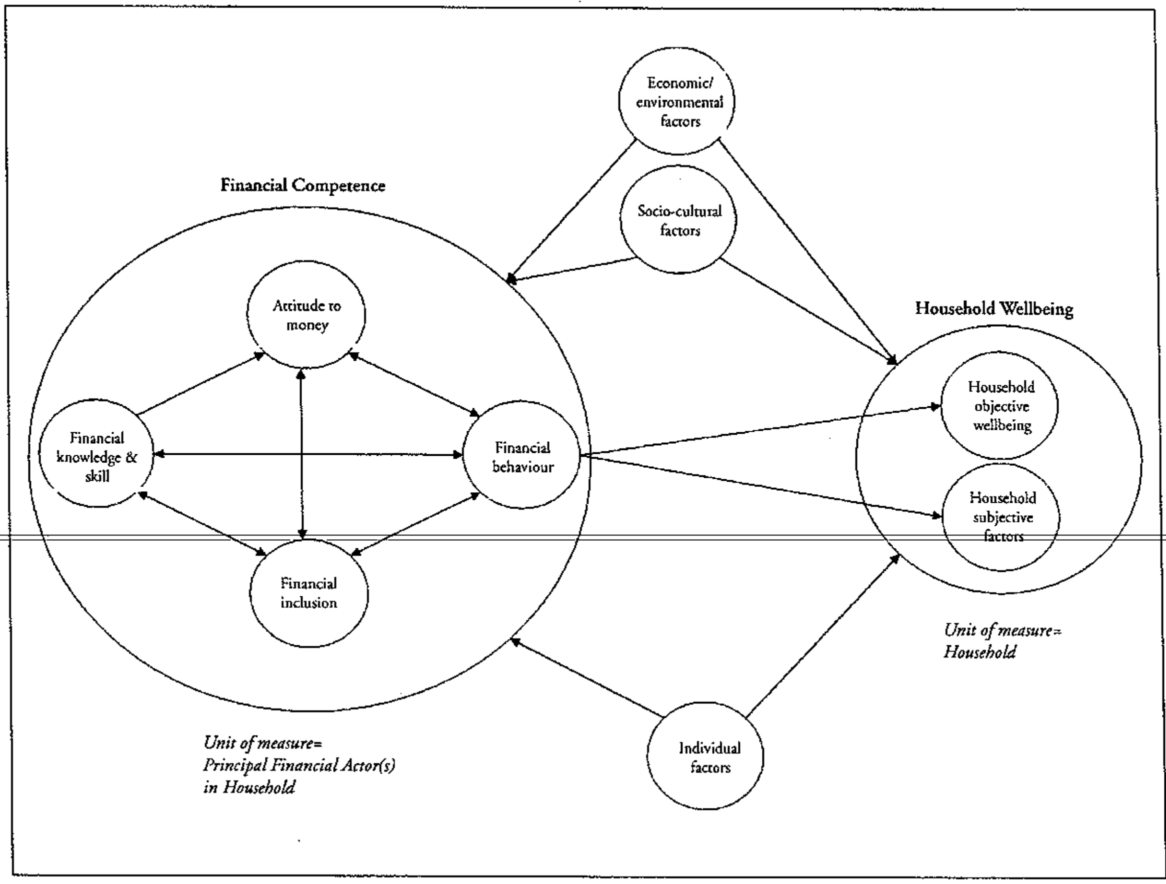
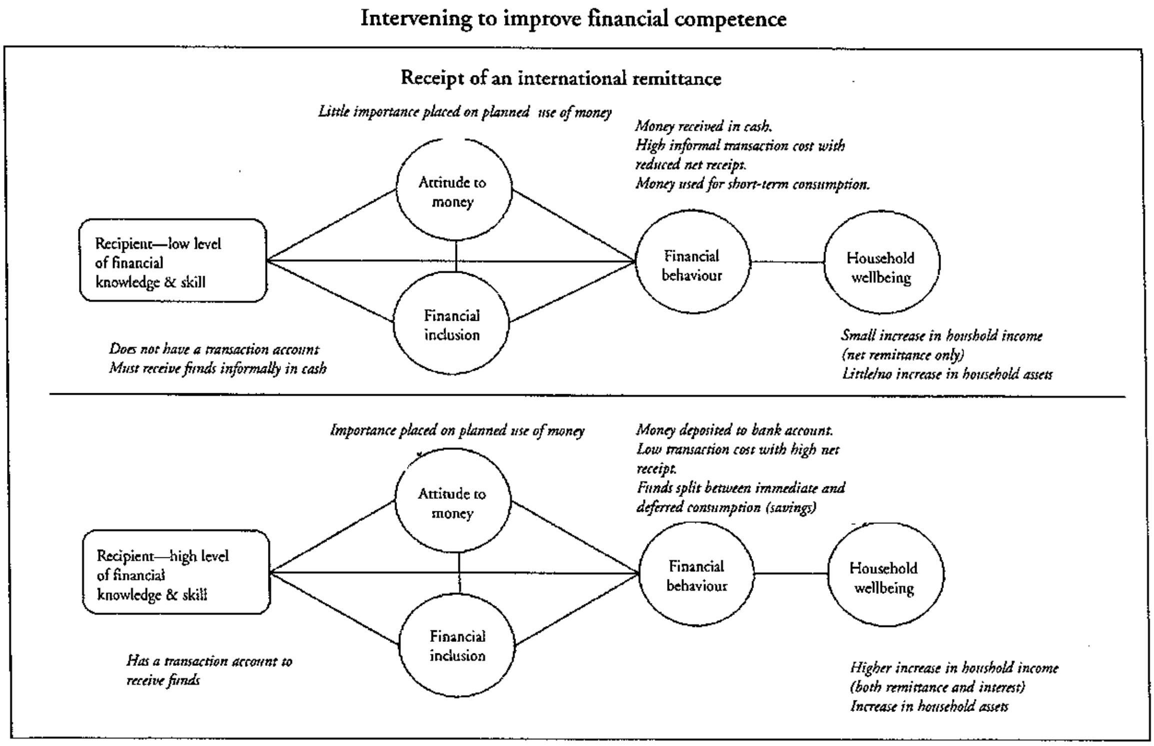


Figure 4: Illustration of financial competence



Rural banking in Fiji

The Republic of Fiji has a population of approximately 900,000. Close to 90 per cent of whom live on the two major islands, Viti Levu and Vanua Levu. Approximately half the population lives in rural areas many of which are remote with limited and difficult road access. Fiji has a well regulated and stable banking system.

Supply and demand for banking services in rural Fiji

There has been a progressive withdrawal of banking services from rural Fiji. The postal service which provides the principal means by which rural Fijians can access the banking system has reduced its outlets by an estimated 60-75 per cent in recent years.

Tebbut Research (2005), in a survey of the demand for banking services in rural Fiji, undertaken for the Reserve Bank of Fiji found that, while bank and non-bank savings are low, the demand for savings services is high (demonstrating a positive attitude to deferred spending). The low level of financial inclusion in rural Fiji is clearly due to supply rather than demand factors.

Government and Reserve Bank intervention

Concern about the lack of banking services in rural areas mounted during the 1990s and the 1999 Committee of Enquiry into Financial Services recommended action be taken. In 2001 the Reserve Bank of Fiji established a working group with representation from the Reserve Bank and the commercial banks. Research was initiated and consideration given to the establishment of a fund for rural banking services to be funded by a required contribution by the commercial banks of one per cent of their profit.

'Banking the unbanked' initiative

ANZ Bank, a multinational bank with long established operations in Fiji, determined it would independently investigate whether it was feasible to extend financial services to rural areas. ANZ's business was focused primarily on commercial banking and urban retail banking through a network of 16 branches. There was no representation in remote rural areas. ANZ had an approximate 40 per cent market share of banking activity in Fiji. In late 2003 ANZ undertook a feasibility study to determine the potential to extend into rural areas. The study concluded a potential market existed which could be profitably and sustainably served. ANZ estimated the potentially accessible market to be as many as 350,000 people.

The ANZ project manager established a network of collaborators. These included village elders, the Reserve Bank of Fiji and the UNDP who, having previously supported a range of Grameen replication microfinance initiatives in the Pacific, had adopted an inclusive financial sector approach (Liew 2006) within the wider context of UNDP's engagement with the commercial community (Commission on the Private Sector and Development 2004). UNDP had recognised the need to facilitate an increase in the financial literacy of rural communities in Fiji, but also recognised that increased literacy required the concurrent opportunity to utilise knowledge and skill through participation in the formal financial system.

The solution developed was simple: financial literacy training combined with mobile rural banking. To ensure sensitivity to environmental and socio-cultural factors, the local community was, and continues to be, a key partner in the initiative. Villagers, in particular village elders, were directly involved in the development of both the financial literacy training and the rural banking service.

Financial literacy

Working with a range of local participants, UNDP developed a financial literacy training programme. The training model was developed to suit the rhythm of village life. UNDP contracted training to the microfinance unit of the National Centre for Small and Micro Enterprise Development. Training is conducted in the local language and is undertaken concurrent with, but independent to, the provision of the rural banking service. Training is conducted on a group basis, with delivery in situ, usually in the village.

Financial inclusion

The banking product range is specific to the customer base and delivery model. Two savings products are offered. Both pay interest on deposit balances with one account charging a monthly account management fee. Field operation of the accounts is not system dependent. The accounts are passbook based and manually updated. An individual micro loan is also offered. Dedicated bank staff provide frontline services and back office coordination. Standard account management and voucher processing processes are used. There is significant commitment by bank staff to the rural banking service, despite the longer working hours and extensive travel over frequently marginal roads.

Outcomes

The banking the unbanked initiative has achieved significant results within a short time span. There are approximately 1,200 formal villages and 500 settlements in Fiji. A significant number of villages and settlements are located in rural areas. A programme has been implemented to provide financial literacy training to 250 rural villages over a 1.5 year time frame at a rate of approximately three villages per week. To date financial literacy training has been delivered to 130 villages (this is in addition to the 120 villages to whom training was delivered during the pilot phase of the project). Two training models are used: a direct and a cascade model. Trainers from the microfinance unit undertake training as part of their regular village visitation programme and also train trainers from provincial councils who subsequently undertake training in villages.

Rural banking operations commenced October 2004. During the first 12 months of operation 40,000 new deposit accounts were opened at an average of one account per customer. ANZ estimates 98 per cent of accounts have been opened by customers without a current bank account. The initial focus has been to build the deposit account base. Increased emphasis is now being placed on micro loans.

In the 18 months since inception, the rural banking service has provided outreach to 14 per cent of the estimated 300,000-350,000 people in rural Fiji who do not have a convenient and secure means of managing money. On current trends the outreach will have extended to approximately 18 per cent and could potentially reach between 34-40 per cent within three years.

The financial literacy and financial inclusion initiative has now been extended to the Solomon Islands and research is underway to determine the feasibility of extending to other jurisdictions in the Pacific.

Summary

In a globalising economy, the opportunity to participate in the formal money economy and the ability to manage money are basic freedoms. Competent participation in the money economy requires an appropriate level of knowledge and skill, an appropriate attitude to money, and the adoption of positive financial behaviours, enacted within an accessible and trusted financial system.

Interventions to increase financial competence are a potentially powerful tool in the fight against poverty. To be successful an intervention must encompass both the ability to exercise control over money and the opportunity to exercise control over money. A well structured and targeted financial literacy and financial inclusion programme has the potential to achieve results within a relatively brief time span.

References

Abbott, D and S Pollard 2004, *Hardship and poverty in the Pacific*, Asian Development Bank, Manila.

ANZ 2004, 'A report on financial exclusion in Australia', ANZ Banking Group, Melbourne.

Bourguignon, F 2006, 'From income to endowments: The difficult task of expanding the income poverty paradigm', in DB Grusky and R Kanbur (eds), Poverty and inequality, Stanford University Press, Stanford.

Braunstein, S and C Welch 2002, 'Financial literacy: An overview of practice, research and policy', *Federal reserve bulletin*, 445-457.

Clark, A, A Forter, and F Reynolds 2005, *Banking the unbanked — a snapshot*, SAFE Toynbee Hall, London.

Commission on the Private Sector and Development 2004, *Unleashing entrepreneurship: Making business work for the poor*, UNDP, New York.

Fox, J, S Bartholomae and J Lee, J 2005, 'Building the case for financial education', *The Journal of Consumer Affairs*, 39(1), 195-214.

FSA (Financial Services Authority) 2005, Measuring financial capability: An exploratory study, FSA, London.

FSA and BSA (Basic Skills Agency) 2003, Adult financial capability framework, FSA/BSA, London.

Furnham, A and M Argyle 1998, The psychology of money, Routledge, London.

Gresham, AB, SF Austin and GF Fontenot 1989, 'The differing attitudes of the sexes toward money: An application of the money attitude scale', Advances in marketing, 380-384.

Hilgert, M, JM Hogarth and SG Beverly 2003, 'Household financial management: The connection between knowledge and behaviour', Federal reserve bulletin, July, 309-322.

Kempson, E, A Atkinson and O Pilley 2004, Policy level responses to financial exclusion in developed economies: Lessons for developing countries, Personal Finance Research Centre, University of Bristol, Bristol.

Kempson, E, C Whyley, J Caskey and S Collard 2000, In or out: Financial exclusion — a literature and research review, FSA, London.

Kreuger, DW 1986, 'Money, success and success phobia', in DW Kreuger (ed.), The last taboo: Money as symbol and reality in psychotherapy and psychoanalysis, Brunner/Mazel, New York.

Liew, J 2006, 'Banking the unbanked in Fiji: The ANZ Bank and UNDP partnership model', paper presented at the World Bank global conference on access to finance: Building inclusive financial systems, May 30-31, 2006, Washington, DC.

Nussbaum, MC 2006, 'Poverty and human functioning: Capabilities as fundamental entitlements', in DB Grusky and R Kanbur (eds), Poverty and inequality, Stanford University Press, Stanford.

Piprek, G, P Dlamini and G Coetzee 2004, Financial literacy scoping study and strategy project, FinMark Trust, Woodmead.

Sebstad, J and M Cohen 2003, Financial education for the poor, Microfinance Opportunities, Washington, DC.

Sen, A 1999 Development as freedom, Anchor Books, New York.

Sharma, P and M Reddy 2002, Financial exclusion in Fiji: Market versus self-driven causes, paper presented at the Devnet Conference, Massey University.

Tang, TL-P 1992, 'The meaning of money revisited', The journal of organizational behavior, 13, 197-202.

Tang, TL-P 1993, 'The meaning of money: Extension and exploration of the money ethic scale in a sample of university students in Taiwan', Journal of organizational behaviour, 14, 93-99.

Tang, TL-P 1995, 'The development of a short money ethic scale: Attitudes toward money and pay satisfaction revisited', Personality and individual differences, 19(6), 809-816.

Tebbut Research 2005 Survey of demand for rural banking services, Tebbut Research Pty Ltd, Suva.

United Nations 2006, Building inclusive financial sectors for development, United Nations, New York.

Vitt, LA, C Anderson, J Kent, DM Lyter, JK Siegenthaler and J Ward 2000, Personal finance and the rush to competence: Financial literacy education in the US, Institute for Socio-Financial Studies, Middleburg, Virginia.

Yamauchi, KT and DI Templer 1982, 'The development of a money attitude scale', Journal of personality assessment, 46(5), 522-528.

Can rural development alleviate poverty in Papua New Guinea?

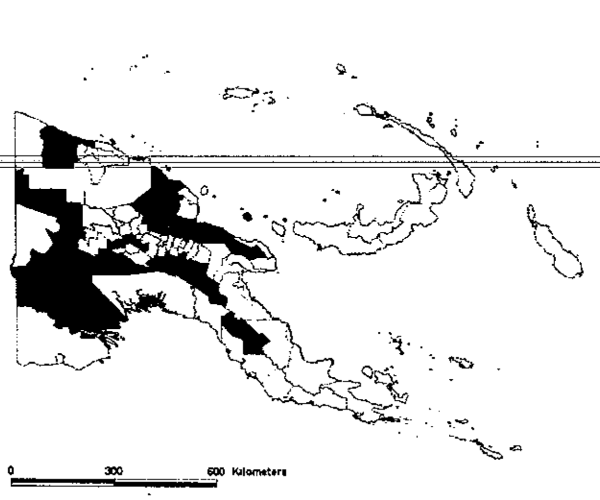
Bryant Allen and R Michael Bourke, Land Management Group, Department of Human Geography, Research School of Pacific and Asian Studies, Australian National University

The phrase 'rural development for poverty alleviation' entered the vocabulary of development and poverty studies in the 1990s. It can now be found in the policy documents of a range of development agencies. For example, the United Nations Social Commission for Asia and the Pacific reported in 1999 on measures to alleviate poverty which contained a section on the 'impact of *rural development on poverty alleviation*'* (ESCAP 1999). In 2004 the Food and Agriculture Organization held an international meeting in order to 'spearhead' 'regional cooperation on agricultural and *rural development for poverty alleviation* and food security in Asia and the Pacific' (FAO 2004).

AusAID's policy document on rural development does not use the phrase but implies that the primary objective of its rural development policy is poverty reduction. It states:

> The Australian Government's strategy for the rural development sector in the aid program is to *focus on reducing rural poverty* by increasing opportunities for the poor to generate income (AusAID 2000:5).

Figure 1: Predicted poverty rate 1996, highest 25 per cent of districts (21 out of 85 districts)



Source: Gibson and Rozelle 2003

This AusAID paper was prepared before the publication of Baxter's 2001 report on Papua New Guinea (PNG) poverty. Baxter's primary objective was to show that poverty in PNG is overwhelmingly rural and he emphasised the differences between the rural and the urban sectors, more than the differences that exist within the rural sector, but he acknowledges that 'some rural areas are much poorer than others' (2001:29) and refers to our own work as evidence of this. Baxter rightly recommended that the aid programme be used to increase rural productivity and to improve rural incomes, but he qualified these arguments by pointing out that poor governance resulted in the failure of many rural development programmes planned in Port Moresby and Canberra. Funds allocated to rural areas did not reach them, government plans for rural development were rarely ever achieved, and planning and expenditure were carried out without reference to real rural situations. He argued that rural social and economic growth is difficult in rural areas and that poverty alleviation should be specifically 'pro-poor' and not part of other programmes.

Our work finds that the highest proportions of poor people in PNG are located in the most isolated and environmentally disadvantaged parts of rural PNG, where development has not occurred to any extent and where a number of severe constraints make it unlikely that it will ever occur. Hence our argument that rural development, as that term is normally understood, will not significantly alleviate poverty in PNG. While rural development programmes have the potential to improve productivity and to increase rural incomes, in the poorest places in PNG cash incomes are very small and circumstances make it very difficult to increase them. An important determinant of whether a person is poor in PNG is *where* they live. Poverty is strongly associated with poor quality environments. The contemporary pattern of PNG 'poverty' was recognised in the late 1940s. The poor places identified have been known variously as 'less developed', 'underdeveloped' and 'disadvantaged' areas. The pattern has remained relatively stable from 1950 to the present, which strongly suggests that PNG poverty is chronic and will therefore be difficult to alleviate. It also means that aid programmes must distinguish clearly between the objectives of promoting rural development and of alleviating poverty.

The contemporary pattern of poverty

The contemporary pattern of poverty in PNG has been identified from the 1996 Household Survey (Gibson and Rozelle

1998), the 2000 National Census, the PNG Resource Information System (Bellamy and McAlpine 1995) and the Mapping Agricultural Systems in PNG Project (MASP; see Allen 1999). Statistical techniques have been developed that predict poverty rates estimated from a restricted sample household survey in all national administrative units (see Hentschel et al. 2000). In rural PNG, these techniques have been used to create disaggregated maps of poverty (see Figure 1). Places in which the predicted poverty rate is high occur right across the western end of the country, in Sandaun Province in the north and Western Province in the south. Only the Ok Tedi mine in the northwest of Western Province disrupts this pattern. Other districts that are predicted to have a high poverty rate are located along the northern and southern fringes of the highlands (the highlands valleys are noticeably low poverty areas), along the Huon Peninsula and down the central mountainous spine of the mainland into Central Province. Low levels of poverty are predicted for the Islands Region.

That this pattern of 'poor places' has been relatively stable over the past 50 years can be shown by examining three previous studies. Over 30 years ago, using 1967-68 data, Brookfield and Hart (1971:296) observed:

> ... the virtual exclusion of wide areas, especially in the west, from any significant participation in the production of exports, except through migrant labour. There is very little cash-production indeed west of the longitude of Mt Hagen, yet almost half of the total area of the country lies west of this line. The heavy concentrations in parts of the Bismarck Archipelago, and the secondary concentrations in the central highlands, and in some coastal and island areas of the eastern peninsula, emerge very clearly.

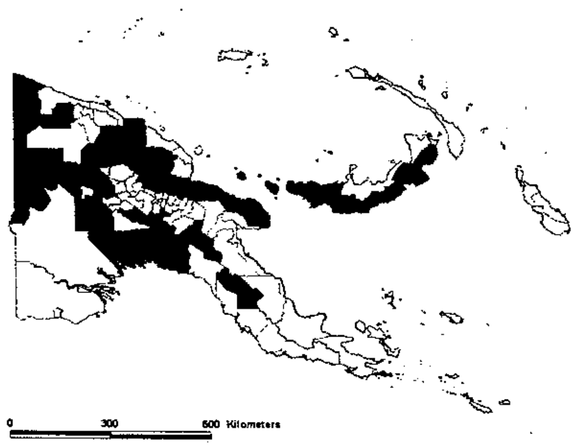
Brookfield and Hart argued that the underlying reason for this pattern was the severe environmental constraints to the establishment of cash cropping in poorer areas, leaving people who lived in the environmentally poorer areas who wanted to participate in the cash economy with no alternative but to migrate to the better off areas. They also made explicit links between the income earned from cash cropping with improvements in local infrastructure and services:

> Much else goes with these contrasts in incomes, for the higher spending power of wealthier districts tends to command a higher level of services, not only from the commercial systems, but also from Government. Local council taxation levels vary with capacity to pay, but the ability of councils to contribute to the costs of schools and medical aid-post construction has an effect on the level of education and health services provided. Thus the rich get richer (ibid:302).

Brookfield and Hart were 'startled' by the almost ten-times order of magnitude difference between per person incomes being received for cash crops in the island provinces of East New Britain and New Ireland and the emerging highlands coffee growing provinces typified by Eastern Highlands, compared with the 'almost pitiful incomes of the four westernmost [provinces] — East Sepik and West Sepik, Southern Highlands and Western' (1971:301). Other poor areas in 1967 included all the coastal provinces of the mainland except Milne Bay and all of West New Britain.

Brookfield and Hart's work was followed by Wilson's (1975:75) who used 1969-70 data and applied six 'socio-economic indicators' to 'investigate differences in socio-economic development between different areas in Papua New Guinea'. Wilson compared the then 79 subdistricts on village cash crop production, hospital and health centre beds, administration staff, school enrolments, access to services, and the grade of local government councils[1] and ranked them into six groups. Most of the districts that fell into Wilson's most developed Group 1 had a major urban centre within them. The rest of the districts that fell into Groups 1 and 2 were either in the Islands Region, or were close to the Highlands Highway in Morobe and the highlands provinces east of Mount Hagen.

Figure 2: Least developed districts, 1970 (26 out of 79 districts)



Source: Wilson 1975

Wilson attributed the reasons why districts fell into his least developed Groups 5 and 6 (mapped in Figure 2) to 'isolation' and 'poor environments'.

A decade later, de Albuquerque and D'Sa (1986) used 1979-80 data to examine 'spatial inequality' in PNG. They derived a set of indicators of development with which to group districts and to compare these findings with Wilson's studies. Their main findings were that levels of education, low child dependency ratios, urbanisation, good access to services and the proportion

Conclusions

We have attempted to provide a picture of the pattern of poverty in contemporary PNG and to show how it is closely associated to the quality of the environment. We have concentrated on the relationships between poor environments, poverty as expressed by low cash incomes and malnutrition in children and have not pursued a number of other dimensions to this problem. In conclusion we make a number of points that we believe could improve the situation, while emphasising that solutions will be long term and will involve on-going learning and consultations with poor people.

It is very important that the phrase 'rural development for poverty alleviation' is not used without qualification when the PNG situation is being referred to. If 'rural development' is taken to mean improved agricultural production, increased cash incomes, improved infrastructure and improved supply of services then it is unlikely to bring about important changes in PNG's poorest areas, where conditions have not changed significantly since colonisation. Wilson in the 1980s and de Albuquerque and D'Sa in the 1990s both argued that the 'environment' and consequent 'isolation' were the primary causes of the under development that they identified. de Albuquerque and D'Sa suggested that rural development initiatives had been unable to 'overcome' these constraints. We believe that situation persists today, severely exacerbated by what Baxter (2001) terms a 'failure of governance'. This latter factor must be explicitly recognised so that projects are not designed that critically rely for success on the performance of provincial and district governments.

A second need is to develop the means of delivering basic and effective health and education services to poorest area. Incentives could be offered for teachers and health workers to live and work in very isolated areas accompanied by some means of ensuring that they actually deliver the services. Incentives might be, for example, salary loadings or direct financial assistance with the costs of educating their children.

A third area to explore is innovative ways of increasing cash incomes in poor areas. Marketable commodities with high value-to-weight ratios are required that can bear the costs of air transport; certain spices, for example. Such an initiative will involve private enterprise, because all known examples of government involvement in marketing of agricultural products in PNG have ended in disappointment.

Finally, there is clear evidence of a national pattern of migration in PNG in which people are moving from the poorest areas to better off areas and of rural-to-rural and rural-to-peri urban migration becoming at least as important as rural-to-urban migration. People from the poorest places should not be discouraged from migrating to better off places. It would be best if, before migrating, people could be well educated to Grade 6 level and were able to proceed to secondary and even tertiary education elsewhere, or could find gainful employment. In the meantime, the way that migrants are treated at their destinations should be reviewed. Many rural-to-urban migrants are forced to live in informal settlements around the edges of towns, and are stigmatised and blamed for high crime rates. Some are subjected to illegal forced removal and the destruction of their houses by province administrations. On the other hand, there is anecdotal evidence that many rural-to-rural and rural-to-peri urban migrants adjust well to their new lives, and that they can earn reasonable incomes and educate their children. Despite often poor housing and sanitation, they see themselves as being better off closer to markets and health and education services than they were in their distant and isolated home lands.

Notes

* This and all subsequent emphases added.

1. These data are no longer available. The advent of provincial government in PNG has resulted in very little information about rural conditions or service delivery reaching Port Moresby.
2. This is a reference to colonial policies which encouraged development in the best environments and redistributed the wealth created from these areas to underdeveloped areas. These policies were only partially successful before Independence (see also Brookfield with Hart's observations) and failed after Independence when the political representatives from better off places refused to follow redistributive policies.
3. Land quality assessed on altitude, flooding, slope, soil, annual rainfall and cloud cover and constraints to the production of sweet potato.

References

Allen, BJ 1999, 'The mapping agricultural systems project provides new information on village agriculture in Papua New Guinea', *Development Bulletin* 49,103-105.

Allen, BJ 2002, 'Birthweight and environment at Tari', *Papua New Guinea medical journal,* 45(1-2), 88-98.

AusAID 2000, 'Income generation for the rural poor: The Australian aid program's rural development strategy', AusAID, Canberra.

Baxter, M 2001, 'Enclaves or equity. The rural crisis and development choice in Papua New Guinea', *International Development Issues No. 54,* AusAID, Canberra.

Bellamy, JA and JR McAlpine 1995, *Papua New Guinea inventory of natural resources, population distribution and land use: Handbook,* 2nd edition, AusAID, Canberra. Created by the Division of Land and Water Resources, Commonwealth Scientific and Industrial Research Organisation.

Brookfield, HC and D Hart 1971, *Melanesia: A geographical interpretation of an island world,* Methuen, London.

de Albuquerque, K and E D'Sa 1986, 'Spatial inequalities in Papua New Guinea: A district-level analysis', *IASER Discussion Paper* 49, Papua New Guinea Institute of Applied Social and Economic Research, Port Moresby.

ESCAP (United Nations Social Commission for Asia and the Pacific)1999, 'Emerging issues and developments at the regional level: Socio-economic measures to alleviate poverty in rural and urban areas', Report of the committee on socio-economic measures to alleviate poverty in rural and urban areas, 55th session, 22-28 April 1999, Bangkok, <http://www.unescap.org/55/e1129e.htm>, (accessed online 31 January 2007).

FAO (Food and Agriculture Organization) 2004, 'The report of the regional high level round table, 23-24 February 2004, Bangkok, Thailand', sub-regional cooperation for eradication of poverty and food insecurity in Asia and the Pacific, FAO, Regional Office for Asia and the Pacific RAP Document 2004/14, Bangkok, <http://www.fao.org/docrep/007/ad508e/ad508e07.htm>, (accessed online 31 January 2007).

Gibson, J and S Rozelle 1998, 'Results of the household survey component of the 1996 poverty assessment for Papua New Guinea', University of Waikato and Stanford University.

Gosarevski, S, H Hughes and S Windybank 2004, 'Is Papua New Guinea viable *with* customary land ownership?', *Pacific Economic Bulletin*, 19(3),133-136.

Hanson, LW, BJ Allen, RM Bourke and TJ McCarthy 2001, *Papua New Guinea rural development handbook*, Australian National University, Canberra.

Hentschel, J, J Lanjouw, P Lanjouw and J Poggi 2000, 'Combining census and survey data to trace the spatial dimensions of poverty: A case study of Ecuador', *World Bank Economic Review*, 14(1), 147-165.

Heywood, PF and RL Hide 1992, 'Nutritional effects of export crop production in Papua New Guinea', Papua New Guinea national nutrition workshop, Institute of National Affairs discussion paper No. 54, Institute of National Affairs, Port Moresby, 194-214.

Heywood, P and M Nakikus 1982, 'Protein, energy and nutrition in Papua New Guinea', in Bourke, RM and V Kesavan (eds), *Proceedings of the second Papua New Guinea food crops conference: Part Two*, Publications Section, Department of Primary Industry, Port Moresby, 303-324.

Heywood, PF and NG Norgan 1992, 'Human growth in Papua New Guinea', in RD Attenborough and MP Alpers (eds), *Human biology in Papua New Guinea: The small cosmos*, Clarendon Press, Oxford, 234-248.

Kuchikura, Y 1999, 'The cost of diet in a Huli community of Papua New Guinea: A linear programming analysis of subsistence and cash-earning strategies', *Man and culture in Oceania* 15, 65-90.

McAlpine, J and J Quigley (n.d.), *Natural resources, land use and population distribution of Papua New Guinea: Summary statistics from PNGRIS*, PNGRIS Report No. 7, Commonwealth Scientific and Industrial Research Organisation, Canberra.

Porter, D, BJ Allen and G Thompson 1991, *Development in practice: Paved with good intentions*, Routledge Press, London.

Wilson, RK 1975, 'Socio-economic indicators applied to sub-districts of Papua New Guinea, *Yagl-Ambu*, 2, 71-87.

Windybank, S and M Manning 2003, 'Papua New Guinea on the brink', *Issue analysis* 30, The Centre for Independent Studies, St Leonards.

'Money rain': Indigenous engagement with business models in Papua New Guinea

*Glenn Banks, Australian Defence Force Academy, University of New South Wales**

Introduction

The term 'money rain' (*mani ren* in Tok Pisin) is widely used to describe the situation in which communities around large-scale resource developments in Melanesia find themselves. The term was first coined (to my knowledge) by Alan Carpenter and Donal Flanagan, at the time working in the area of business development around the Porgera mine in Papua New Guinea. It is an expression which captures neatly the sense that communities have of being awash with money, money that is easily obtained (from what economists label 'resource rents') and is closely linked to issues of dependency, consumption, and a lack of interest in developing productive business operations (among other things). It is this last issue — the development of 'business' around large-scale resource developments in Melanesia — that will be addressed in this paper.

The focus, then, is not of 'addressing poverty' but rather in dealing with some of the effects of the exact 'development' (albeit hyper-development, see Banks 2005) that most communities in the region are seeking to achieve. This paper presents material on ten years of business development at Porgera to argue that rather than being a 'failure', Porgeran engagement with new economic opportunities is revealing in terms of the ways in which Melanesian cultures articulate with modern business. While the penetration and availability of global capital at Porgera is more intense than elsewhere, the Porgeran business sector is best understood as a set of local processes which are concerned with the capture and cooption of resources for on-going, strongly localised agendas. These processes have broader implications in terms of efforts to promote 'local economic development' elsewhere in Melanesia and the region.

The paper begins by providing a brief introduction to the Porgera setting, then looks at mine-related business contracts before dealing with the local business sector more broadly and the issue of rationality in explaining economic behaviour at Porgera.

The Porgera setting

The Porgera gold mine began construction in 1989, and production commenced the following year. It entailed a US$750 million staged investment by a consortium of Australian and Canadian multinational miners, with the Papua New Guinea state originally as a ten per cent minority shareholder. It is a relatively high-grade gold mine in the centre of the Highlands of Papua New Guinea, which in 1992 was the world's third largest gold producer. In 2005 the mine produced 846,000 ounces of gold, making it one of the largest gold producers in Papua New Guinea and Australia. Total production since 1989 is in the order of 12 million ounces of gold, worth more than US$4.5 billion. After a series of corporate restructures and mergers over the life of the mine, Barrick Gold Corporation, a Canadian mining multinational, is now the major (75 per cent) shareholder and operator of the mine. The mine plan has recently been revised and currently envisages another seven years of open-pit and underground mining and up to five years more of working stockpiled material before mine closure around 2020.

The mine is located in and among the Porgeran Ipili people, a relatively distinct cultural group, and part of a much wider regional group of cognate cultural groups that includes the much more numerous Huli to the south and Enga to the east (Biersack 1995). The Ipili cultivated links with these other groups through marriage, exchange and trade, building networks for security (food and physical) and accumulation. The Porgeran Ipili were shifting cultivators, with a sweet potato and pig based subsistence system. Today sweet potato and pigs are still central to agriculture in the valley. Pigs are still used widely in exchange ceremonies, compensation payments, and in bride wealth payments.

The mine has brought profound changes to the local Ipili, documented extensively elsewhere in Golub (2001) and Jackson and Banks (2002). During the lead-up to the start of the mine Ipili representatives forcefully negotiated a series of agreements with the state and the mining company that have delivered significant benefit streams to the mining lease landowners (EPG and Derkley 1989; Jackson and Banks 2002). 'Since 1990, the Porgera landowners have received K36 million in royalties, K62 million in compensation, and K26 million in equity-related payments and dividends. This totals K124 million, but does not include a proportion of royalties paid to a trust fund (for educational purposes) or a proportion of equity-related payments that has been invested in real estate. Over the same period, approximately K167 million has been paid to Porgerans as wages, which represents around 57 per cent of the direct financial benefits received by landowners' (Finlayson 2002:36).

Business contracts at Porgera, 1994-2004

One of the most frequent conditions from resource development landowners in Papua New Guinea is for 'spin-off' businesses, largely contracts. Demands for all contracts to go to locals are common, although the usual compromise position is for a local to receive preference for all contracts where they have the resources and experience to carry them out. This was the solution adopted at Porgera, where the relevant clause (Clause 13) in the agreement between the state and the landowners stated that:

Preference in Business:

> The National Government undertakes to include in the Mine Development Contract (MDC) clauses which specify preference to firstly Porgerans and secondly Engans in the tender process for the supply of materials, equipment and services to the mine, subject to the tenders meeting the specifications of the tender, being competitive in cost, and meeting the delivery requirements of the project. The MDC also to include clauses requiring, within nine months from the issue of the SML, a business development plan to encourage the people of Enga, with preference to Porgerans, to establish businesses to supply materials and services to the project, and for the monitoring of the progress of the implementation of this plan (EPG and Derkley 1989:12-13).

Only the second part of this clause actually found its way into the MDC (as Clause 14) between the company and the state; nonetheless the company has consistently sought to apply a local preference in the awarding of contracts in line with the above clause. Such a policy potentially has benefits for all the key parties, promoting local economic development, securing long-term local contractors for the mine, and facilitating a closer relationship between the mine and the community.

Between 1989 and 2004, the PJV issued more than 10,000 contracts worth more than K195 million to local 'Porgeran' businesses or individuals. By the standards of any community of 20,000 people, this is a significant number and value of contracts, and, if taken at face value, should have formed the basis for a vibrant and profitable business sector. That this has not occurred is due to several factors, including the way in which the contract numbers are assembled, and the changing cultural value of a contract within the Porgeran community. In terms of the numbers, the reporting of contract values for Porgerans by the PJV includes the full value of any contract in which Porgerans operate either singularly or as a joint venture partner. A significant number of large contracts were obtained by Ipili Porgera Investments (IPI), the formal landowner business entity, as a minority joint-venture partner. These included, at least initially, the catering contract for the mine, and freight and fuel contracts. In this way, then, the reported value of the contracts significantly overstates the value of the contracts to Porgerans. At the other end of the spectrum, the bulk of the 10,000 contracts issued to Porgerans are what are referred to as 'field contracts' — small, labour-only contracts for tasks such as tree-planting or gabion-basket filling. These contracts provide no basis for the development of small-business due to their low value and labour-only nature.

Initially (1989-1991) there was a huge enthusiasm for contracts and, during the construction and initial production phases of the mine, plenty of contracts to be had. Two of the most common and sought after were the 'bus contracts' (primarily for the transport of employees from the mine site to the mining camp at Suyan) and 'plant hire' contracts (for the hiring of machinery for construction, road maintenance, etc.). Both of these, and most other forms of contracts, allowed Porgerans to secure a bank loan to purchase the equipment (bus, machinery, etc.) required to carry out the prescribed work. By the time the first survey of contracts and contractors was undertaken in 1994, enthusiasm had turned to disappointment and frustration for many (Banks 1999) as it had become clear that contracts required time, discipline and management to simply break even in the Porgeran operating environment. Few local contractors had either the skills or the inclination to operate in this way, and a PJV contract was seen as holding more status than monetary value.

By 2004, with the exception of an incredible growth by IPI (based in large part on several lucrative joint venture contracts) there were very few Porgeran contractors (Banks 2004). The local construction arm of the Government, the Porgera Development Authority (PDA), reported the same: the closest they had to any Porgeran contractor was a Korean who had married a local Porgeran woman. The reason for this appeared to be simply that Porgeran businessmen (and a few women) had found other sources of money that required less effort, less risk and provided better returns than a PJV contract. There was certainly a lot less local demand for more 'spin-off' businesses from the mine as other agendas and demands had taken over. Those contracts that were held by Porgerans were regarded more as a 'cash cow' than a stepping stone into business: indeed a number of the Porgeran bus contracts were acquired by a Porgeran then simply leased (for a nominal sum) to non-Porgerans to operate: Porgerans became simply a 'rent extractor' of a different kind.

The Porgeran business sector, 1994-2004

A survey in the valley in 2004 found that non-mine supported businesses easily made up the highest proportion of local businesses, the most common of which were the ubiquitous trade store and gold buying businesses. What was striking was the very limited range of business types in the valley, and the enormous increase in the number of trade stores from the 1994 survey, with total numbers going from 270 to 422 over the ten year period.

The scale of the business was an important determinant of a range of operating parameters. The difference in scale was marked: turnover in the larger stores (almost all located on the old Porgeran station) averaged around K15,000/day, while the smaller stores averaged less than K200/day. All the larger stores were being operated by non-Porgerans; a far greater proportion of the larger stores were open at the time of the survey (50-66 per cent of stores in each part of the valley were not operating in 2004) and the operating stores (like PJV contracts) were overwhelmingly non-local; the smaller stores purchase stock locally while bigger businesses buy stock from Mt Hagen; and only the larger stores employed non-kin staff. There was also evidence of a high turnover by the non-Porgeran owners of the larger stores, with only one of ten of these owners having been there for more than three years.

A number of points can be taken from this brief general survey. First, the investment in trade stores in the valley represents a significant application of capital but failure of imagination, with the status value of a business continuing to outweigh the monetary returns (if any) that are derived from it: bisnis is not business. Related to this, the bulk of any earnings from the business is consumed rather than reinvested. In this sense, business — contract or trade store — is not regarded as a source of capital accumulation for Porgerans, and there was very limited evidence of long-term planning by business owners. This raises the question of the role of bisnis or business in the local socio-political environment, a question addressed below by asking to what extent local businessmen are acting as 'rational economic agents'.

Rational economic agents?

One of the basic requirements of the modernist development project is for rational economic agents — for people in developing countries to shed the cultural and social traditions that restrict their commitment to economic development. While now dressed in new language, the basic tenets of development neo-liberal style are still discernable: a desire for development assumes the will and the resources to become unfettered, credit card carrying members of the global economy. Under such a model, the 18 years since the start of the mine should have seen the growth and development of a local Porgeran business sector dominated by locals who had reinvested profits from their early contracts and businesses into the growth of a vibrant and sustainable local business community. And it has happened — in a very small minority of cases (IPI being the outstanding example). For the most part, though, there is NO locally-owned business sector at Porgera. Local entrepreneurs have not reinvested capital and profits into their fledging empires. It appears, to use the old dichotomy, that local culture has limited economic development.

An alternative, and I believe much more useful, lens would be to reject a simple culture/economy distinction. In terms of their local political economy (to use another old-fashioned term that acknowledges the socially and culturally embedded nature of all economic activity), Porgerans are acting totally 'rationally'. Two examples will serve to illustrate this point: the location of commercial activity in the valley and a Porgeran-specific view of comparative advantage.

The centre of economic activity in the Porgera valley continues to be the old Government station site (Porgera Station), well away from the new township built by the Government and the company at Paiam. Despite the fact that Paiam has all the infrastructure of a modern town (magnificent hospital, schools, warehouse facility, police station, huge and impressive AusAID-funded market place, Government offices, freehold land) the commercial centre of the valley remains at Porgera station which is disorganised, has had leases resumed by landowners, is subject to frequent civil disturbances and tribal fights, and has no significant Government presence.

This makes little sense from outside. From within the community, Porgera Station continues to be a preferential local economy because it is closer to the source of most of the money in the community (the mine, its workforce, and the major areas of alluvial gold), it is more familiar and, in part at least, precisely because it is less organised and regulated.

Secondly, the description of the local business environment above indicates that Porgerans have identified a form of comparative advantage for themselves as rentiers: as rent extractors rather than business and contract owners or managers. Finney (1987) found around Goroka that the greatest pressures on local entrepreneurs were the claims of kin on the proceeds and goods from the business. The Porgeran situation is much the same: visible success (such as a vehicle, or a business) marks a person as one who should be distributing and sharing the proceeds of their business (or other gains). Hence there are real cultural, political and economic pressures on and risks for Porgerans who commit to the growth of a local business; rent extraction based on their position as Porgerans (and hence landowners and recipients of preferential employment and business opportunities) in this sense involves far less exposure to risk.

Proceeds from such activities tend to be utilised in two ways, which again underline both the 'embeddedness' (Curry 1999) of local economic activity and the 'rational' nature of such behaviour. The first is to plough the proceeds back into traditional forms of exchange and reciprocity — investing in the cultural realm. While expenditure on compensation and bride price, and distribution to family and kin, tends to be frowned on by state and corporate actors as 'waste', the Porgeran reality is that these forms of 'consumption' feed into systems and structures which still dominate social, cultural and economic life for most Porgerans. The second response, again a rational one in the context of the socio-political environment, is to utilise funds earned at Porgera for investments outside the valley. This has been a large part of the successful strategy of IPI from the late 1990s, and has been pursued by significant numbers of individuals drawing on compensation payments, royalties, dividends and business proceeds, paralleling the approach of the more successful Gorokan businessmen interviewed by Finney (1987). Such a strategy is likely to be common through much of the rest of Melanesia, and raises questions about the efficacy of aid and development efforts that are overly focused on 'local' outcomes: successful projects may generate 'extra-local' income earning activities rather than 'sustainable local' ones which are more exposed to local disruptions and claims.

Conclusions

People at Porgera, both inside the company and inside the community still talk about the desirability of business, or at least bisnis, but there appears to be growing recognition from all sides that the term is understood differently. It is in a sense a form of mutual misunderstanding, with Porgerans seeing business as a way to feed resources into local systems of exchange and reciprocity, while the state and corporate view of 'business development' is still focused on a capital accumulation model. 'Money rain' is a significant constraint on the development of standard, Western forms of local business simply because it means there are other, simpler and less risky avenues by which Porgerans can access the resources they desire to feed into the socio-political structures around which their lives continue to be based. There is a need in this sense to acknowledge more openly the socially and politically embedded nature of the economy and to ask what roles the current local form of economy plays in supporting social and cultural institutions at Porgera. Clearly Porgerans get into business primarily to serve their local (socio-political) agendas and, from this perspective, local bisnis is less adaptation or accommodation with Western-style economic systems, tools and structures and more outright co-option of these practices.

Note

* Much of the fieldwork on which this paper is based was carried out as part of the Porgera Social Monitoring Programme and subsequent studies, funded by the PJV. Thanks to Greg McNee, Michael Blakeney, Donal Flanagan, Bill Muntz, Mark van Dusen, Tim Omundsen, Kenn Logan, Ken Vincin, Roland Albrook, Kelly Talia, Noel Wright, Noel Walters, Kai Lavu, Bob Cogger and Charlie Ross (PJV) for their support and insights at different stages, and to Sam Adam (General Manager, PDA), Geoffry Dia (District Administrator), Mori Iarume (District Business Development officer), George Poio (Porgera District planner), Morep Taro, Jonathan Paria and Kurubu Ipara, for discussions and access to materials. Thanks also to participants at earlier presentations of this work in Canberra (ADFA, ANU and Addressing Poverty Conference), Dunedin and Marseille for constructive comments and feedback.

References

Banks, G 1999, 'Business as unusual' in C Filer (ed.), *Dilemmas of development: The social and economic impact of the Porgera gold mine 1989-1994*, 222-259.

Banks, G 2004, *Porgera economic baseline study*, 2004, prepared for the Porgera Joint Venture, p.45.

Banks, G 2005, 'Globalization, poverty, and hyperdevelopment in Papua New Guinea's mining sector', Focaal, *European Journal of Anthropology*, 46, 128-143.

Biersack, A 1995, 'The Huli, Duna, and Ipili peoples yesterday and today', in A Biersack (ed.) *Papuan borderlands: Huli, Duna, and Ipili perspectives on the Papua New Guinea highlands*, Ann Arbor, The University of Michigan Press, 1-54.

Curry, G 1999, 'Markets, social embeddedness and precapitalist societies: The case of village tradestores in Papua New Guinea', *Geoforum*, 30, 285-298.

EPG (Enga Provincial Government) and H Derkley (ed.) 1989, *The Porgera agreements (Annotated)*, Wabag, Enga Provincial Government.

Finlayson, M 2002, *Benefit stream analysis*, Working paper 2, submitted to the Government of Papua New Guinea under the PNG mining sector institutional strengthening project, Canberra, Project Design and Management, <http://www.mineral.gov.pg/>, (accessed online 11 January 2007).

Finney, B 1987, *Business development in the highlands of Papua New Guinea*, Honolulu, Pacific Islands Development Program, East West Centre.

Golub, A 2001, *Gold +ve*, Porgera, Porgera Development Authority.

Jackson, R and G Banks 2002, *In search of the serpent's skin: The history of the Porgera Gold Mine*, Port Moresby, Placer Niugini.

Poverty in a coastal community: Economic causes and mitigating strategies

Billy Manoka, Economics Strand, University of Papua New Guinea

Introduction

This paper is based on findings of research conducted in Barakau village, a coastal Motuan village situated about 40 kilometers southeast of Port Moresby, PNG. The research informed a pilot project carried out under the auspicious of the International Waters Programme (IWP), a seven year programme aimed at developing and implementing measures to conserve, sustainably manage and restore coastal and oceanic resources in Pacific Island countries.

For PNG, the IWP assessed priority environmental concerns and ranked them in terms of severity, as follows: waste management, protection of freshwater quality and sustainable coastal fisheries (IWP 2003). A proviso for villages wishing to join the pilot project was that the environmental issues in their respective villages correspond to the IWP's focal areas, and preferably in the same order of importance. Barakau was among the 60 villages that responded and this paper will focus on the sustainable coastal fisheries component of the research conducted for the village project.

Barakau

Barakau is about 30 minutes drive from Port Moresby and has a population of 1,500 people. Like most Motuan villages, 40 per cent of the houses are built over the sea. The following issues were highlighted in Barakau village's proposal to the IWP: declining coastal and marine resources and improper waste disposal, and their impacts on health, environment, livelihoods and poverty. Sustainable coastal fisheries and waste management were the two focal areas adopted by the pilot project.

At the onset, most villagers identified among their community a general lack of concern for the environment, declining fish catches and problems with waste management. There were no informal rules governing these issues; laws relating to issues such as dynamite fishing were not adhered to; nor were national waste management regulations, largely due to ignorance. There was, nonetheless, an apparent level of environmental awareness as the project received overwhelming support.

Most of the coral reefs around Barakau village are barrier reefs hosting wide coral diversity. There has been very little study of the health of the reefs around this part of the coast but local fishermen say at least a fifth of the reef has been destroyed through dynamite fishing, use of *derries*[1] and canoe poles. The seagrass beds, an important habitat for many marine species, are also reportedly lowering in density and local fishermen attribute this to the use of motorised dinghies during low tide. Mangroves dot the local coast line, though much of this within the village area has been removed to make way for houses. Very little research has been done on the impact of mangrove depletion in PNG.

Declining fish stocks around Barakau can be linked to rapid population growth and increasing demand for cash income as a result of rising school fees, goods and services. These factors have led to an increase in subsistence and artisanal fishing activity. The same pattern has been observed in other coastal communities of PNG (see Mitchell et al. 2001). In Barakau, at least half of the households indicated that they were unable to pay all of the local community school fees in 2004 and some households frantically harvest beche-de-mer during the legal season (November-February) in a bid to meet school fee obligations.

Subsistence and artisanal fisheries are, by their nature, difficult to manage and regulate and given the mounting anecdotal evidence and the uncertainty posed by the lack of reliable data, a precautionary approach based around communities was deemed to be appropriate for the pilot project. Experience in other countries (Lal et al 2004; WRI 2005; Tisdell 1992; Tawake and Aalbersberg 2002) suggests that sustainable management of these fisheries is best achieved through a combination of agency regulation and community-based resource management through awareness programmes and local skills development programmes. This approach calls for the engagement and empowerment of the local fishing communities to monitor and manage their own local fisheries resources in a more sustainable manner. Communities should be aware that poverty is perpetuated through the destruction of their own ecosystems (WRI 2005).

The research

The general objective of the study was to identify the root causes of declining stock levels and then through a participatory approach allow the community to formulate mitigating strategies. The specific objectives were to:

1. evaluate the level of awareness of Barakau villagers on the importance of coastal marine resources in ensuring sustainable catch levels;
2. obtain socio-economic data;
3. identify the root causes(s) of declining stock levels through a participatory problem analysis (PPA) approach;
4. identify why some households may not be willing to participate in the problem analysis and solution formulation phase of the study;
5. formulate coastal resource management strategies through a participatory solution formulation (PSF) approach; and
6. develop implementation and monitoring strategies.

Primary data on the socio-economic characteristics of Barakau residents and the questions above were gathered through interviews involving a questionnaire and focus group discussions. The response level was very good indicating that most households were concerned about coastal fisheries. Only nine out of the 159 households refused to be interviewed because they did not agree with the way the surveys were conducted or simply did not wish to be involved at all. Secondary data was gathered from the National Statistical Office and other sources.

Survey results

The household survey covered 1,347 people (693 male and 654 female) living in 159 households, with an average household size of 8.25 people (there were 29 people in the largest household). The average age was 25.

The survey showed that in 106 households at least one member was in paid employment. The mean household income from all sources was about K195.50 per week (A$88) and about 39 per cent of the households earned at least K200. More than half (91) of the households were active in fishing, and almost 80 per cent of these depended on fishing as a source of subsistence and income. All of these households used modern fishing gear such as fishing nets, underwater torches, flippers, fishing lines, and hooks. Twenty-one households active in fishing owned an outboard motor and dinghy (mostly fiberglass ranging from 14-21 feet in length), 10 owned a dinghy, outboard motor and dugout canoe, 19 owned only a dinghy, five owned only an outboard motor and 18 owned only a canoe.

Fishing practices included net fishing (various sizes, mainly cast nets), day and night diving for reef fish, hand-line fishing, diving for beche-de-mer and trochus, near shore and reef gleaning, low tide spear fishing by canoe using kerosene lantern/torch during the night, reef fish fishing using *derries*, dynamite fishing, seasonal spear fishing by motorised dinghy during the night using high powered torches, and trawling for tuna and other deep sea fish. One family indicated that it had equipment for catching turtles. Near shore and reef gleaning is mostly undertaken by females whereas other fishing practices are mostly performed by males. In the survey, no households admitted to using dynamite for fishing in the last three years, however, during discussions it was revealed that certain fishermen consistently used dynamite.

A few of the households were aware of formal rules such as the ban on dynamite fishing. Some fishermen who used dynamite were not aware of this law. No informal rules (traditional or customary) in relation to resource use existed in the village. The only informal rule that has always been practiced was restraint shown by village people not to go fishing, hunting, or do gardening or other such activities during a death ceremony.

The survey showed that at least 85 per cent of fishing households had experienced falls in catch levels. The reasons they gave were:

- Population pressure
- Use of small nets
- Change in weather, sea
- Overfishing due to big nets
- Habitat destruction due to removal of mangroves, noise and oil splits from outboard motors and use of dynamite
- Too many new/improved fishing methods
- Outboard motor problem, increase in fuel and spare part prices
- People catching very tiny fish/invertebrates
- Use of *derrie*
- Coastal pollution due to human waste and solid waste
- Equipments under repair (motor/fishing nets).

Note that none of the households indicated that the most probable causes were:

1. Their ignorance of formal institutions such as the Fisheries Management Act 1998 specifically provisions related to dynamite fishing, and the beche-de-mer fishery management plan.
2. The absence of informal rules in the village related to fisheries management.

Participatory problem analysis and solution formulation

After the surveys were completed, the community was taken through the PPA and PSF process to work out measures of managing their coastal fisheries. Everyone was encouraged to contribute ideas towards this issue using the 'why and if' approach (Mahanty and Stacey 2004). These sessions ran from early October to mid-November 2004 and, using the information from the surveys and the PPA plus PSF sessions, a Remedial Action Plan was finalised by the end of November 2004.

The Local Project Management Committee (LPMC), which oversees the implementation of the project in the village, has members from across the community to ensure equal representation and maximum participation. Each member is required to serve as a medium of information exchange between the LPMC and the group he or she represents.

Three sessions were held with the LPMC. During the meetings, reference was made to the Barakau Ward Development Plan (HDA 2003). The identified causes of declining fish stock were similar to those indicated in the survey, however, the LPMC recognised that the communal ownership of the resource was really a root cause of the problem.

The committee noted that initial awareness of a need for corrective action was paramount and this should be followed by demonstration and training sessions on what needs to be done. These could then be backed up by effective monitoring, as well as regulatory and enforcement arrangements. They noted that the solutions should be practical, affordable and sustainable over the long term. Any assistance on alternative income generation would be a bonus, as it would relieve pressure on the extraction of marine resources.

Focus group

This 20-person group was comprised mostly of the highly educated elite of Barakau, and included a separate women's and a men's group. The group highlighted short, medium and long-term activities and outputs on sustainable coastal fisheries. These are outlined in Table 1. They also stressed that appropriate arrangements should be put in place and additional funding should be sought to ensure the continuation of project initiatives.

Table 1: Barakau focus group results

Period	Sustainable coastal fisheries
Short Term	• Regulations - size restrictions - mesh size / hook size • Enforcement • Education and Awareness • Mangrove rehabilitation • Seagrass rehabilitation
Medium Term	• Marine protected areas • Resource management plan • Education and awareness
Long Term	• Alternative income generation activities • Identify markets • Fish / Seaweed farming

There were gendered differences in the results. The women's group expressed concern over the improper disposal of solid waste, pig faeces and human waste. They agreed that lack of planning and enforcement of regulations in relation to waste disposal caused people to discard waste carelessly. They proposed a monthly cleanup of the shoreline as part of the village council activities. The women also stressed the need to replace mangrove firewood for cooking. One suggestion was for the use of newspaper mulching blocks as an alternative fuel for cooking and the project team was asked to obtain relevant information from appropriate sources. The older women called on the younger women to teach their children proper waste disposal methods and be more vocal on the importance of having a clean environment, especially along the shoreline.

Attendance at the men's meeting was not as favourable as the women's, due to time and venue clashes with other village activities. Some of the men admitted that due largely to ignorance, their input in the project had hitherto been minimal. It was agreed that the need for awareness on the project aims and objectives was critical as it would enable the people to understand what was required and challenge them to take part in project activities. The men endorsed the outcomes and activities regarding sustainable coastal fisheries as proposed by the LPMC and expressed their support in the implementation of activities in 2005.

Implementation

The following project outputs were agreed upon: establishment of marine protected areas (MPAs), introduction of regulatory mechanisms and resource management plans, and the protection of significant/critical habitats. In order to achieve these outputs, it was agreed that a resource management committee be established. A University of Papua New Guinea Environmental Science honours student was sponsored by IWP PNG in 2005 to carry out a coastal resource inventory, identify resource boundaries and then recommend suitable locations for MPAs.

Some regulatory rules have been developed and these include a total ban on dynamite fishing, on the use of small size nets and on the removal of mangroves for house construction. To enforce these rules a couple of rangers were appointed on a voluntary basis and a system of voluntary reporting by community members was agreed upon. Because a resource management committee has not yet been established, the LPMC will play this role in the interim. Very little activity took place in 2006 for various reasons including village politics. It is envisaged that activities will gain momentum in 2007.

Conclusion

Declining marine species diversity due to unsustainable extraction methods and destruction of critical habitats is a common problem in Pacific Island countries and were identified in Barakau. This study demonstrated that coastal communities such as Barakau village can be assisted in identifying root causes of these problems and in formulating solutions using a participatory approach. This study also showed how the community can be empowered to manage their resources through a combination of agency and a community-based resource management approach.

The villagers now apparently realise that poverty was self perpetuating because of the overexploitation and destruction of their ecosystem. Chronic poverty has been observed in at least 30 per cent of the households and another 30 per cent were observed to be struggling to meet daily subsistence. The community also recognised the importance of the development of mitigating strategies to combat and alleviate poverty.

What remains to be realized is a full implementation of the solutions identified above. Nonetheless, it is hoped that the project can be replicated in other coastal communities in PNG with the success and failures learned from this pilot project.

Note

1. *Derrie* is a root used by fisherman to poison fish.

References

HDA (Hiri District Administration) 2003, *Barakau ward development plan*, Central provincial administration publication, 4-6.

IWP (International Waters Programme) PNG 2003, 'The priority environmental concerns of Papua New Guinea, prepared for the strategic action programme for the international waters of the Pacific small island developing states', prepared by Stephen Nicholls, Environmental Consultant, IWP PNG.

Lal, P et al. 2004, 'Economics for community based project management in the Pacific', course material, USP-MSP course development unit in association with ANU, SPREP and UNCTAD/TRAINMAR.

Mahanty, S and N Stacey 2004, 'Collaborating for sustainability: A resource kit for facilitators of participatory natural resource management in the Pacific', pre-release version, SPREP.

Mitchell DK, J Peters, J Cannon, C Holtz, J Kinch and P Seeto 2001, 'A sustainable use options plan', A report to the United Nations Development Programme for the Milne Bay Community-Based Coastal and Marine Conservation Program, PNG/99/G41, Port Moresby, Papua New Guinea.

Tawake, A and W Aalbersberg 2002, 'Community-based refugia management in Fiji', IAS Technical Report No. 2002/08, Suva, Fiji, Institute of Applied Science, University of the South Pacific.

Tisdell, C (ed) 1992, *Giant clams in the sustainable development of the South Pacific: Socioeconomic issues in mariculture and conservation*, Australian Centre for International Agriculture Research, Canberra.

WRI (World Resources Institute) 2005, *World resources 2005: The wealth of the poor, managing ecosystems to fight poverty*, UNDP, World Bank, Washington, DC.

The White Paper on Australian Aid: Approaches to poverty*

Patrick Kilby, Applied Anthropology and Participatory Development Programme, Australian National University

The 2006 White Paper on Aid released by the Australian Government has a focus on poverty but has little detailed analysis on how such an attack on poverty might occur. Like its predecessors (Jackson 1984; Simons 1996) the emphasis is not on targeted approaches to poverty alleviation but on the promotion of economic growth as the main driver. This emerges from a neo-liberal view that high growth rates lead to poverty reduction. This view, however, has been under much scrutiny over the last decade or so (Jha 2000; Ravallion 1997; Ravallion and Chen 2003) in favour of more nuanced approaches that deal directly with the issues of marginalised groups, growing inequality and the rural-urban divide.

The White Paper strategy pivots on four key themes — accelerating economic growth, fostering effective states, investing in people, and promoting regional stability — all within a context of promoting greater gender equity (AusAID 2006:iii). In practice the focus on economic growth will involve removing what are seen to be barriers to it: land tenure arrangements in the Pacific, infrastructure more generally, and the need to build a skilled workforce. In the area of governance the focus will be on leadership, promotion of reform, anti-corruption, and an integrated approach to law and order. The stronger investment in people will be through promoting both better health (particularly in addressing the HIV pandemic) and education, including a doubling of scholarships to Australian higher education institutions (AusAID 2006:xiii).

While these initiatives are useful and can contribute to long-term poverty reduction, the question remains as to the extent that this will occur. What is missing in the White Paper and the associated Core Group Recommendations is a broad analysis of the drivers of poverty in the Asia-Pacific region and the associated changes in poverty profiles in the key countries that the aid programme should focus on. The Core Group report itself notes that, 'Inequalities are also emerging within national borders ... fast economic growth has brought significant development and social challenges and ... [there are] sharp rises in rural and urban inequality' (AusAID 2005:6-12). In the end, however, the White Paper settles for 'policies and programs to generate increases in *aggregate* growth and, [only] *in special circumstances*, target groups and regions that for whatever reason are not befitting from broader growth gains' [emphasis added] (AusAID 2006:35).

The nature of poverty

While there has been a marked fall in the level of poverty in some countries over the past few years as a result of relatively strong economic growth, it has been varied and begs the question of whether high growth rates alone can bring sustained poverty relief. For example, poverty levels in India have been falling at around one per cent per annum since the early 1970s in eras of both low and high growth rates, and both closed and open economic policies (Ravallion 2002). The total number of people living in poverty had increased in the decade to 1998, and in many countries the percentage fall in poverty is small, leading to the phenomenon of jobless growth as an emerging challenge (Chen and Ravallion 2001:9). This paper will focus on four factors affecting the seemingly intractable issue of severe poverty: its dynamic nature, rising levels of inequality, increasing vulnerability, and the widening rural-urban divide.

Poverty is dynamic in that people are continually moving in and out of it. For example, in a study of 36 villages in India over a 25 year period 14 per cent of households came out of poverty and 12 per cent of households fell into poverty; in all, 26 per cent of households experienced changes in their poverty levels (Krishna 2006). There are similar examples from Pakistan and China (Baulch and McCulloch 2002; McCulloch and Calandrino 2003). Given this dynamic, the most appropriate policy response would be to target interventions that increase the number of people coming out of poverty, and decrease the numbers going into poverty. These often require quite different policy responses, for example in the case study from India, high rates of agricultural growth led to more work for the poor and people came out of poverty; but it was access to health services and consumer credit that actually prevented people from falling into poverty (Krishna 2006:284). In China, by way of contrast, it was access to land and education that were effective in pulling people out of poverty; while in Pakistan education had little effect (Baulch and McCulloch 2002). The point emerging is that there is no simple blueprint or silver bullet to overcoming chronic poverty, but rather any responses must be nuanced to meet local needs (McKay and Lawson 2003; Baulch and McCulloch 2002; McCulloch and Calandrino 2003).

Another area is the rural-urban divide in poverty levels: in China, for example, 70 per cent of rural households are expected to have a fall in real income in the period 2001-2007, while less than ten per cent of urban households will be adversely affected (Ravallion 2006). The urban-rural income gap is such that urban people experience income levels three times higher than rural people, and if we break this down by gender women are by far the worst off. Rural-urban migration is not enough to deal with this — poverty has to be dealt with where it is found, through investment in rural areas. For example, investment in rural roads pays for itself three times over due to the resulting increase in rural incomes (DFID 2005:22). A one per cent increase in agricultural yields reduces poverty levels by one per cent due to the rise in rural wages (Uphoff 2003). Despite this and other compelling evidence, the AusAID White Paper has little to say about rural development (given that this is where the poor are) beyond a note on the role of the private sector in rural development (AusAID 2006:xii).

The key element of the poverty story that these cases show is rising inequality, for example, from 1981-1995 in rural China the Gini coefficient increased from 0.239-0.340 (Renwei and Shi 1997). Growing inequality can also be found in Pacific countries as well as the larger Asian states: of the countries that receive priority in the AusAID White Paper, PNG is worst ranked with a Gini coefficient of 0.506. The quality of economic growth and the notion of pro-poor growth are important factors in dealing with rising inequality. For example, in China while the growth rate for the decade 1990-1999 was 6.2 per cent overall, for the poorest households it was only three per cent (Ravallion and Chen 2003). What is generally agreed is that high levels of inequality are a brake on poverty reduction in periods of economic growth (Ravallion 1997). Also worth noting is that there is a link between growing inequality, rising insecurity and global violence (Wade 2001; Li and Schwaub 2004), all of which are important for Australia's national interest, and so are relevant to the White Paper discussion.

AusAID's approach to addressing poverty: A way forward

The Australian aid programme has been grappling with chronic poverty in developing countries since the Jackson Report in 1984, but generally it has taken the view that growth is the most effective way to deal with poverty rather than directly targeted programmes. The White Paper avoids mention of targeted programmes to the poor or a rural focus through a targeted poverty reduction strategy, but rather focuses more on growth where it identifies governance issues and property rights, reducing conflict, and macroeconomic stability as key drivers in the aid programme (AusAID 2006). The approach taken by the White Paper is very limited and there has been little change in the actual poverty focus over the past two decades. As a way to more sharply address poverty, this paper suggests a focus on key themes based on the Millennium Development Goals (MDGs) though informed by the key criticisms of these goals. The framework I would suggest is one that is based on:

- a sharper country poverty assessment that is based on analysis of the depth and spread of poverty and the nature of social exclusion in particular contexts;
- an investment in building the capabilities of the poor through more programmes directly targeting the poor;
- a rural infrastructure support programme that recognises the important role that governments play in developing and maintaining rural infrastructure, which is essential for creating economic growth in agriculture and for providing jobs and higher wages for the very poor, who are usually found in rural areas; and
- an approach to aid delivery that focuses on downward accountability to the beneficiaries, in this case the poor, and thus having programmes that are more inclusive and relevant.

The lesson from recent studies on the nature of poverty is that it is nuanced and affects different people in communities differently (such as women and religious and ethnic minorities), and that people on the margins regularly fall in and out of poverty. The current AusAID poverty analyses that are contained within country strategy papers provide an overview of where the poor are but little information on who the poor are and why they are poor (see, for example, AusAID 2004). All country programmes should be able to demonstrate a greater focus on marginalised women and minority groups, how they are differently affected, and some analyses of the factors that restrict their capabilities and block their broader participation. From this the emerging focus would be to strengthen the capabilities of the poor to reduce their vulnerability to falling into poverty.

The second question then, is what activities to implement in a particular context. While it is important to work only on a few themes such as those outlined in the White Paper, it is also important to recognise that any approach that targets poverty should be relevant to a particular situation. So if it is recognised (which it usually will be) that women and minority groups such as indigenous people are the very poor (Mehta and Shah 2003) then the approach used should be one that is aware of their particular needs, whether it these are health and education, but also, for example, in governance such as the poor's participation in local community processes. The overwhelming evidence is that the poor and most vulnerable are in rural areas, and that investments in rural infrastructure and production will directly affect the poor in these areas, reduce urban migration, and see a much quicker set of outcomes in terms of MDGs (Fan, Chan-

Kang et al. 2005; Jha 2006; McCulloch and Calandrino 2003; Mehta and Shah 2003; Renwei and Shi 1997; Topalova 2005; Uphoff 2003).

In terms of approaches to aid it is important to recognise how procedures influence behaviours (Chambers and Pettit 2004). At a practical level, then, greater participatory processes would be required so that the affected communities have a greater role in programme design and activities; this is not only important for relevance reasons but in itself is an empowering process (Kilby 2006). This would necessarily lead to a re-think of the planning tools used in aid projects, with a focus on 'principles, direction and process' and less on outputs and indicators (Chambers and Pettit 2004:148).

Conclusion

This paper has outlined a few key issues that emerge from the White Paper and the direction the Australian aid programme should take in its poverty approach. The key issue is the lack of nuanced analyses of poverty that recognises key elements including growing inequality, the rural-urban divide, vulnerability, and the role of marginal groups. The key point being made here is that a dependence on high growth is not enough and in some circumstances can be counterproductive. A more nuanced approach is required from AusAID that recognises that sharper targeting is required to reach the very poor, and the sectors in which they are found.

From a practical point of view this would mean a focus on rural areas that goes beyond the private sector pointed to in the White Paper, but also involves developing infrastructure to ensure markets and jobs can be expended in these areas. Second, there should be recognition that there are marked differences in people's ability to move out of poverty and these may be related to gender, ethnicity and other social characteristics that lead to exclusion. Finally, a process of active involvement of those affected by the programme and its development, that is, the beneficiaries, is critical for sustainability and the relevance of these programmes.

Note

* This paper is an abridged version of Kilby, P 2007, 'The Australian Aid program: Dealing with Poverty? *Australian Journal of International Relations*, 61(1):114-129, <http://www.informaworld.com/cAJI>.

References

AusAID 2004, 'Philippines Australia development cooperation strategy 2004-2008', AusAID, Canberra.

AusAID 2005, 'Core group recommendations report for a White Paper on Australia's aid program', AusAID, Canberra.

AusAID 2006, *Australian Aid: Promoting growth and stability: A White Paper on the Australian government's overseas aid program*, AusAID, Canberra.

Baulch, B and N McCulloch 2002, 'Being poor and becoming poor: Poverty status and poverty transitions in rural Pakistan', *Journal of African and Asian Studies*, 37(2), 168-85.

Chambers, R and J Pettit 2004, 'Shifting power to make a difference', in L Groves and R Hinton (eds), *Inclusive aid: Changing power and relationships in international development*, Earthscan, London, 137-162.

Chen, S and M Ravallion 2001, 'How did the world's poorest fare in the 1990s', *Review of Income and Wealth*, September.

DFID (Department for International Development) 2005, 'Growth and poverty reduction: The role of agriculture', DfID, UK.

Fan, S, C Chan-Kang and A Mukherjee 2005, 'Rural and urban dynamics and poverty: Evidence from China and India', *Discussion Paper 196*, FCND, Washington, DC.

Jackson, G (Committee to review the Australian overseas aid program) 1984, 'Report of the Committee to review the Australian overseas aid program', Australian Government Publishing Service, Canberra.

Jha, R 2000, 'Reducing poverty and inequality in India: Has liberalisation helped?' *UNU/WIDER Working Paper 204*, UNU/WIDER, Helsinki, Finland.

Jha, R 2006, 'Vulnerability of consumption growth in rural India,' Working Papers in Trade and Development, Division of Economics, RSPAS, Australian National University, Canberra.

Kilby, P 2006, 'Accountability for empowerment: Dilemmas facing non-governmental organisations', *World Development*, 34(6), 951-963.

Krishna, A 2006, 'Pathways out of and into poverty in 36 villages of Andhra Pradesh, India', *World Development*, 34(2), 271-288.

Li, G and D Schwaub 2004, 'Economic globalization and transnational terrorism: A pooled time series analysis', *Journal of Conflict Resolution*, 48(2), 230-258.

McCulloch, N and M Calandrino 2003, 'Vulnerability and chronic poverty in rural Sichuan', *World Development*, 31(3), 611-628.

McKay, A and D Lawson 2003, 'Assessing the extent and nature of chronic poverty in low income countries: Issues and evidence', *World Development*, 31(3), 425-439.

Mehta, AK and A Shah 2003, 'Chronic poverty in India: Incidence, causes and policies', *World Development*, 31(3), 491-511.

Ravallion, M 1997, 'Can high inequality developing countries escape absolute poverty?', *Economics Letters*, 56, 51-57.

Ravallion, M 2002, 'Have we already met the Millennium Development Goal for poverty?', *Economic and Political Weekly*, 37 (November 16-22).

Ravallion, M 2006, 'Looking beyond averages in the trade and poverty debate', *World Development*, 34(8), 1374-1392.

Ravallion, M and S Chen 2003, 'Measuring pro-poor growth', *Economics Letters*, 78, 93-99.

Renwei, Zao and Li Shi 1997, 'Increasing income inequality and its causes in China', *Journal of Economic Research*, 9.

Simons, P, G Hart and C Walsh 1997, 'One clear objective, poverty reduction through sustainable development: Report of the committee of review', AusAID, Canberra.

Topalova, P 2005, 'Trade liberalisation, poverty and inequality: Evidence from Indian districts', *Working Paper 1164*, National Bureau of Economic Research, Cambridge, MA.

Uphoff, N 2003, 'Poverty and inequality: A life chances perspective', in R Lal et al. (eds), *Food security and environmental quality in the developing world*, Lewis Publishers, Boca Raton, Fl.

Wade, RH 2001, 'The rising inequality of world income distribution', *Finance and Development*, 38(4).

Alleviating poverty in remote Indigenous Australia: The role of the hybrid economy

Jon Altman, Centre for Aboriginal Economic Policy Research, Australian National University

Introduction

While Australia is one of the world's richest countries in both absolute and per capita terms, many of its Indigenous peoples live in poverty. This paper seeks to elucidate some avenues for addressing poverty in remote Indigenous Australia via appropriate pro-poor growth strategies. While the *Development Bulletin* focuses on the Asia Pacific region, the case for including remote Indigenous Australia is twofold. First, there are many similarities in the development problems facing Indigenous poor in Australia living within a rich developed state and those in developing Third World nations. Second, Australia's development discourse and aid practice offshore generally focuses on failed states, problems of governance and policy failure, while conveniently ignoring economic development problems at home.

An attempt is made here to engage robustly with the dominant Indigenous policy approach in Australia that somewhat myopically promulgates a view that Indigenous economic development can only be achieved via mainstreaming, a term that refers to orthodox engagement with the market either through sale of labour or through operation of commercial business.

The alternative approach that is championed here is a livelihoods approach. It is argued that such an approach might be more successful than mainstreaming in both economic and cultural terms in addressing Indigenous poverty. This approach, referred to as 'the hybrid economy model', emphasises that the customary or non-market sector has a crucially important role to play in addressing Indigenous poverty in Australia. The paper concludes with a note of caution: Australia is keen to export an approach to development that promotes the free market. But this approach has been unsuccessful in remote regions in addressing Australia's Indigenous development problem, so it is unclear why it should succeed offshore.

Poverty in remote Indigenous Australia

The focus here is on people who at first glance appear land rich but cash poor. In reality, because Indigenous Australians live within a rich state as an encapsulated minority, their per capita cash incomes by Third World standards are high owing to the operations of the welfare state safety net. So the focus has to be recast a little to emphasise activity poverty (and associated social ills) rather than cash poverty and relative rather than absolute poverty.

Even within Australia there are marked variations very evident in official statistics disaggregated by the Accessibility/ Remoteness Index of Australia (ARIA). According to the 2001 Census, only about 26 per cent of Australia's Indigenous population resided in remote and very remote Australia, with the majority living in metropolitan and inner and outer regional areas. This paper focuses only on about 120,000 people, less than one per cent of Australia's population. The majority of these people live on what is increasingly referred to as the Indigenous estate, an area that covers about 20 per cent of the Australian continent or about 1.5 million square kilometres mainly made up of environmentally intact desert and tropical savannah. People live in about 1,200 small geographically dispersed communities that are almost invariably distant from markets and commercial opportunities and service centres (see Altman 2006: 18-19 for maps of these communities).

Using standard poverty measures it can be demonstrated that more than 40 per cent of this Indigenous population lives below the Australian poverty line (Hunter 2006). And this population demonstrated many characteristics, according to the 2001 Census, that are distinctly Third World: nearly 40 per cent are aged less than 15 years (reflecting high fertility); only eight per cent live beyond 55 years of age (reflecting very low life expectancy); levels of formal employment are extremely low (only 18 per cent have wages and salaries as their main source of income and another 28 per cent work for the dole); education levels are low (only one in 20 has a post-school qualification in very remote Australia); household income levels are low; and people are poorly housed, often living in extremely over-crowded conditions.

The policy debate

The current policy discourse in Australia, dominant since the abolition of the Aboriginal and Torres Strait Islander Commission in 2004, seeks to address Indigenous poverty via a re-enactment of the modernisation paradigm, the development theory behind the failed assimilation era of the 1950s and 1960s in Indigenous affairs.

In the last two years there has simultaneously been a growing chorus highlighting policy failure, with much reference to the last 30 years. However, available official statistics for the period 1971-2001 actually suggest that social indicators in both absolute and relative (ratio of Indigenous to non-Indigenous) terms have improved, at least at the national level. This discourse of failure has seen a dramatic policy shift away from self determination and self management as the central terms of policy to a re-embrace of the assimilation approach. The new terms used in policy include mainstreaming, shared responsibility, mutual obligation and, most recently, 'normalisation'.

The state's revisiting of such an approach is perhaps hardly puzzling, given the current dominance of economic liberalism and the views of some influential Indigenous spokespeople, like Noel Pearson (see Phillpot 2006) that provide the requisite moral authority to such re-visitation.[1] Policy makers argue that the pro-growth approach that has been successful at the national level should now be transferred cross-regionally and cross-culturally. Some suggest that the free market can succeed in remote and very remote Australia. Others suggest that in the absence of mainstream commercial opportunity at remote Indigenous communities, it is imperative to move the people to the opportunities. The latter approach is naïve at best, because it ignores people's agency and their active links to the ancestral lands that they now own. Also given Indigenous people's low educational and health status and their economic marginality, labour migration could be disastrous for migrants, as well as for communities where they move.

The alternative hybrid economy model

This paper challenges this dominant policy orthodoxy and suggests that the nature of the economic problem in remote Indigenous Australia is misunderstood and mis-specified.

This is due, in part, to an overstatement of the powers of the market and an understatement of some of the poverty traps that Indigenous people face. In reality, there is limited market opportunity for both Indigenous and non-Indigenous people in much of remote and very remote Australia. This is partly why so much land here was unalienated and available for successful Indigenous land rights and native title claim since the late 1970s. A mix of access to welfare and limited mainstream opportunity means that the amounts that would need to be earned to offset citizenship entitlements are significant, creating poverty traps where effective marginal tax rates (or income replacement ratios) are extraordinarily high, sometimes exceeding 100 per cent.

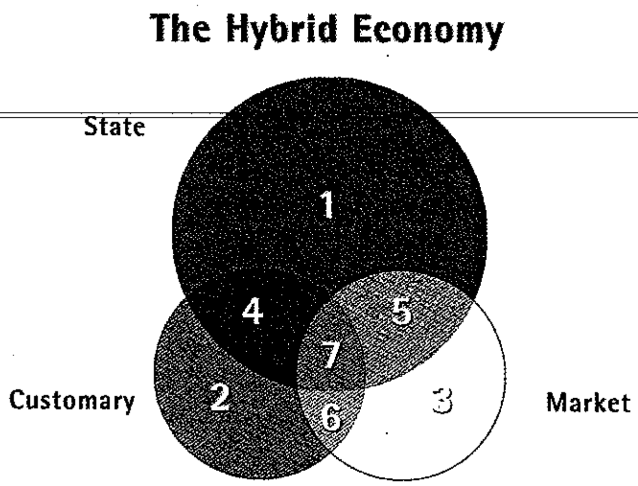
Current approaches also conveniently ignore the colonial processes and Indigenous cultural prerogatives that have created underdevelopment. Despite a general perception of high public expenditure on Indigenous people, in reality under-expenditure has historically been the norm. On any needs-based equitable criteria there has been under-expenditure on Indigenous people in the areas of housing and infrastructure, health and education, and employment services. This has left a legacy of neglect evident in poor housing, limited social and physical infrastructure at remote communities, and poor access to financial services. In making this important point, it is not being suggested that enhanced state expenditure alone will be the solution to Indigenous poverty. However, there are significant contemporary shortfalls that do require urgent attention.

Clearly there are also cultural prerogatives at work. Many people who were hunter-gatherers in pre-colonial times (as recently as in the 1950s in parts of Arnhem Land) retain a livelihood approach today. Many groups also demonstrate strong ongoing connections to their traditional lands.

Under such circumstances, an alternate model is urgently needed to understand the nature of the economy. Based on empirical research, undertaken since 1979 in central Arnhem Land in the tropical savannah, a very different 'hybrid economy' model has been developed (Altman 2005). This model represents the economy as having three sectors; the public (or state), the non-market (or customary) and the private (or market) rather than the more standard two-sector (private/public) model. The model was developed from case study research among Kuninjku-speaking people that showed that in 1979-80, the imputed value of the customary sector (hunting, fishing and gathering returns) was the dominant component of the local economy totalling 64 per cent, with welfare (the state sector) accounting for 26 per cent and art sales (the market) for ten per cent (Altman 1987). Subsequently, in 2002-2003, a new set of data were collected collaborating with the same people in the same region to show that the customary sector remained important, alongside state income support and earnings from the sale of art (Altman 2003).

The hybrid economy model is depicted conceptually in Figure 1. While it is made up of three sectors represented by the circles marked 1, 2 and 3, a crucially important feature of the model is the articulations (or inter-linkages) between these sectors that are depicted by the segments 4, 5, 6 and 7. Another important feature of this model is that the relative scale of the three sectors and four points of articulation can, and probably do, vary from one local context to another. In remote Australia, many Indigenous people regularly move between these seven occupational niches with the mobility evident in pre-colonial times in the food quest now evident in livelihood adaptations. For example, an individual might participate in customary wildlife harvesting, the production of an artefact for market sale and in engagement with the state working-for-the-dole (under the Community Development Employment Projects scheme) all on the same day. Clearly in such circumstances people are not just reliant on state welfare, nor just on the customary sector, nor just on income from the sale of art. In a sense part of the emerging post-colonial adaptation observed is a risk-minimising livelihoods diversity that sees engagement in all sectors of the local economy. What differentiates the Indigenous Australian situation from many other Third World situations is the centrality of the state in supporting both customary and market activity. This support occurs directly, for example, by the provision of some income support and indirectly, for example, through the provision of limited state patronage of community-controlled art centres that broker the sale of arts and crafts.

Figure 1: The Hybrid Economy



NATSISS 2002 evidence

Historically, the argument made above that the customary sector remains of significance could be dismissed as an atypical case study focused on a particular region, central Arnhem Land in the tropical savannah, where colonisation only arrived in the last 50 years. However, there is a growing body of official statistics that suggest that the Arnhem Land case might not be so exceptional and that allow some scaling up of findings.

In 1994, the Australian Bureau of Statistics (ABS) conducted the National Aboriginal and Torres Strait Islander Survey that showed that the customary sector (then termed the voluntary sector) was significant (Smith and Roach 1996). More recently, the ABS undertook the National Aboriginal and Torres Strait Islander Social Survey (NATSISS) in 2002 that included some questions on the customary sector, at least in remote and very remote regions.

Three findings from Altman, Buchanan and Biddle (2006) are summarised below. Table 1 provides responses to a question asked of persons aged over 15 years if they hunted or fished as a group. The responses indicate that over 80 per cent of Indigenous people living at remote Community Areas (discrete communities) did so, with those living on homelands most likely to do so. This question is very broad brush and needs considerable refinement when NATSISS is repeated in 2008, but it does suggest that the customary sector remains robust, although the survey methodology clearly has limitations in measuring the economic significance of such activity.

Table 1: Per cent of Indigenous population (and estimated numbers) in remote Community Areas who fished or hunted in a group in the last three months, 2002

	Does not recognise homeland	Lives on homeland	Does not live on homeland	Total
Did not fish or hunt in a group	25.8% (800)	15.3% (3,400)	18.9% (4,200)	17.6% (8,400)
Fished or hunted in a group	74.2% (2,300)	84.7% (18,900)	81.1% (18,100)	82.4% (39,400)
Proportion who fished or hunted	6.7%| (3,200)	46.7% (22,300)	46.7% (22,300)	100.0% (47,800)

Source: Altman et al. (2006:144)

In Table 2, information is provided on those who resided in remote and very remote regions who indicated that they participated in cultural activities. A proportion of adults indicated some engagement in such activity (not all of which is customary), with a high proportion being paid, especially for the production of art and craft.

Table 2: Percentage of Indigenous population in remote and very remote Australia who participated in, and were paid for, various cultural activities, 2002

	Arts or crafts (%)	Music, dance or theatre (%)	Writing or telling stories (%)
Participated	19.1	10.4	12.9
Paid (of those who participated)	51.9	26.3	23.7

Source: Altman et al. (2006:146)

In Table 3, the information from Tables 1 and 2 is summarised and augmented to show participation in the customary sector as represented by hunting and fishing; and extension of the customary to market engagement as represented by participation in art and craft manufacture and its commercial sale. Note that the data on hunting and fishing is limited to Community Areas; it is not that such activity does not occur in places like New South Wales or Victoria, indeed there is evidence that it does (Gray and Altman 2006); it is just that NATSISS 2002 did not ask the question in these more settled states. There is certainly some indication in Table 3 that where land rights and native title is strongest, people are more likely to engage in the customary sector or to combine customary skills with contemporary opportunity in the production of art for sale in the market.

Table 3: Percentage of each state/territory engaged in fishing or hunting in a group, paid and unpaid arts and crafts activity, 2002

State/territory	Fished or hunted in a group (%)	Participated in arts/crafts (%)	
		Participated (%)	*Of those participated, paid (%)*
NSW	N/A	16	15
Victoria	N/A	14	17
Queensland	82	14	26
South Australia	76	21	43
Western Australia	80	16	33
Northern Territory	84	20	68
ACT/Tasmania	N/A	11	16
Australia	51	16	31

Source: Altman et al. (2006:147)

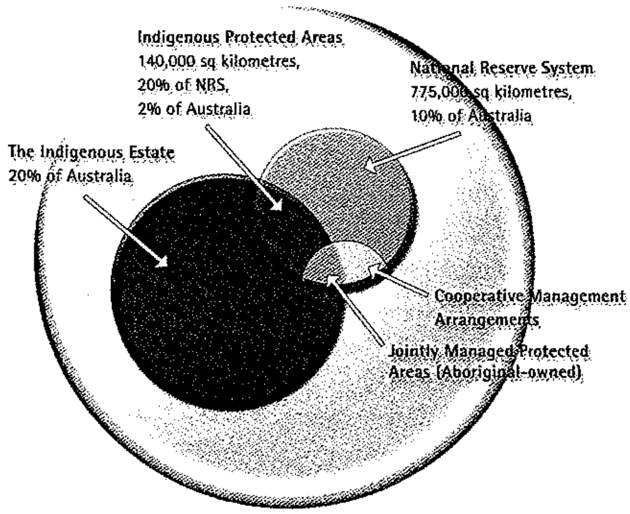
Payment for environmental services

At present, climate change and associated national concerns about water quantity and quality and potential loss of biodiversity are all high priorities. In Figure 2, a conceptual outline is again provided that shows the Indigenous estate and its overlaps with the national conservation reserve system. A cadastral map would show that many parts of the Indigenous estate abut the conservation estate. Research undertaken in 2006 shows that the Indigenous estate includes some of the most biodiverse lands in Australia. Official natural resource atlas maps produced by Land and Water Australia and the Department of Environment and Heritage indicate that many of the most intact and nationally-important wetlands, riparian zones, forests and rivers and waterways are located on the Indigenous estate. Mapping also shows that these lands are at risk of species contraction and face major threats from feral animals, exotic weeds, changed fire regimes, pollution and overgrazing. The latest available climate science suggests that substantial biodiversity impacts are inevitable.[2]

Unfortunately, NATSISS 2002 did not ask Indigenous people in remote Australia and living on the Indigenous estate about their participation in natural resource management activities. However, there is a growing body of evidence that in the last decade community-based rangering activity, often undertaken while participating in customary activity, is generating environmental benefit. Such activity is highly variable and includes fire management, weed eradication and feral animal control (see Northern Land Council 2006). A recent project in Western Arnhem Land has seen a multinational corporation Conoco Phillips pay Indigenous rangers to abate 100,000 tonnes of carbon emission per annum via wildfire management. And the Australian Government supports an Indigenous Protected Areas program at 20 sites on the Indigenous estate.

There is a crucially important potential role for Indigenous people in environmental management of the Indigenous estate they own. This is an area where Indigenous ecological knowledge and Western science can be linked and where Indigenous people seek enhanced engagement. While much is already undertaken, Indigenous people are poorly remunerated for the provision of a range of environmental services. There are significant opportunities to enhance such Indigenous engagement as an element of the hybrid economy.

Figure 2: The Indigenous Estate



Enhancing livelihood options

Much of the policy debate in Australia in recent years has focused on the need for enhanced Indigenous engagement with the 'real' economy in remote Australia (Pearson 2000). This paper argues that there is emerging statistical evidence that indicates that the real Indigenous economy in remote regions includes the customary sector. Conversely it is argued that the free market alone will not deliver pro-poor outcomes in remote Indigenous Australia for a wide range of historical, structural, resource endowment and cultural reasons. Nevertheless, there are many livelihood opportunities in remote Australia and poverty alleviation policies could benefit by recognising the complex nature of the three-sector hybrid economy in such situations and the sectoral articulations between market, state and customary sectors. Policies need to be crafted that recognise this reality and diversity; and simultaneously communities and individuals need to be empowered to pursue a livelihood approach that suits their particular circumstances. There is much evidence in the development literature than a state-imposed, top down and monolithic form of imposed development is unlikely to prove effective in addressing poverty.

Conclusion

A paternalistic and assimilationist approach to Indigenous economic development in remote Australia will not work and runs the danger of exacerbating rather than alleviating poverty. Such an approach is limited because it fails to recognise the role and comparative advantage of the customary or the futility of forcing mainstream solutions onto very non-mainstream situations. This paper suggests that a fundamentally different approach is needed that empowers communities to grow all sectors of the hybrid economy to alleviate local poverty. The possibility of engaging Indigenous people in the wholesale provision of environmental services on the massive Indigenous estate is likely to generate local, regional and national benefits.

Are there lessons from Indigenous Australia for other Third World poverty contexts? At present, Australia is looking to export a brand of development thinking that is focused only on the free market. But such an approach is not working in remote Indigenous Australia in part because it has mis-specified the development problem. A livelihoods approach that recognises the importance of all sectors in the 'hybrid economy' including the customary and the importance of community-control of development processes will alleviate poverty more readily than any monolithic approach currently being promulgated.

Notes

1. In some of his writings, Pearson (2000:88-89) advocates for the development of greater community self sufficiency and of internal subsistence economies, but these views receive limited attention in contrast to his view that welfare dependency must cease and engagement with the 'real' economy or free market must be given priority.
2. The earlier conference version of this article was able to present a series of maps that demonstrated these spatial correlations clearly. These maps are available at the CAEPR website (www.anu.edu/caepr).

References

Altman, JC 1987, *Hunter-gatherers today: An Aboriginal economy in north Australia,* Australian Institute of Aboriginal Studies, Canberra.

Altman, JC 2003, 'People on country, healthy landscapes and sustainable Indigenous economic futures: the Arnhem Land case', *The drawing board: An Australian review of public affairs*, 4(2), 65-82.

Altman, JC 2005, 'Development options on Aboriginal land: Sustainable Indigenous hybrid economies in the twenty-first century', in L Taylor, GK Ward, G Henderson, R Davis and LA Wallis (eds), *The power of knowledge, the resonance of tradition,* Aboriginal Studies Press, Canberra.

Altman, JC 2006, 'In search of an outstations policy for Indigenous Australia', *CAEPR Working Paper 34*, Centre for Aboriginal Economic Policy Research, Australian National University, Canberra.

Altman, JC, G Buchanan and N Biddle 2006, 'The real 'real' economy in remote Australia' in B Hunter (ed.) *Assessing the evidence on Indigenous socioeconomic outcomes: A focus on the 2002 NATSISS,* ANU E Press, Canberra, 139-152.

Gray, MC and JC Altman 2006, 'The economic value of the harvesting wild resources to the Indigenous community of the Wallis Lake catchment, NSW', *Family Matters* 75, 10-19.

Hunter, B 2006, 'Revisiting the poverty war: Income status and financial stress among Indigenous Australians', in B Hunter (ed.) *Assessing the evidence on Indigenous socioeconomic outcomes: A focus on the 2002 NATSISS,* ANU E Press, Canberra, 91-102.

Northern Land Council 2006, *Celebrating ten years of caring for country: A NorthernLand Council initiative,* NLC, Darwin.

Pearson N 2000, *Our right to take responsibility,* Noel Pearson and Associates, Cairns.

Phillpot, R 2006, 'The 'gammon economy' of Cape York: Lessons for nation building in Pacific island countries', *Development Bulletin* 70 (April 2006), 29-32.

Smith, DE and LM Roach 1996, 'Indigenous voluntary work: NATSIS empirical evidence, policy relevance and future data issues' in JC Altman and J Taylor (eds) *The 1994 national Aboriginal and Torres Strait Islander survey: Findings and future prospects,* Centre for Aboriginal Economic Policy Research, Australian National University, Canberra, 65-76.

Bridging economic research and policy

John Young, Research and Policy in Development, Overseas Development Institute

Introduction

There has been an increasing interest in the links between research and policy in the developed and developing world over the last decade. The new Labour Government in the UK adopted 'evidence-based policy making' when it came to power in 1997, at least in part as a response to the previous Conservative Government's emphasis on ideologically-driven policies of liberalisation and the free market. More recently, development research donors have been concerned to ensure that the billions spent annually on development research will contribute to the fight against poverty.

The UK's Overseas Development Institute (ODI) has long recognised the need to do much more than just research if the results are to have any impact on policy and practice. The Research and Policy in Development (RAPID) Group in ODI focuses explicitly on the interface between research and policy. Based on over five years of theoretical and case study research and advisory work, RAPID has developed a simple analytical framework and a range of practical tools that researchers, policy makers and practitioners can use to make better use of research-based evidence. We define both research and policy very broadly: research as any systematic effort to increase the stock of knowledge, and policy as a purposive course of action followed by an actor or set of actors. So our work is at least as much about getting ideas into action as about getting research into policy.

Policy processes

For many years the process whereby research influences policy was considered to be a logical process, where policy makers identify a problem, commission research, analyse the results, choose the best option, establish the policy, implement the policy and then evaluate the results. We now know that it is not like this anywhere in the world. Policy processes are certainly not linear. They are sometimes portrayed as cyclical with a number of distinct steps from agenda setting, through policy formulation, policy making, implementation, and finally monitoring and evaluation, the results of which feed into policy revision or new policy agendas. Government plays a key role in all steps, with the cabinet taking the lead in agenda setting and policy formulation, parliament with decision making and line ministries with implementation and monitoring and evaluation. But in democratic contexts there are many other actors also seeking to influence each of these steps including donors, civil society and the private sector, and they're all trying to influence each other as well. In reality, as Clay and Schaffer (1984:192) observed, 'The whole life of policy is a chaos of purposes and accidents. It is not at all a matter of the rational implementation of the so-called decisions through selected strategies'.

Part of this is because policy makers work in the real world. They are much too busy to read research reports. They may read the executive summary or a policy brief, but more frequently rely on the advice of their advisers. Their approach to a particular policy problem is coloured by their own background and experience. They must use their own judgement to balance a wide range of views from different stakeholders, and have to develop policies that are both affordable and can be successfully implemented. Researchers and policy makers have almost diametrically opposed views on what constitutes good evidence. Researchers are often only prepared to provide clear policy recommendations when their evidence is scientifically proven beyond any doubt, which may take months or years. Whereas policy makers frequently need to make decisions immediately, and will base their decisions on any evidence that seems reasonable at the time.

Some theories

There is a huge range of theory about why research does or doesn't influence policy. Most of it is based on research done in developed countries, and may not be relevant in developing countries. There are some, though, that seem relevant everywhere. For example:

- Roe's (1991) theory of *policy narratives* suggests that development policies are often based on argument, scenarios and narratives that do not stand up to closer scrutiny (for example, the 'tragedy of the commons' narrative, or the African 'wood fuel crisis' narrative). Frequently the narratives are directly contradicted by experience in the field. In spite of this, the narratives persist and continue to inform policy making, largely because there is strong pressure to carry on reproducing simplifying narratives when difficult decisions have to be made.
- The term *street-level bureaucrats* was coined by Lipsky (1980) as he examined what happens at the point where policy is translated into practice, in various human service bureaucracies such as schools, courts

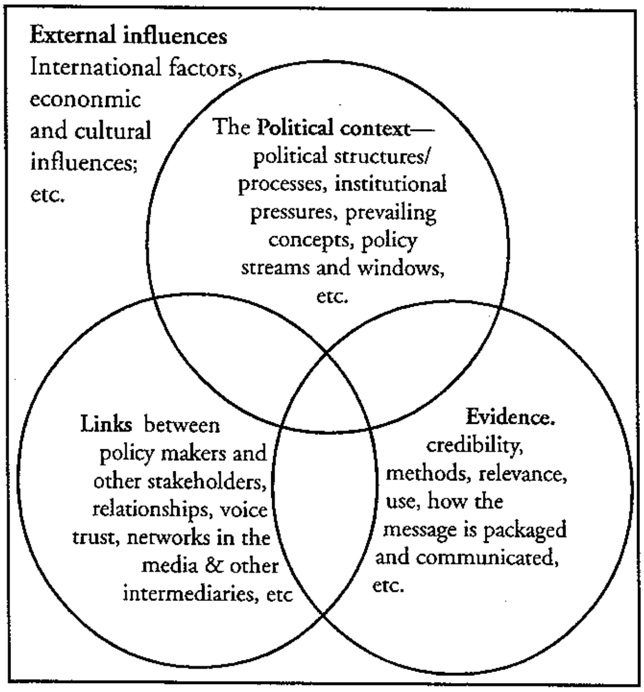
and welfare agencies. He argued that the real impact of policies depends much more on the people who actually implement it: the practitioners or street level bureaucrats, than the policy makers.

- In his book *The tipping point,* Gladwell talks about how ideas spread. He describes them as social epidemics, spreading like viruses: first slowly, from person to person, then more rapidly, until they reach a critical point, then 'tipping' into an epidemic at a moment 'when everything can change all at once' (2000:9). He calls this the tipping point, and identifies three different types of people who are important in most social epidemics: *connectors*: people who know who to pass information to, and are so respected that they will have influence on key players; *mavens*: information specialists who acquire information and then educate others (a personality type that is considered indispensable to marketing); and *salesmen*: powerful, charismatic and, most importantly, persuasive individuals who are trusted, believed and listened to where others would be ignored.

The RAPID framework

Based on a review of the literature, and over 50 case studies, RAPID has developed a framework (Crewe and Young 2002) to help to understand the huge range of factors which influence the research policy interface.

Figure 1: The RAPID context evidence and links framework



The framework contains four groups of factors:

- *The political context*: the first set of factors includes the extent of civil and political freedoms in a country, political and policy processes, institutional pressures and vested interests, attitudes and incentives among officials, their room for manoeuvre, local history, and power relations.
- *Evidence and communication*: the second set relate to the quality of the research, its relevance and operational usefulness, whether it provides a solution to a problem, and how the ideas are packaged and communicated.
- *Links*: third, the framework emphasises the importance of links; of communities, networks and intermediaries including the media and campaigning groups. Issues of trust, legitimacy, openness and formalisation of networks are important.
- *External influences*: fourth, the framework emphasises the impact of external forces and donors actions on research-policy interactions. Key issues here include the impact of international politics and processes, as well as the impact of general donor policies and specific research funding instruments.

The framework also maps onto real life activities. The political context is the realm of politics and policy making; evidence that of research, learning and thinking; and links includes the processes of networking, the media and advocacy. Even the overlaps between the domains map onto real life processes. The overlap between the political context and evidence is the process of policy analysis. The overlap between evidence and links includes a whole range of processes of scientific information exchange and validation. The interface between links and political context is the arena of campaigning and lobbying.

From the case studies we have collected so far (Court and Young 2003) it is clear that research is most likely to influence policy when it takes place in the middle of this framework, when researchers work closely with policy makers throughout the research process, and with a wide range of other stakeholders to maximise the volume and impact of research results.

Practical implications

The practical implication of this is that if you want to maximise the influence of your research on policy and practice, you really need to know something about each of the dimensions of the framework. You need to know about: