THE POOREST AND HUNGRY

Assessments, Analyses, and Actions

Edited by Joachim von Braun,
Ruth Vargas Hill,
and Rajul Pandya-Lorch

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An IFPRI 2020 Book

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Ruth Vargas Hill, and Rajul Pandya-Lorch

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Foreword

Although many millions of people have exited poverty in recent decades, much of the reduction in poverty has benefited people living close to the poverty line rather than those at the very bottom of the income distribution. This book is not focused on poverty per se but rather is focused on looking particularly at those most deprived in society. It is this focus on the poorest and hungry people that is the major contribution of this volume. Relatively little is known about people living in extreme deprivation. Who are the poorest of the poor and those most afflicted by hunger? Who are those who are left behind or out of poverty and hunger reduction processes? Why is poverty so persistent in some places and among some people? What are the key pathways out of ultra poverty and hunger? Which strategies, policies, and interventions have been successful in eradicating ultra poverty and hunger so far?

To address these questions and to examine what new and different action is required to improve the welfare of the poorest and hungry people, beginning in late 2006 the 2020 Vision Initiative of the International Food Policy Research Institute (IFPRI) facilitated a two-year global policy consultation and conference process, the centerpiece of which included an international conference, Taking Action for the World's Poor and Hungry People, held October 17–19, 2007, in Beijing. The conference was co-organized with the State Council Leading Group Office of Poverty Alleviation and Development of China and cohosted with the International Poverty Reduction Center in China (IPRCC) and the Chinese Academy of Agricultural Sciences (CAAS). A distinguished international advisory committee provided valuable guidance.

At the midpoint between the adoption of the United Nations' Millennium Development Goals (MDGs) in 2000 and the target year for achieving these goals in 2015—particularly the first MDG, which called for halving the proportion of people living on less than a dollar a day and those suffering from hunger between 1990 and 2015—IFPRI believed it would be timely to engage in a policy consultation and conference process to turn its attention to the poorest of the poor and to what extent they were participating in the poverty reduction processes or being left behind or out of these processes.

The decision to hold the IFPRI 2020 conference in Beijing was guided by the recognition that China is one of the few large countries to have almost achieved the hunger and poverty MDG and is now engaged in efforts to go beyond the MDGs to reach the remaining poorest of the poor and those left behind. The conference facilitated research- and experience-based deliberations among more than 400 leading policymakers, researchers, and practitioners from nongovernmental organizations, international agencies, and the private sector participating from 40 countries. The conference is represented at <http://www.ifpri.org/2020ChinaConference/index.htm>.

To contribute to well-informed conference deliberations with solid research and experience, the IFPRI 2020 Vision Initiative commissioned a number of background papers from IFPRI staff and other leading experts from around the world. In a few instances, the papers drew on earlier published work that was then refined or refocused explicitly on issues related to the ultra poor. All papers were peer reviewed and, primarily in draft form, were made available to participants in the Beijing conference where they were debated and reviewed among peers from around the world before being published as separate policy briefs. In this book some appear in their original form, but some have been revised in light of further comments. Other chapters were commissioned following the conference in response to gaps identified during the discussions. In addition, the book features essays by leading policymakers and practitioners who share their views on these key issues and thereby contribute to the diversity of perspectives presented.

This edited book seeks to lay out the major issues involved in realizing improvements in the welfare of the world's poorest people. It is not designed to be read at one sitting; rather it is a "recipe book" for use by policymakers and practitioners as a guide to approaches and options as well as by academics and researchers as an instrument for training and teaching purposes. To enable this material to be accessible to a wide audience, we deliberately asked the authors to refrain from adding references in the text but instead to direct readers interested in fuller discussions and more data to the further readings referenced at the end of each chapter.

We express our deep appreciation to the co-sponsors of the policy consultation and conference process that made this book possible: the Asian Development Bank, the Bill and Melinda Gates Foundation, the Canadian International Development Agency, Deutsche Welthungerhilfe (German Agro-Action), the

European Commission, the German Federal Ministry for Economic Cooperation and Development with Deutsche Gesellschaft für Technische Zusammenarbeit (BMZ/GTZ), the International Development Research Centre, and Irish Aid. IFPRI also gratefully acknowledges unrestricted support for IFPRI from Australia, Finland, France, India, Italy, Japan, the Netherlands, Norway, the Philippines, Sweden, Switzerland, the United Kingdom, the United States, and the World Bank, which enabled IFPRI to establish the research base needed for the overarching work reported here.

We are deeply grateful to the authors of the chapters and essays for sharing their invaluable contributions, which have enriched our knowledge, stimulated our perspectives, provoked our thinking, and ultimately contributed to better informing policies and actions that we hope will improve the well-being of the poorest and those most afflicted by hunger.

We are indebted to many colleagues inside and outside IFPRI for their exceptional support throughout the preparation of this book, from the commissioning of the chapters to their peer review, editing, and production. In particular, we warmly thank Evelyn Banda, Mary-Jane Banks, Djhoanna Cruz, Diana Flores, Heidi Fritschel, Michael Go, Vickie Lee, Tewodaj Mengistu, Uday Mohan, Carmen Ruiz, and Gwendolyn Stansbury.

It is our hope that this book will serve scholars, development activists, and policy advisers and will draw attention to the need for policies and strategies explicitly designed to focus on and address the poorest and hungry people in the world, not just to tackle general poverty.

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Chapter 1

The Poorest and the Hungry: A Synthesis of Analyses and Actions

Joachim von Braun, Ruth Vargas Hill, and Rajul Pandya-Lorch

Although many countries have seen substantial economic growth over the past two decades and many poor people have experienced considerable improvements in their welfare, for some countries and people progress has been dismally slow. More often than not, those left behind have been the poorest countries and the very poorest individuals within those countries.[1]

Many cultures and faiths make consideration of the lowest and most vulnerable people a central tenet—for example, Mahatma Gandhi's principle of *antyodaya:* "Recall the face of the poorest and the weakest man whom you may have seen, and ask yourself if the steps you contemplate are going to be of any use to him" (Gandhi 1947, 311); Christianity's "Do unto the least of these" (Matthew 25:36); and Islam's "Alms are for the poor and needy" (Tawbah 9:60). On this count, how do we evaluate recent global progress? Has life improved for the world's poorest people? What causes lack of progress, and what policies have worked to improve the livelihoods of the poorest? How can substantial improvements in the lives of the poorest be achieved?

As the next section of this chapter details, poverty reduction has most often benefited people living close to the poverty line rather than those at the very bottom of the income distribution. The very poorest individuals tend to be from socially excluded groups, live in remote areas with little education and few assets, or—in Asia, particularly in South Asia and parts of East Asia such as Vietnam—be landless, or they may have all of these characteristics. Further, these groups are likely

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to have experienced the severe ill health or death of an adult member or to have suffered from conflict or environmental shocks such as drought (Ahmed, Hill, and Wiesmann, this volume, Chapter 5).

The main aim of this volume is to focus attention on the poorest and address questions about the determinants of and solutions to ultra poverty. The book addresses not just poverty in general but the often overlooked issues of bottom-end poverty and hunger. It takes as a starting point an explicit recognition that although a stable, growing economy is essential for providing welfare-improving opportunities for the poorest, extreme poverty can cause the poor to adopt survival behaviors that are costly in the long run. Addressing this situation requires directly targeting the asset base of the ultra poor. Fundamentally, this volume also argues that addressing the political and social causes of exclusion is central to tackling ultra poverty. After reviewing the progress to date on poverty and hunger reduction, this chapter will present the main concepts underlying the material presented in the book and give a broad overview of the topics covered. It then provides a summary of the way forward.

Global Progress on Income Poverty and Hunger

In 2000, the international community adopted the Millennium Development Goals (MDGs), the first of which is to halve the proportion of poor people living on less than a dollar a day and the proportion of people who suffer from hunger. After briefly outlining what is meant by *poverty* and *hunger* and how each is measured, this section reviews the progress achieved to date.

Income Poverty

Poverty and deprivation are multidimensional realities (Sen 1976), and recent developments in multidimensional measures of poverty have produced a more accurate understanding of who is poor (McGillivray 2006; Alkire and Foster, this volume, Chapter 3). Researchers have improved and standardized new alternative measures of poverty (see Moser 2006 on asset-based measures, for example) and of subjective well-being (Samman 2007).[2] Although these measures are controversial (see Bruni and Porta 2005), they have allowed for different and insightful comparisons of well-being across continents. Considering these measures of well-being alongside the more standard measures of income poverty provides a more nuanced view of the nature and magnitude of poverty. It is improvements in the measurement of income poverty, however, that provide a much better idea of global progress against deprivation and of who remains poor (Chen and Ravallion, this volume, Chapter 2). Thus, the following discussion of global progress in reducing poverty focuses on the measure of income poverty. More precisely, the discussion uses the standard income threshold of a dollar a day, defined by the international community as constituting extreme poverty.

Although referred to as a dollar a day, until recently this standard threshold was measured as US$1.08 per day at 1993 purchasing power parity (PPP).[3] In 2008 new estimates emerged using 2005 PPP exchange rates, resulting in an adjusted poverty line of US$1.25 at 2005 PPP (Chen and Ravallion 2008a,b; Chen, Ravallion, and Sangraula 2008).[4] Although the new estimates suggest that changing the PPP exchange rate and the poverty line results in a substantial increase in the number of people counted as poor, the progress achieved with respect to the first MDG remains unchanged (Chen and Ravallion 2008a). These new estimates, however, do not take into account the increase in food prices since 2005.

Globally, progress in reducing poverty and hunger has been significant: using the poverty line of US$1.08 per day at 1993 PPP, the proportion of the world's population living in poverty fell from 29 percent in 1990 to 18 percent in 2004 —a decline of almost 280 million people (Ravallion, Chen, and Sangraula 2007)—even though the population of developing countries grew by 1 billion during this time. Under the revised poverty line of US$1.25 at 2005 PPP, the proportion of the population living in poverty fell from 42 percent in 1990 to 25 percent in 2005—a reduction of approximately 445 million people (Chen and Ravallion 2008a; this volume, Chapter 2). No matter which measure is used, if poverty and hunger reduction continues at its current pace, the first MDG will likely be met at the global level. Furthermore, within countries, there is some evidence that throughout the world, poverty is urbanizing (Ravallion, Chen, and Sangraula 2007). The urban poor are increasing in number, and the prevalence of hunger is increasing in urban areas, requiring a shift in policies.

Much of the world's progress in poverty reduction reflects progress in East Asia and the Pacific (particularly in China and Vietnam) and in South Asia. In contrast, poverty in Sub-Saharan Africa has remained more stubbornly entrenched. Indeed, in the East Asia and the Pacific region, which has surpassed the poverty MDG, the poverty rate (using a poverty line of US$1.25 at 2005 PPP) dropped almost 38 percentage points, from 55 percent in 1990 to 17 percent in 2005. The poverty rate in South Asia fell from 47 to 40 percent during the same period, and in Sub-Saharan Africa it fell from 58 percent to 51 percent. In Latin America and the Caribbean the poverty rate fell from 10 percent to 8 percent (Chen and Ravallion 2008a).[5] As a result, the regional composition of poverty has changed dramatically. As Chen and Ravallion discuss (this volume, Chapter 2), the region with the highest share of the world's poor in 1984 was East Asia and the Pacific, and Sub-Saharan Africa accounted for only 13 percent. By 2005 Sub-Saharan Africa's share was 28 percent, and if this trend continues the region will have almost 40 percent of the world's poor by 2015. If progress on poverty reduction continues at its current rate, some regions and countries, particularly those in Sub-Saharan Africa, will not meet the first MDG.

Within countries, there is some evidence that progress has been slowest among the poorest. Certainly, the number of people living on less than a dollar a day encompasses a multitude of people living in varying degrees of poverty—all of them poor but some more desperately poor than others. Therefore, the dollar-a-day figure does not fully capture the severity of poverty.

A number of powerful, though less used, poverty measures exist that attempt to better capture the magnitude of poverty—that is, how far below the poverty line an individual's welfare falls (Sen 1979, 1981; Foster, Greer, and Thorbecke 1984). For example, Foster, Greer, and Thorbecke developed a class of poverty measures in which the researcher decides the weight given to the distance a person's welfare falls below the line. In headcount measures the weight is zero: everyone below the line is counted equally regardless of how far below the line they fall. By increasing the weight, the researcher gives rising importance in the measure to those who fall further and further below the line. When the weight is set at one, the distance a person's welfare falls from the line is aggregated; this is the "poverty gap measure." One downside to these measures is that it is often harder (relative to the headcount measure) to conceptualize what changes in these measures mean in terms of how welfare has improved for those well below the line. Thus, for ease of comprehension and interpretation, this volume uses a lower poverty line of 50 cents a day in line with Ahmed et al. (2007) to proxy for the severity of poverty.[6] By this measure, 162 million people out of the 969 million living on less than a dollar a day in 2004 lived in ultra poverty—that is, on less than 50 cents a day. And, as shown by Ahmed et al. (this volume, Chapter 5), since 1990 poverty reduction among these ultra poor has been slower than poverty reduction among those living on more than 50 cents a day.

The severity of poverty in Sub-Saharan Africa and the limited progress in reducing it indicate that the poorest in Sub-Saharan Africa may be trapped in poverty, as some recent literature suggests (Azariadis and Stachurski 2005; Sachs 2005; Barrett and Carter 2006; Collier 2007). The idea of poverty traps may also be behind the observation that poverty fell more slowly for those living on less than 50 cents a day than for those living on between 50 cents and a dollar a day and the observation that the average income levels of countries are diverging, not converging, over time (Azariadis and Stachurski 2005). Microeconomic evidence of a trap has been found in countries in Africa more often than in countries elsewhere. Poverty traps have been found in Madagascar (Barrett et al. 2006), Kenya (Barrett et al. 2006), South Africa (Adato, Carter, and May 2006), and Côte d'Ivoire (Barrett et al. 2001) but not in Russia (Lokshin and Ravallion 2004), rural China (Jalan and Ravallion 2002), or Mexico (Antman and McKenzie 2007). The issue of path dependence is discussed further in the presentation of the conceptual framework of this book.

Hunger

Hunger, the second component of the first MDG, entails a lack of sufficient food of needed quantity, quality, and dietary diversity. Its effects closely relate to health outcomes. Hunger, therefore, has many faces: loss of energy, apathy, increased susceptibility to disease, shortfalls in nutritional status, disability, and premature death. Although hunger is partly driven by poverty, other factors related to access to health and education are also important drivers of hunger and malnutrition.[7] More than 50 percent of the hungry live on small farms in developing countries and are connected to the rural economy. Agricultural growth thus has a key role to play in reducing hunger and ultra poverty through development.

The main measure of the level of hunger is caloric deficiency; the hungry are those who consume fewer than 2,200 calories a day. By this measure, calorie deficiencies affect about 800 million people, who are found mostly among the poorest (Ahmed et al., this volume, Chapter 5). Analysis of household survey data suggests that the severity of hunger is much greater in Sub-Saharan Africa than in South Asia and other parts of the world (Smith and Wiesmann 2007; Ahmed et al., this volume, Chapter 6). In the African countries analyzed in Chapter 6 (Burundi, Ethiopia, Kenya, Malawi, Rwanda, Senegal, and Zambia), most of the hungry consume fewer than 1,600 calories a day and are thus at risk of dying from extreme hunger or starvation. In the Asian and Latin American countries surveyed (Bangladesh, Guatemala, India, Laos, Pakistan, Sri Lanka, Tajikistan, and Timor-Leste), the hungry are more likely to consume between 1,600 and 2,200 calories a day. At less than 2,200 calories a day, however, individuals are still living in substantial deprivation, consuming less than what is needed to undertake even light activity (such as sitting and standing).

Given the multidimensionality of hunger, a number of other measures can also shed light on the situation, such as measures of micronutrient deficiencies, dietary diversity, and malnutrition-related mortality. Micronutrient deficiencies affect about 2 billion people, which include mostly low-income people but also a significant part of the population living on one to two dollars a day (Ahmed et al., this volume, Chapter 5). As for dietary diversity, Smith and Wiesmann (2007) showed that in Sub-Saharan Africa and South Asia, where staple foods form a large part of diets, there is a lack of foods rich in protein and micronutrients, with the situation in Sub-Saharan Africa more severe.

Another measure, the Global Hunger Index (GHI), was designed by the International Food Policy Research Institute (IFPRI) to capture three main dimensions of hunger: lack of economic access to food, shortfalls in the nutritional status of children, and child mortality, which is to a large extent attributable to malnutrition (Wiesmann 2006). By combining these three dimensions, the GHI aims to capture the reality that hunger is caused by more than just insufficient availability of dietary energy at the household level; it is also caused by nutritional inadequacies—such as vitamin A deficiency, which is strongly associated with under-five mortality[8]—that have immediate and long-term consequences on welfare. Indeed, it has been shown that inadequate diet quality, as much as insufficient energy consumption, is a major dietary constraint facing poor populations (Graham, Welch, and Bouis 2004; Ruel et al. 2004).[9] Accordingly, the GHI includes the following three equally weighted indicators: the proporton of people who are food-energy deficient as estimated by the Food and Agriculture Organization of the United Nations, the prevalence of underweight in children under the age of 5 as estimated by the World Health Organization, and the under-five mortality rate as estimated by the United Nations Children's Fund (UNICEF).[10] The index then ranks countries on a 100-point scale, with 0 the best score (no hunger) and 100 the worst, although neither of these extremes is found in practice. In general, a value greater than 10 indicates a serious problem, greater than 20 is alarming, and greater than 30 is extremely alarming.

The most recent GHI (reported in 2008 with data up to 2006, before the world food crisis of 2007–08) shows that the hot spots of hunger are in Sub-Saharan Africa and South Asia. Both regions have "alarming" levels of hunger, with Sub-Saharan Africa scoring 23.3, closely followed by South Asia, with a score of 23. Nevertheless, GHI trends over time show substantial improvements in hunger in some parts of the world. Although East Asia and the Pacific experienced only a small reduction in its GHI score during the 1990s, the region had a lower GHI score at the outset, suggesting that in the early 1990s it was more able than Sub-Saharan Africa and South Asia to meet its population's most basic food and nutritional needs. With its GHI falling by 25 percent between 1990 and 2008, South Asia made tremendous strides in combating hunger in the 1990s. Yet despite remarkable improvement in child nutritional status, the region still has the highest prevalence of underweight children in the world, and thus a high GHI score. In Sub-Saharan Africa, overall progress in the 1990s was slow; between 1990 and 2008 the GHI decreased by less than 11 percent. Although the proportion of people who were food-energy deficient decreased, there was little improvement in terms of underweight children and the under-five mortality rate (Wiesmann 2006; von Grebmer et al. 2008).[11]

In sum, global trends in poverty and hunger suggest that the poorest and the hungry are becoming increasingly concentrated in Sub-Saharan Africa and in countries where growth has been stagnant. Three-quarters of those living on less than

50 cents a day live in Sub-Saharan Africa. And although South Asia still accounts for the highest share of those living on less than a dollar a day, Sub-Saharan Africa's share is increasing.

The Conceptual Framework of the Book

This section presents the organizing framework of the book and provides a contextual background for the issues addressed. The goal is not to provide an overview of all the chapters and essays of this volume (each part of the book opens with an introductory segment) but to provide some rationale for the structure and focus of this book. There are many ways to structure a volume such as this one, because the various chapters and essays in this volume address a range of issues concerning some of the causes of extreme poverty and the actions needed to spur sustained reductions in extreme poverty and hunger. The organizing rationale used here is based on three broad conclusions of the material presented:

1. Creating an economywide environment that allows for income and asset *growth* of the poorest is necessary to improve their welfare.

2. The perverse dynamic associated with ultra poverty highlights the need for *targeted action* to build up the nutrition, health, land, credit, and education of the poorest households.

3. The *political dimension* of poverty requires addressing the current and historical exclusion of the poorest through policies that allow for their inclusion.

Further, these conclusions suggest policy areas to be addressed in the context of a social strategy that takes appropriate account of institutional conditions.

Widely different growth experiences since the Industrial Revolution have contributed to large disparities among countries in terms of poverty and hunger reduction (Rodrik 2003). Indeed, a number of cross-country studies have shown that poverty reduction is more likely to take place in countries that experience economic growth (Fields 2001; Ravallion 2001; Dollar and Kraay 2002; Kraay 2006). The chapters in this volume thus argue for policies that ensure growth, and in particular growth in labor productivity and in sectors where the poorest are located. The relationship between poverty reduction and growth, however, is a pattern observed on average across countries. It is thus consistent with an uncomfortably large number of countries experiencing growth accompanied by no reductions in poverty, or growth accompanied by poverty increases. This situation calls for an additional focus on targeted action and political inclusion to address ultra poverty in social strategies.

A growing body of research (see the subsection headed “Individual-Level Determinants of Poverty: Labor, Assets, and Behavioral Adaptation”) suggests that ultra poverty has its own dynamic. When faced with severe asset deprivations, individuals alter their behavior to ensure survival. In ensuring survival, however, their actions often make future growth less likely. Targeted action that addresses extreme asset deprivation—deprivation in nutrition, health, education, and physical and financial assets—is needed to break this cycle. This volume argues that the centerpiece of such strategies is social protection. Other crucial interventions include nutrition programs for the poorest, “microcredit-plus” programs, social security, and innovations in insurance.

Current and historical political undercurrents that influence who becomes poor and who does not must also be addressed. Throughout the world, the rate of ultra poverty is especially high among minorities and marginalized people (see the subsection headed “Power, Discrimination, and Exclusion”). For example, the systematic exclusion of groups such as ethnic minorities in Southeast Asia, hill tribes and scheduled castes in South Asia, indigenous groups in Latin America, and pastoralists and strangers in Sub-Saharan Africa from access to resources and markets increases their propensity to be poor. This consistent and persistent pattern of poverty across continents highlights the fact that addressing extreme poverty and hunger often requires addressing social and political processes as much as economic issues (Sen 2000; Narayan and Petesch 2007; Green 2008).

The three conclusions, and the corresponding areas of action identified, are not mutually exclusive. The synergies and spillovers between investments in economic growth and targeted investments in poor households to mitigate poverty are widely recognized (Ahmad et al. 1991; Devereux 2008; Hoddinott 2008; Alderman and Hoddinott, this volume, Chapter 20). For example, productivity-enhancing investments can also facilitate poor people’s access to social services, and investments in nutrition and health care directly improve the welfare of poor households and increase their productivity (Pattillo, Gupta, and Carey 2005). At the macroeconomic level, economic growth increases the public resources available for financing social programs and also reduces the need for social programs in the future (Devereux 2008). Public budgets for livelihood-enhancing investments and social protection programs should be viewed not separately but as complements (IFPRI 2008). Addressing the political causes of exclusion also has benefits for the other two areas of action. Discrimination against groups based on identities of race, region, and ethnicity creates economywide inefficiencies by preventing those discriminated against from fulfilling their productive potential. Similarly, improving the nutrition, health, credit, and education of the poorest households is possible only when individuals are not discriminated against in the provision of public services or credit.

This section discusses further why action in each of these areas is important for reducing poverty and hunger among the world's most deprived. First, it describes how macro-level determinants affect the poorest, focusing on both global-level factors and national-level determinants of ultra poverty. Second, it presents evidence on how extreme asset deprivation contributes to the persistence of poverty over time. Third, it highlights the political and social underpinnings of extreme poverty. The third section of the chapter discusses specific policy actions in each of these areas. The fourth section discusses strategies to ensure the effectiveness of these actions.

This chapter follows the broad structure of the book: As shown in the schema in Table 1.1, the first set of chapters (in Part 1) looks more closely at some of the characteristics and causes of ultra poverty to answer the questions of who and where the poorest are and why poverty persists. The remainder of the book then deals with the actions that need to be taken to reach and include the poorest and the hungry: the chapters and essay in Part 2 focus on the actions needed to spur growth in countries where the poorest live, Parts 3 and 4 look at how to reach this subset of the population through targeted building up and inclusion, and Part 5 looks at the financing, sequencing, and implementation of such actions.

As already stated, although divergent growth patterns play an important role in explaining some of the disparities in the progress achieved, other factors and disparities in the contextual characteristics of individual countries and populations can also provide insight in explaining the disparate experiences. Different disciplinary perspectives highlight the different parts of the explanation. For example, whereas economists focus on economic growth patterns, political scientists may emphasize the existence of conflict and power relations, sociologists may focus on the existence of discrimination and exclusion in societies that prevent certain subgroups of the population from getting out of poverty, and nutritionists and epidemiologists may stress the relationships between health, hunger, and deprivation. The following subsections explore these perspectives to give a more comprehensive picture of the drivers of welfare gains and losses by looking at some of the determinants of ultra poverty and by investigating the coping mechanisms and behavioral adaptations of the poor.

Macro-Level Determinants of Poverty

Large differences in poverty rates between countries point to the importance of economywide determinants of ultra poverty. The presence of peace is perhaps one of the greatest determinants of a country's ability to secure growth for its richest and poorest citizens alike. Additionally, factors such as global economic trends, disparate national policies, demographic composition, and asset inequality are important

Table 1.1 Conceptual framework for the book and road map to the chapters

	Action area		
	Growth	**Targeted action**	**Inclusion**
Characteristics of the poorest	The poorest are concentrated in certain countries and regions of the world (such as Haiti and Sub-Saharan Africa) and in lagging regions within countries.	The poorest have suffered health shocks, have few assets, and are investing less in their children's education.	The poorest are more likely to come from excluded groups.
Causes	Stagnant growth Conflict	Lack of protection against risk Limited access to credit Few assets	Discrimination Historical and current exclusion from resources
	Part 1: Chapters on characteristics and causes Chapter 2: Chen and Ravallion Chapter 3: Alkire and Foster Chapter 4: Svedberg Chapter 5: Ahmed, Hill, and Wiesmann Chapter 6: Ahmed, Hill, Smith, and Frankenberger Chapter 7: Benson, Epprecht, and Minot Chapter 8: Dasgupta		
Areas for policy and action	Policies for inclusive growth Peace-building Agricultural and rural development Labor markets and employment Lagging regions	Social protection Social security "Microcredit plus" for the poorest Insurance Nutrition and health programs Education	Empowerment Organizations of the poor Property rights reform
	Part 2: Chapters on growth Chapter 9: Díaz-Bonilla Chapter 10: von Braun and Mengistu Chapter 11: Ravallion Chapter 12: Valdés and Foster Chapter 13: Klasen Chapter 14: Huang, Zhang, and Rozelle Chapter 15: de Brauw Chapter 16: Sørbø and Strand Chapter 17: Meinzen-Dick, Kameri-Mbote, and Markelova Chapter 18: Ahmad Chapter 19: Liming et al. Essay 1: Birdsall	Part 3: Chapters on social policies and insurance Chapter 20: Alderman and Hoddinott Chapter 21: Dethier Chapter 22: Adato and Hoddinott Chapter 23: Adelman, Gilligan, and Lehrer Chapter 24: Spahn Chapter 25: Dercon Chapter 26: van der Gaag Chapter 27: Abed Chapter 28: Varma Chapter 29: Ferreira and Leite Chapter 30: Graziano da Silva Chapter 31: Contreras Essay 2: Ananias de Souza Essay 3: Panganiban	Part 4: Chapters on inclusion Chapter 32: Stewart Chapter 33: Krishna Chapter 34: Thorat Chapter 35: Khetan and Mehta Chapter 36: Ambler et al. Chapter 37: Dongmei Essay 4: McClain-Nhlapo Essay 5: Kumar Thallam Essay 7: Båge
	Part 5: Chapters on strategies, financing, sequencing, and implementation Chapter 38: Keyzer and van Wesenbeeck Chapter 39: Birner Chapter 40: Fan, Brzeska, and Shields Chapter 41: Fan, Saurkar, and Shields Chapter 42: Birner Chapter 43: Babu and Pinstrup-Andersen Chapter 44: Hartmann and Linn		

determinants of differences in the pace of poverty and hunger reduction. Each of these factors is reviewed next.

Global Trends. Fostering growth and poverty reduction is not just a matter of national policy, particularly in the context of an increasingly globalized world. Effectively, globalization influences poverty by offering countries opportunities for growth and offering poor people direct or indirect access to previously unavailable assets and markets. Many countries, however, have not been able to translate these opportunities into increased poverty reduction (von Braun and Mengistu, this volume, Chapter 10). And for those that have, integration into global markets has some risks in the sense that these countries become more susceptible to the global trends. Many global economic variables—such as global cycles of growth and downturn; levels and terms of global trade; global trends in inflation, interest rates, and exchange rates; export subsidies in developed countries; and food and commodity prices—affect country growth rates (Díaz-Bonilla, this volume, Chapter 9) and poor countries' ability to facilitate pro-poor growth and even growth in general. In addition, other global variables such as climate change and international migration also affect the status of the poor.

- *Global economic trends.* As stated earlier, developing countries are increasingly sensitive to global economic trends. In recent years, one of the most notable global events to affect developing countries and the poor who live in them was the rapid rise in food prices (including prices of the most-consumed grains—rice, wheat, and corn) in 2007–08. This global food crisis rocked many countries in the developing world, especially those that are net importers of food.

  The discussion in the first section of this chapter focused on the progress that was made until 2004–05, the years for which the latest estimates of global poverty and hunger are available. These numbers therefore do not account for the global food crisis of 2007–08, which will be reflected only in data currently being collected. The realities on the ground nevertheless suggest that the food crisis has had a substantial and detrimental impact on the welfare of the poorest households, particularly those living in urban centers (von Braun et al. 2008). The most recent *World Economic Situation and Prospects* report of the United Nations Conference on Trade and Development (UNCTAD) suggests that "between 109 million and 126 million people may have fallen below the $1 per day poverty line since 2006 owing to the increase in food prices, with the vulnerable populations located in South Asia and sub-Saharan Africa" (UNCTAD 2009, 26). The World Bank also estimates that the food crisis has caused an increase of 44 million in the number of people suffering from malnutrition (World Bank 2009). Additionally, simulations using recent household data for a number of countries show that in most cases the poverty rate and the poverty gap increase with a rise in food prices (except in Peru and Vietnam),[12] signifying that increased prices affect the poorest households in particular (Ivanic and Martin 2008).

Global cycles of growth and slowdown also greatly affect developing countries' growth and poverty reduction experiences (Díaz-Bonilla, this volume, Chapter 9). For example, from 2002 to 2007, the world experienced several years of sustained high rates of growth, including in some of the poorest countries. These poor countries, usually commodity exporters, benefited from increased commodity prices driven by an economic boom both in developed countries and in the large developing countries, mainly Brazil, China, India, and Russia (Lin 2008). Currently, the opposite—a global recession originating from a financial crisis in the United States and Western Europe—is occurring, and developing countries feel some of the negative impacts. Indeed, although the exposure of developing-country banks to underperforming assets was limited,[13] the crisis is starting to affect developing countries through the drop in global demand and the resulting reductions in export earnings and foreign direct investment (Naudé 2009). Furthermore, remittances, an important source of foreign exchange for many smaller and poorer countries, are expected to drop because of fewer economic migrants and lower volumes of remittances per migrant. Aid flows from developed countries are also expected to decline (te Velde 2008; IMF 2009).

The crisis is affecting low- and middle-income countries differently. Middle-income emerging economies have been affected mainly through the falling demand in developed countries and the resulting decline in global trade. For example, countries such as Brazil, India, Indonesia, and the Philippines all registered declines in exports on the order of 15–29 percent in the last quarter of 2008. Furthermore, these countries have experienced a decline in private capital inflows (World Bank 2009). Low-income countries, particularly those that depend on primary commodity exports, are also seeing their export earnings decline as a result of decreased demand and prices for primary commodities. According to the World Bank, prices for non-oil commodities fell by 38 percent between July and December 2008. With donor countries expected to scale back aid flows, low-income countries, which traditionally rely on official development assistance in times of declining export revenues, will likely experience budgetary contractions (World Bank 2009).

The World Bank estimates that the recession will increase the number of people in poverty by 46 million in 2009 because of falling employment, reduced real wages, and declining remittances. Such slowdowns also often hurt the poorest the most, because they are the least prepared to deal with the negative impacts of the downturn. The situation is all the worse given the recent global food price crisis; the poorest households, which are just barely coming out of that crisis, will have to stretch their coping mechanisms even more. Governments in many developing countries may not be able to adequately respond to this crisis because many of them are seeing their revenues fall with the reduction in export earnings and aid. The decline in government revenues could have longer-term consequences for poverty levels if it translates into reduced public services, especially in the areas of public health and education (World Bank 2009).

The extent of the crisis will depend largely on the success of U.S. and E.U. responses (te Velde 2008). The larger and more advanced developing countries, some of which built up massive reserves and strong current account positions over the years of growth—such as China, India, and Korea—have also introduced fiscal expansion packages to stimulate demand. But there is not much that smaller and poorer countries, particularly those that already have higher inflation rates and depreciating exchange rates, can do to mitigate the crisis. For these countries, appropriate policy responses would include avoiding spending increases in certain sectors (for example, export subsidies and public-sector wages); increasing interest rates to attract capital; raising domestic resources through increased taxation, particularly in countries with low ratios of taxes to gross domestic product (GDP); and maintaining flexible exchange rates to maintain competitiveness (IMF 2009; Naudé 2009).

- *International migration.* International migration has increased greatly in the past 20 years as part of the general trend of globalization. From 1990 to 2005, the number of international migrants increased from 120 million to 185 million, and net migration (the total number of immigrants less the total number of emigrants) for developing countries as a whole decreased from –2.58 million to –18.63 million (Taylor 2006; World Bank 2008b). This increase reflects an increase in economic migration—the migration of people from developing nations to developed countries seeking a better economic future (de Brauw, this volume, Chapter 15).

  The rise in international migration has created some opportunities for poverty and hunger reduction. Given the high costs and risks involved in international migration, it is usually not the poorest who migrate, but they often benefit from the remittances sent back by migrants, which provide opportunities for poor and vulnerable households to improve their standard of living. In fact, remittance flows from migrants to their families in developing countries has increased steadily over the years, going from US$116 billion in 2002 to an estimated US$283 billion in 2008 (Ratha, Mohapatra, and Xu 2008). Furthermore, increased international migration can create some scarcity in the local labor market, putting upward pressure on wages from which the poor can benefit.

Increases in immigration, however, can pose significant policy challenges in migrant-sending countries. The loss of skilled labor, also known as "brain drain," is a major issue.[14] Furthermore, in the short run, the productivity of the migrant-sending household decreases, although in the long run, productivity generally increases as households make productivity-enhancing investments with the remittances they receive (Taylor 2006).

- *Climate change.* One of the greatest and most long-term challenges facing the world may be climate change. The phenomenon is bringing about gradual changes in precipitation, sea-level rises, increases in temperature, and associated shifts in climatic zones. These climatic changes are also likely to cause more frequent and severe extreme weather events such as floods and droughts (Poverty–Environment Partnership 2003). The impacts of climate change will vary across countries and regions. For example, average global temperature increases of a few degrees will have very different impacts in different locations. Temperature increases in some places could be twice as high as in others, with increased droughts, tropical storms, floods, and sea levels affecting coastal zones, islands, and parts of Africa.

  Climate change is expected to particularly affect the poorest countries and the poorest households and communities in those countries because of their location, their greater dependence on agriculture, and their lower availability of water, land, production inputs and capital, and public services. For some the world's poorest people, the impact will be large and catastrophic. As the *Human Development Report 2007/8* on climate change states, "While the world's poor walk the Earth with a light carbon footprint they are bearing the brunt of unsustainable management of our ecological interdependence" (UNDP 2007, 3). Mitigation and adaptation are both essential, but mitigation is especially important in that it reduces the burden on adaptation along with suffering and can provide a source of income generation in rural areas.

- *Conflict.* More than perhaps anything else, conflict has the ability to retard and negate progress in reducing poverty and hunger. The presence of conflict or peace in different parts of the world has been a major driver of welfare losses and gains. Indeed, a third of those living in absolute poverty in developing countries live in countries defined as "difficult environments" because of conflict or state collapse. Of the 980 million people identified by Collier (2007) as living in 50 failing states, nearly three-quarters live in states that have recently been through or are still in the midst of a civil war (and 70 percent live in Africa). Similarly, Wiesmann (2006) showed that most countries with comparatively high GHI scores, especially in Sub- Saharan Africa, have experienced long-lasting wars in the past 15 years. And this picture is incomplete, because those countries most affected by conflict—such as Afghanistan, Iraq, and Somalia—are those without hunger estimates.

The majority of civil wars are fought on ethnic lines (Wimmer 2004). Although ethnic fragmentation alone does not explain the presence of civil wars, unequal access to power based on ethnicity can generate conflict (Bates 1999; Weiner and Russell 2001; Varshney 2003). When ethnically diverse resource-rich countries have political institutions that place limited checks and controls on the power of government, conflict often results (Collier 2007). Further, there is some evidence that unequal distribution of resources (Sørbø and Strand, this volume, Chapter 16), extreme poverty, and, more generally, political, social, and economic inequalities can instigate conflict (Stewart 2002).

Conflict affects poverty and hunger both during and after the conflict. The most direct impact of conflict on well-being is the loss of human life. In addition to the immediate distress this causes, loss of life can have a long-term impact on a household's welfare because the loss of members limits the household's earning ability and deprives children, the sick, and the elderly of their caregivers. When people are compelled to leave their homes as a result of conflict, they are cut off from their usual sources of income and food and become highly vulnerable. In refugee camps, they are frequently subject to overcrowding, poor sanitary conditions, and inadequate food supplies.

The disruption of markets, roads, crops, livestock, and land that warfare brings also has an immediate and long-term impact on the incomes of those in the affected areas. Provision of basic services is difficult during and after conflict when institutions are absent, many service providers are missing, and security cannot be guaranteed. Persistent poverty and hunger become more likely when basic services are absent. During conflict schools are destroyed and teachers are killed, compromising the education of a whole generation, especially in long-lasting civil wars. Health care services are also jeopardized through deliberate destruction of health care facilities, lack of medical supplies, and personnel losses.

Collier (2007) highlights that the countries with the lowest per capita GDP are those that suffer from persistently low levels of state capacity or long periods of war and civil conflict. The impact of conflict on poverty and hunger in turn makes conflict more likely. Regression estimates suggest that halving the income of a country doubles the risk of civil war. This finding and the fact that conflict is also likely to recur—half of all civil wars are postconflict relapses—generate a "conflict trap" in which countries embark on a downward spiral of increasing impoverishment, hunger, and violence.

Growth and Inequality. The Organisation for Economic Cooperation and Development (OECD) stated in a recent publication that "economic growth is an essential requirement and, frequently, the major contributing factor in reducing economic poverty" (OECD 2006, 10), reflecting the findings of a number of cross-country studies showing that poverty reduction is more likely to take place in countries that experience economic growth (see, for example, Fields 2001; Ravallion 2001).

There is a long history of literature in economics that takes growth as the starting point for explaining the absence of poverty in some countries and not others. It was the focus of texts such as Adam Smith's *Wealth of Nations* (1776). These explanations have also formed the core of recent assessments of the causes of divergent development and poverty experiences across countries (for example, Hayami 2001; Commission on Growth and Development 2008). Hayami (2001) argued that the observed global divergences arise not so much because of differences in natural resources as because of differences in countries' ability to develop and adopt advanced technologies. Low-income economies have difficulties in "preparing appropriate institutions for borrowing advanced technology under their social and cultural constraints" (vii). This argument is bolstered by the fact that the regions of the world that have experienced the most poverty reduction in recent years have also experienced the highest growth (East Asia and the Pacific and South Asia). Several studies have found that on average and across countries, growth of 1 percent will lead to a 2–3 percent reduction in the number of people living below the poverty line (Ravallion and Chen 1997; World Bank 2000b). In a recent study involving 14 countries, however, Klasen and Misselhorn (2006) obtained more modest results; they estimated that the potential impact of growth of 1 percent on poverty reduction varied between 0 and 0.73 percentage points.

Growth is not equally good in all countries, however. For example, Bourguignon (2003) found that growth explains only a quarter of the cross-country variation in poverty reduction. The level of income inequality in a country is one of the factors that affects the relationship between growth and poverty. Indeed, growth has been found to have a smaller impact on reducing poverty in countries where inequality is high. This finding suggests that in countries where inequality is high, not only do the poorest and hungry have the least share of resources; they are also least likely to benefit from growth. Yet not all inequality is equally bad; some types of inequality are more likely to result in persistent poverty and hunger than others (Ravallion, this volume, Chapter 11). For example, removing market restrictions that keep inequality low by compressing the labor-market returns to schooling may in the long run help households escape poverty. But inequalities resulting from unequal education, exclusion of certain groups on grounds of their ethnicity, or inequalities in access to credit, insurance, and land (especially in agriculture-based societies, which are found in most low-income countries) make it hard for the poorest to improve their welfare.

In short, the influence of growth on poverty and hunger depends on whether the type of growth that occurs benefits poorer or richer households more. Growth in sectors in which the poorest and hungry people earn their livelihoods and in the regions where they reside benefits them the most. For much of the developing world, that means growth in the rural sectors of the economy, such as in agriculture (World Bank 2008a; Klasen, this volume, Chapter 13). Furthermore, enabling the poor to improve their labor productivity through investments in education, improvements in health, or specialized activities can promote pro-poor growth (Valdés and Foster, this volume, Chapter 12). Additionally, reducing inequality through growth that favors the poor more than the rich or through redistributive measures will reduce poverty. For example, Besley and Burgess (2003) estimate that reducing the level of inequality in each region in the world by one standard deviation is enough to more than halve poverty in Sub-Saharan Africa and almost halve poverty in Latin America. The power of reductions in inequality to reduce poverty and hunger is further evidenced by the experience of Brazil in the past 10 years: Brazil achieved large reductions in poverty, from 38 percent to 19 percent, with a growth rate of only 1.1 percent (Ferreira and Leite, this volume, Chapter 29).

Demographic Composition. Demographic variables and poverty are linked in complex and dynamic ways. Wide variation in births and mortality rates across the developing world has enabled researchers to analyze how demographic composition can affect economic development and welfare. At the more micro level, there is some evidence that extreme poverty encourages high fertility rates, particularly in the context of high mortality rates, because a higher number of surviving children represents additional labor. Furthermore, there is a feedback mechanism at work whereby when costs of additional labor increase, households have an incentive to produce more children, which in turn exerts greater pressure on the fixed resource base (land, for example), thus increasing the labor requirements and providing a greater incentive to have more children (Dasgupta, this volume, Chapter 8).

The literature on how this process translates to the more macro level is vast and contentious. For a long time, the debate focused on the impact of population size on economic growth and welfare. In the 1960s and 1970s, inspired by the Malthusian viewpoint, many argued that growing populations can restrict growth and reduce welfare because agricultural resources are fixed and unsustainable increases in population size would cause the depletion of these nonrenewable resources. The result would be welfare losses and perhaps ultimately widespread poverty and famine (Ehrlich 1968). Others made the opposite claim, suggesting that large population sizes can actually promote growth by stimulating innovation and technological progress in the face of increased demand (Boserup 1965; Simon

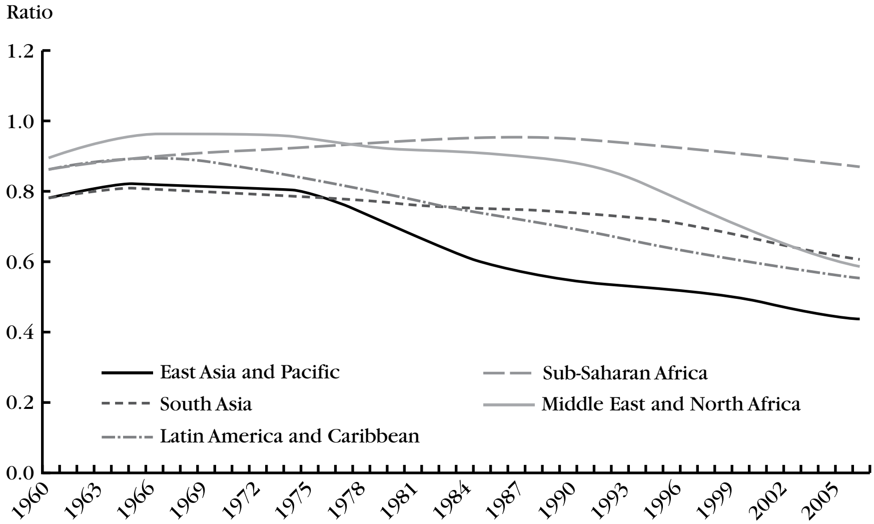
1981). Still another group argued that population size has no significant effect on growth, because cross-country regressions show that, controlling for factors such as education level, country size, openness to trade, and the quality of institutions, population size is only slightly correlated with economic growth, as proxied by GDP per capita (Bloom, Canning, and Sevilla 2003).

In recent years, the discussion has moved toward an examination of how population age structure affects economic development (Bloom, Canning, and Sevilla 2003; Bloom and Canning 2004). It is now widely recognized that the age structure of a population, and in particular dependency ratios, have important repercussions for a country's growth experience. For example, Lipton and Eastwood (1999) used household survey data for developing and transitional economies to show that higher fertility rates increase poverty by reducing income and worsening income distribution. According to their data, if in 1980 a hypothetical median country (with GDP, the fertility rate, and the dollar-a-day poverty rate equal to sample median values) had reduced its fertility rate by 4 per 1,000 births (which would have been equal to the fall in the median of their sample during this time) and continued to do so throughout the 1980s, it would have reduced its dollar-a-day poverty incidence from 18.9 percent to 13.9 percent, with the growth and distribution effects contributing about equally to this reduction.

Bloom and Canning (2004) also argued that population age distributions are crucial for economic performance. Countries with large youth and elderly cohorts, which tend to be net consumers, are more likely to experience slower economic growth than those with large working-age cohorts, which tend to be net producers. They further suggest that East Asia's "economic miracle" and Sub-Saharan Africa's "economic debacle" can be explained in part by their respective population age distributions. Indeed, as shown in Figure 1.1, since the 1970s East Asian countries have seen their dependency ratios fall, with rapidly declining fertility and mortality rates. This change has resulted in a working-age population "bulge," creating a window of opportunity for these countries to spur economic growth, also known as a "demographic dividend." By implementing sound economic policies that enabled the absorption of the large working-age cohort into the labor force, these countries were able to take advantage of this demographic dividend. Bloom and Canning (2004) estimate that as much as one-third of the East Asian miracle is a result of this phenomenon.

In contrast, during the same period, Sub-Saharan African countries saw only small declines in fertility and mortality rates and therefore no significant changes in the dependency ratio (see Figure 1.1). In the absence of such a demographic change, these countries have not had the same opportunities as East Asian countries to benefit from a demographic dividend. On the contrary, the HIV/AIDS epidemic has actually caused the dependency ratios in some African countries with high

Figure 1.1 Age-dependency ratios, 1960–2007



Source: World Bank, *World Development Indicators 2008* (Washington, DC: World Bank, 2008).

prevalence rates to increase, because the disease has caused higher mortality rates among working-age groups. As a consequence, an increasing number of households are composed of just children and the elderly; for example, 40 percent of orphaned children in South Africa and Uganda and more than 50 percent in Zimbabwe live with their grandparents (Ainsworth and Filmer 2002). In such cases, poverty is likely to increase because most households depend on working-age adults to provide for them. For example, in Malawi, Uganda, and Zambia, the poverty rate among households with only the elderly and children is 20 percent higher than the average (Kakwani and Subbarao 2005).

Like East Asia, Latin America has seen significant decreases in its dependency ratio since the 1970s (see Figure 1.1), but unlike East Asian countries, most countries in Latin America were not able to capture the advantages of having large working-age cohorts because the policy environment necessary to spur growth was not in place. Indeed, throughout the 1980s and 1990s, many Latin American countries suffered from macroeconomic or political instability or both, and many adopted inward-oriented trade regimes and difficult labor laws (Bloom and Canning 2004). These lessons are important for countries and regions that will soon be in a position to derive a demographic dividend. As shown in Figure 1.1, South Asia and the Middle East and North Africa are next in line. Starting in the mid-1980s and early 1990s, these regions experienced declines in their dependency ratios comparable to those experienced in East Asia and Latin America two decades earlier. They will need to put in place the right economic policies, including openness to international trade, improved access to capital for investors, flexible labor laws and practices, and improved quality and access to education, to enable the absorption of a large cohort of working-age individuals into the labor market (Bloom and Canning 2004).

There is one downside to the demographic dividend: after a period of time, the bulge in the working-age population will translate into a bulge in the elderly population. This reality poses a whole new set of challenges for developing countries that are currently benefiting from a demographic dividend. With fertility rates continuing to decline—they are even below the replacement level of 2.1 births per woman in some countries in East Asia, such as China, South and North Korea, and Thailand—and life expectancies continuing to increase, East Asian countries will start seeing their dependency ratios rise again.

Individual-Level Determinants of Poverty: Labor, Assets, and Behavioral Adaptation

Microeconomic explanations of individual and household poverty revolve around the understanding that an individual's labor (health and energy), human capital (education and skills), and physical and social assets (such as land or access to a social network) determine the individual's ability to generate income both today and in the future. Human capital and assets are important in the future for two reasons: (1) some assets (such as education and early childhood nutrition) can really be acquired only early in life, and (2) at low levels of asset wealth, a positive correlation is often observed between wealth and returns to wealth (Morduch 1991; Dercon 1996). Path dependencies, and perhaps "poverty traps," can thus result when levels of human capital and assets are particularly low, as they are for the poorest and hungry.

Poverty traps, usually defined using quite stringent criteria, imply that if a household's income or asset wealth falls below some low threshold, its members will be unable to improve their income or wealth and will thus be quite literally trapped in poverty (see, for example, Lokshin and Ravallion 2004). Although this outcome might not always be the case even for the very poorest, it is clear that lower returns to assets and labor cause the incomes of the poorest to increase more slowly than the incomes of richer households. As Antman and McKenzie (2007) state after finding that a poverty trap does not exist among Mexican households, "Although the lack of a poverty trap suggests that poor individuals can experience income growth little by little over time, and not be trapped below some threshold level, this will be a rather slow process" (1080). In the long run, initial conditions may not matter, but this long run may be very long.

The presence of path dependencies is consistent with some of the evidence presented at the beginning of this chapter on lower rates of poverty reduction at higher levels of poverty severity. Although these findings may indicate the presence of a perverse dynamic associated with ultra poverty, they could equally arise because the underlying conditions that cause poverty (such as the political exclusion of certain groups, discussed further in the following subsection) remain unchanged. A considerable body of literature, however, both theoretical and empirical, suggests that behavior may be different for households with low asset wealth or limited food consumption, affecting the improvements these households will realize in the future. Dasgupta (this volume, Chapter 8) describes some of these studies, and other examples include studies by Eswaran and Kotwal (1990); Zimmerman and Carter (2003); Bowles, Durlauf, and Hoff (2006); and Ray (2006). This section considers some of the literature on the nature and causes of path dependency. This literature suggests that the adaptation of behavior would be particularly strong in the poorest households.

It is important that the main tenet of these theories not be misunderstood, as it sometimes can be. The central tenet is not that the behavior of very poor individuals is inherently different from the behavior of richer individuals but rather that the constraints imposed by different aspects of extreme poverty (lack of credit, high vulnerability to external shocks, lack of energy, few observations of others' success) require an adaptation in behavior. In optimally adapting their behavior to ensure survival, the poorest people make future deprivation more likely.

Two additional points on the persistence of poverty are worth noting before highlighting key asset deprivations and how they can engender the persistence of poverty over time. First, given the persistence of ultra poverty, it takes many years to recover from unexpected events that significantly reduce a household's asset stocks or daily consumption. Although an unexpected event that causes ill health, a loss of assets, or a loss of income (often collectively referred to as shocks) can rapidly change the fortunes of a household, recovery tends to be gradual and often slow. Household incomes may take several years to recover from shocks, and the larger the loss, the slower the recovery (Dercon 2004). Some shocks, such as ill health or the death of a family member, directly affect a household's ability to earn. Additionally, a household sometimes has to sell its productive assets, such as land and livestock, in order to survive the hardship brought about by a shock. Longer-term impacts result when households have to reduce their expenditure for education, pulling children out of school (Behrman, Gaviria, and Szekely 2001) or cut back on consumption. Reducing children's consumption can have long-term consequences (Bouis et al. 1998; Hoddinott and Kinsey 2001). A study exploring welfare dynamics in rural Kenya and Madagascar found that every poor household interviewed could ultimately trace its poverty to an unexpected loss of assets or health (Barrett et al. 2006). Similarly, in 74 percent of the households that had fallen into poverty in the Indian state of Andhra Pradesh, serious illness was discovered to be one of the causes (Krishna 2004). Unexpected events often hit harder once a household is already poor.[15] In fact, as highlighted in the World Bank's work *Voices of the Poor* (Narayan-Parker et al. 2000), the harsh blows these unexpected events inflict on the poorest is a distinguishing feature of what it means to be poor.

Second, panel data studies over recent years have shown that, although poverty may persist among some of the poorest, those who are poor are not a constant, static group. The use of panel datasets (Baulch and Hoddinott 2001) and other innovative survey tools (Krishna, this volume, Chapter 33) shows that there are substantial movements in and out of poverty. Some above the poverty line are vulnerable to poverty, and some below the line may move out of poverty. Others below the line will remain there, perhaps for generations.

Both of these comments suggest that a focus on improving the welfare of the poorest requires a commensurate focus on reducing vulnerability to external shocks. Understanding these vulnerabilities at the micro level is crucial.

The following paragraphs highlight eight key aspects of asset deprivation and how they contribute to the persistence of poverty over time. They first consider aspects of labor deprivation, looking at the relationships between hunger, ill health, fertility, and poverty and at the relationship between education and poverty. This section then considers deprivations in physical and financial assets and finally deprivations in expectations and beliefs. The review reflects the findings of nutritionists, health care professionals, microeconomists, and anthropologists.

- *Hunger, ill health, and productive work.* When an individual is severely malnourished, the resulting lack of energy brings about a behavior adaptation that makes him or her less productive. As a result, the individual earns less. Dasgupta (1997) describes this "hunger trap":

  > The picture of begging is one of behavioural adaptation with a vengeance. The account tells us that emaciated beggars are not lazy: they have to husband their precarious hold on energy. As we have seen, even the timeless model makes sense of these matters by showing how low energy intake, undernourishment, and behavioural adaptation that takes the form of lethargy can all be regarded as being endogenously determined. . . . 500 million people in Asia, Africa and Latin America are undernourished. . . . The nutrition-productivity model I have sketched here offers an account of how this could have come about. More importantly, it offers an account of how it persists. (30)

  The same argument can be made for ill health. When an individual is poor, his or her behavior is altered such that severe health shocks are made much more likely. Poverty increases the likelihood that households are exposed to health risks such as lack of access to clean water and sanitation, but poverty also increases the relative cost of obtaining health services. As a result, the lower the economic status of a household, the less its use of health services (Gwatkin, Wagstaff, and Yazbeck 2005), resulting in little prompt or preventive care. The impact of ill health is thus often worse for poor households. In many parts of the world, the under-5 mortality rate, for example, is approximately twice as high for the poorest quintile as for the richest quintile (Gwatkin, Wagstaff, and Yazbeck 2005). In turn, severe health shocks exacerbate and prolong poverty. When a poor household experiences HIV/AIDS, malaria, tuberculosis, disfigurement or loss of a limb, or leprosy in a working-age adult, not only does it have to pay the costs of treatment (if sought); it also loses its ability to earn income. In addition, in the case of an illness such as HIV/AIDS and physical and mental disabilities, the illness is often the basis for exclusion from society, village institutions, and public services (Barrett et al. 2006). As von Braun, Swaminathan, and Rosegrant (2004) state, ill health "prevents poor people from escaping poverty because it diminishes their ability to learn, work, and care for themselves and their family members" (3).

Poverty is one factor associated with hunger, but there are many others. As identified by the United Nations Millennium Project Task Force on Hunger, these factors include a low level of food production; mothers' lack of education; poor water, sanitation, and health facilities; and climatic shocks. The task force further reports that "research has found that women's education was associated with 43 percent of the reduction in child malnutrition between 1970 and 1995, followed by increases in agricultural production (26 percent), and improvements in the health environment (19 percent) and in women's status relative to men (12 percent)" (United Nations Millennium Project 2005, 2). Nutritionists and epidemiologists emphasize the relationships among health, hunger, and deprivation. Improvements in health technology and the provision of public services contributed to extending life expectancy in Africa and Asia in the middle of the past century, thereby substantially improving well-being. In much the same way, improvements in health technology and public services brought about increases in life expectancy in Europe in previous centuries (Lipton and van der Gaag 1993). The continued prevalence of diseases such as tuberculosis and malaria and the rise of HIV in poor countries has a large impact on the prevalence of poverty and hunger. As the Millennium Task Force on Hunger reported, "Common infectious diseases prevent people from absorbing and utilizing food properly, and parasites often compete for much that is eaten" (United Nations Millennium Project 2005, 3). Hunger, in turn, makes infection and morbidity from infectious diseases more likely (Gillespie 2006).

- *Poverty and early childhood malnutrition.* A similar dynamic, but of a longer duration, takes place when malnutrition occurs in childhood. Child malnutrition has severe and permanent consequences for physical and intellectual development.

Babies born to severely undernourished and anemic mothers are at higher risk of being underweight and dying early (Smith et al. 2003). If they survive, they will never make up for the nutritional shortfalls at the very beginning of their lives. Adults who were malnourished as children are less physically and intellectually productive, have lower educational attainment, and are affected by higher levels of chronic illness and disability (UNICEF 1998; Behrman, Alderman, and Hoddinott 2004; UNS SCN 2004; Victoria et al. 2008). Poverty and nutrition shortfalls early in life translate into lower adult heights, poorer educational outcomes, and, consequently, lower adult earnings.

- *Fertility and the environment.* Members of poor households in many rural communities often have to spend several hours a day fetching water and collecting firewood and fodder, often from communally owned water sources, forests, and woodlands. This task is a fixed cost of running a household that must be incurred daily. In recent years, social norms that once regulated the use of communally owned local resources have changed. As a result, free-riding on common resources has increased. This practice degrades the local natural resource base and impoverishes all households. In certain circumstances, this increased free-riding and resource scarcity can alter the behavior of impoverished households, inducing them to have more children. As natural resources are depleted, households need more hands, leading to increased fertility rates, "further damaging the local resource base and, in turn, providing the household with an incentive to enlarge even more" (Dasgupta, this volume, Chapter 8).

- *Education and human capital.* There is a broad consensus that education is important for raising the incomes of poor households (Klasen, this volume, Chapter 13). It has been shown empirically that education has significant positive impacts on agricultural productivity, off-farm self-employment, ability to get a job, overall income, access to credit, size of social network, political participation, use of government services, adult health, and child health (for a discussion of evidence for the impact of education on some of these outcomes, see Case 2006). When parents face both budget and credit constraints, however, they may not be able to invest in their children's education as much as they might otherwise choose to. Effectively, the cost of going to school can be a deterrent even when education is free because the cost of books, school uniforms, and traveling to school can be prohibitively high. For households with little income, sending a child to school when he or she could be undertaking productive work also imposes a high opportunity cost. Empirical evidence from all parts of the world shows that when parents face credit constraints, low levels of income affect investments in education. Holding other things constant, children from low-income households have been shown to be less likely to complete as many years of school as children from higher-income households in Brazil, Indonesia, Malaysia, and Peru. In Peru and Vietnam, children from households with lower income and fewer holdings of durable goods are more likely to fall behind in school (King and Lillard 1987; King and Bellew 1991; Deolalikar 1993; Behrman and Knowles 1999). Children of poor parents are also likely to receive lower-quality schooling than other children (Banerjee et al. 2005). The impact of parental income on investments in children causes poverty to be passed from generation to generation because adults without education are more likely to be poor and face hunger themselves.

- *Land.* For many of the world's poorest and hungry, assets are synonymous with land, because the poor are often smallholder farmers or landless agricultural laborers. Owning land can provide a means of access to other markets, serving, for example, as collateral for credit markets. Owning land is also a means by which a household gains status (Gregorio et al. 2008). In many rural areas, however, little land is bought and sold. Land is mostly passed from one owner to another through inheritance, and land rental markets are weak (Bardhan and Udry 1999). As a result, land ownership can be highly unequal, and in some countries this inequality is further exacerbated by the failure to give or transfer landownership rights to women (Quisumbing, Estudillo, and Otsuka 2004). Research has shown that asset inequality, particularly in terms of land, is negatively associated with growth and poverty reduction (Deininger and Squire 1998; Deininger and Olinto 1999). Indeed, lack of asset ownership impedes access to credit markets, with the result that households are unable to make the investments necessary to increase their productivity to an optimal level (Deininger 1999). Conversely, according to Banerjee, Gertler, and Ghatak (1998) and the World Bank (2003), secure tenure has two effects: (1) a bargaining power effect, which increases the crop share of the tenant, and (2) a security of tenure effect, which encourages investments and eliminates eviction threats by the landlord. The positive relationship between land tenure and income growth has been verified empirically. For example, in a recent study using panel household data from India, Deininger, Jin, and Nagarajan (2009) showed that land reform had a significant and positive impact on income growth and accumulation of human and physical capital.

- *Savings and access to credit.* Sometimes credit is available to poor households, but if they do not have collateral they pay much higher interest rates, making it difficult for them to repay the loans. For example, those living on less than a dollar a day in the Indian city of Udaipur were found to pay 3.84 percent interest per month on average, compared with 3.13 percent among households living on between one and two dollars a day (Banerjee and Duflo 2007).[16] When poor households are excluded from financial markets, their only option is to slowly accumulate savings. This slow accumulation strategy requires substantial short-term sacrifices for little immediate gain for households that already have very low rates of consumption. Only when they have accumulated enough savings can they invest in indivisible assets and enter into new activities with higher returns. For many of these households, using some of their precious few resources to save for very little immediate reward is just too difficult, and as a result, savings rates are often lower among the poorest (Barrett and Carter 2006).

Low rates of savings combined with lack of access to credit means that poorer households are often unable to make investments to take advantage of economic opportunities that may be possible for their wealthier neighbors. In a cross-country study of the economic activities of the poor, Banerjee and Duflo (2007) show that many of the poor are engaged as entrepreneurs, undertaking many different types of small-scale activities (usually those with low start-up costs in terms of capital or acquisition of skills). These small-scale activities, although low in start-up costs, are not very remunerative. Empirical evidence of this type of asset-based poverty trap has also been found among very poor households in Africa (Lybbert et al. 2004; Adato, Carter, and May 2006; Barrett et al. 2006).

- *Insurance, risk, and information.* Poorer households have access to fewer means by which they can insure themselves against unexpected events. As a result, very poor households take actions to limit their exposure to risk at a considerable cost. Households may pass up a profitable opportunity that is considered too risky, diversify the types of economic activities pursued, or keep as many assets as possible in easily disposable forms. By limiting exposure to risk through these strategies, the poor tend to lower their average income, which reinforces their long-run poverty. For instance, in Guatemala small farmers have been found to forgo market income in order to have a certain supply of maize from their own production instead of more high-value crops. They thus incur the cost of an implicit "food insurance premium" of about twice the market price of maize (von Braun and Kennedy 1994). In Tanzania, a shift into low-risk, low-return crops by poorer households has been found to result in 20 percent lower incomes per unit of land for households in the lowest quintile compared with the richest quintile (Dercon 1996). In India, households with lower levels of wealth have been found more likely to engage in low-risk, low-return activities and more likely to hold low-risk, low-return assets and make investments with higher liquidity (Rosenzweig and Binswanger 1993; Morduch 1995; Fafchamps and Pender 1999). The studies that have reported these findings suggest that the incomes of the poor could be

25–50 percent higher on average if they had the same protection against shocks as those with high asset levels (Dercon 2002).

A related matter is the access of the poor to information, whether market- or service-related, that facilitates dealing with risks and opportunities. Some evidence from Bangladesh and Peru, for example, shows that the poorest benefit relatively more than higher-income people from access to new information and communications technology, such as cell phones, but problems with connectivity and relevant content remain and define the digital divide for the poorest (Torero and von Braun 2006).

- *Expectations and beliefs.* Expectations and beliefs about the future are important determinants of behavior. A key factor in future-oriented behavior is the difference between an individual's standard of living and the standard of living to which he or she aspires (Ray 2006). If this difference—the "aspiration gap"—is too narrow or too wide, individuals do not have incentives to raise their living standards. Those without high or achievable aspirations may not make attempts to better their situation. For example, people may not make investments if they believe they are infeasible or would not lead to significant changes (Bernard, Dercon, and Taffesse 2007). But as Ray (2006) notes, "Poverty stifles dreams, or at least the process of *attaining* dreams. Thus poverty and failure of aspirations may be reciprocally linked in a self-sustaining trap" (409, emphasis in original). In particular, the poor may have low aspirations in part because their own experiences and the experiences of people in their cognitive world suggest that escaping poverty is not a feasible option (Macours and Vakis 2008). A study on Ethiopian villages conducted in 2006 through three surveys found that aspiration failure is prevalent and that this belief had a significant role in potential demand for credit and in an individual's future-oriented behavior (Bernard, Dercon, and Taffesse 2007). In this context, aspiration failure could explain why an individual's level of investment is low when returns to that investment are high. (For example, the bottom-quintile households in Ethiopia spent four times more on stimulants such as coffee, tea, chat, and alcohol than on education and health, although, as the authors note, these nonoptimal investment decisions could also be attributed to lack of education, information, and access to financial assets, among other factors.) It may also be the case that ultra poverty is caused by addictions, in which case policies such as conditional cash transfers can be useful to incentivize change.

Power, Discrimination, and Exclusion

From the perspective of political scientists and sociologists, the previously discussed economics-based theories explaining the presence of poverty are limited because "this ideology has little to say about the social and economic inequalities that distort real economics" (Farmer 2003, 5). Understanding the imbalance of power between individuals and groups in a society allows one to understand who the poorest and hungry are. Extreme deprivation can be explained by the denial of basic human rights of survival by the powerful. Inequality of agency—or, termed differently, a lack of empowerment—limits the extent to which poor people can influence, negotiate, control, and hold others accountable (Rao and Walton 2004; Narayan 2005). For example, the systematic exclusion of groups such as ethnic minorities in Southeast Asia, hill tribes and scheduled castes in South Asia, indigenous groups in Latin America, and pastoralists and strangers in Sub-Saharan Africa from access to resources and markets increases their propensity to be poor. Furthermore, in many societies throughout the world, women have the least power or agency. Women have fewer land rights under customary or statutory legal systems than do men, often lack decisionmaking authority in their households, are at a disadvantage in labor markets and in gaining access to services, have greater burdens on their time, and face threats of physical violence. Such discrimination reduces women's freedom and impedes agricultural productivity and rural development. Human rights violations, including the neglect of the human right to food and the denial of basic survival to many of the world's citizens, are thus not accidents but "symptoms of deeper pathologies of power and are intimately linked to the social conditions that so often determine who will suffer abuse and who will be shielded from harm" (Sen 2003, xiii).

In the field of economics, there has been an increase in the number of studies on discrimination and the impact of social power relationships on an individual's ability to improve his or her welfare (Becker 1957; Loury 1977; Manski 1993; Durlauf 1999). These studies show that discrimination against groups based on identities of race, region, ethnicity, gender, and religion reduces the well-being of those individuals who face discrimination. It also results in economywide inefficiencies, given that many people are not permitted to fulfill their potential (Becker 1957). The rate of asset ownership among groups who face discrimination is much lower than that among nonexcluded groups, given that land control, for example, is largely inherited. Their exclusion, or adverse inclusion, in markets and nonmarket exchanges causes the return to their assets and labor to be lower (Thorat, this volume, Chapter 34). Furthermore, analyses have often shown that even when holding constant observable asset levels (such as family size, asset ownership, education, and location), minority groups have lower income levels (see, for example, World Bank 2004, 2006b; Borooah 2005; Hall and Patrinos 2005). Although this outcome may sometimes reflect individual differences, when it is systematically experienced by distinct disadvantaged groups, it is likely to be a consequence of their socially excluded status (Kabeer 2005).

Different groups also often have very different access to public services such as health care, education, and safety nets. Even when access is constant, discrimination at the point of delivery often results in certain groups' using these services less. Access to political representation and social networks is also often heavily determined by group membership. In Peru, for example, indigenous people have little political voice. As a result, although there has been general social progress over time, wage earners have more social protection than members of indigenous populations in rural areas.

Legal discrimination against groups still exists in some cases. In parts of Sub-Saharan Africa, access to land under customary law depends on membership in groups defined by common descent or residence, so those without ethnic roots in an area are excluded from ownership (Kabeer 2005). Indigenous groups in Latin America are also sometimes prevented from owning land. For example, the Chiquitano people in Bolivia were once required to work unpaid and prevented from owning land. In 2007 they won the legal title to 1 million hectares of indigenous territory (Green 2008).

Moreover, legal discrimination against women's landownership is present in most regions. In Asian kinship systems, household and property management is conducted by fathers and sons (Das Gupta et al. 2004), although this practice is beginning to change in some places (in Vietnam, for example, land documents must now be registered under both husband and wife). Other forms of legal discrimination against women also take place. For instance, in Pakistan and Iran the evidence in court of a Muslim woman is worth half that of a man (Al-Alwani 1996; Green 2008). In Indonesia discriminatory hiring against married women is still permitted, and female employees are channeled into dead-end jobs, are paid low wages, and are the first to be laid off (Tzannatos 1999). In Lesotho and Swaziland, women are legally considered minors and, in addition to being unable to own property, cannot enter into contracts or receive bank loans without a male relative (Quisumbing, Meinzen-Dick, and Smith 2004).

Even when no explicit discriminatory behavior has been exhibited, group membership can have a measurable impact on individual welfare by determining role models and peer groups (Durlauf 2006). By influencing both perceptions of others and aspirations, the group an individual belongs to can exert a strong influence on educational attainment, occupational choice, employment, and protection by the law. For instance, the lower performance of scheduled caste children when their caste is announced and they perceive that they will be judged prejudicially is strong evidence of the power of a history of discrimination and deprivation to affect perceptions and actions (Hoff and Pandey 2004).

As a result of either outright discrimination or more subtle group membership dynamics, poverty and hunger reduction has been slower among certain excluded groups—ethnic minorities, disadvantaged people, and those with disabilities—causing poverty and hunger to be increasingly concentrated in these groups.

The book *Development as Freedom* (Sen 1999) highlights the need for laws to respect the rights of different people and ensure human rights. A rights-based approach to development is based on equity in relations between groups of people, which must be advanced and protected by the state (Nankani 2005). Ensuring legal redress for some of the inequalities affecting certain groups can be powerful in bringing about social change (as, for example, in South Africa). Addressing ultra poverty is thus intertwined with addressing inequality in power between individuals and groups. Indeed, the constant inequality in economic, political, and social opportunities of some groups of people highlights the need to address inequality directly (World Bank 2005; Ferreira and Walton 2006; Walton et al. 2007).

Areas for Action

Consistent and persistent patterns of poverty across continents highlight the fact that addressing extreme poverty and hunger often requires addressing social and political processes as much as economic issues (Sen 2000; Narayan and Petesch 2007; Green 2008). Therefore, addressing poverty and hunger is a complex challenge. As highlighted in the previous two subsections, persistent and severe hunger and poverty have many interacting causes, and no single approach will provide the solution.

The analysis in the preceding sections suggests that addressing ultra poverty and hunger will require economic growth in poor countries. Growth alone, however, will not be enough; also needed will be innovative approaches for including the poorest, with a focus on policies and targeted programs that are particularly effective at improving the welfare of the world's poorest and hungry. Further, because of the current and historical political undercurrents that influence who becomes poor and who does not, policies must also be developed to address the political causes of exclusion.

This section considers in more detail the policy responses that fall under the three action areas—growth, targeted building up, and inclusion. The discussion of each response emphasizes why action in this area is important to meeting the needs of the poorest and the food insecure and highlights some of the findings of the chapters on the types of action that can be undertaken as part of comprehensive strategies.

Growth

This section considers the countrywide conditions under which welfare improvements for the poorest and hungry are most likely to be realized and highlights the policies that can be developed to ensure that these macroeconomic conditions are provided.

Peace and Stability. Achieving peace is clearly an important prerequisite for a poverty and hunger reduction strategy. A blend of approaches is needed to achieve peace. In countries prone to conflict, ensuring peace requires taking action to prevent ethnic conflicts from escalating as well as restoring peace once conflict has broken out.

In postconflict situations, expanding international peacekeeping and security guarantees plays an important role in maintaining the peace in the short to medium run. In the short run, there is a need for local-level peace-building and reconciliation work. To maintain stability over the long run, it is important to understand how to design institutions, constitutions, and laws that channel ethnic conflicts into nonviolent forms or nonethnic political competitions (Wimmer 2004). This approach includes addressing the grievances of marginalized people through, for instance, land rights management in agrarian states. Such rights are particularly pertinent, because many civil wars and conflicts are in fact agrarian crises whose underlying land issues often go overlooked and unaddressed (Sørbø and Strand, this volume, Chapter 16).

Growth That Benefits the Poor. In the past few years researchers have conducted substantial analysis of how to encourage growth that benefits the poor. For instance, the OECD's Development Assistance Committee has been developing and sharing best practices in advancing pro-poor growth since 2003. Two edited volumes (Besley and Cord 2007; Grimm, Klasen, and McKay 2007) have brought together different countries' experiences in fostering pro-poor growth and offer some cross-country lessons on how to foster growth in the regions and sectors where the poor are located (or to which they are likely to move). The main message suggests that for growth to be rapid and sustained, it should be broad-based across sectors and regions and inclusive of the large part of the workforce made up by poor women and men. Given that labor is often the only asset owned by the poor, policies that increase their employment and income-earning opportunities are key; such policies not only promote growth, which may have some beneficial effects for the poor, but also reduce inequality (Valdés and Foster, this volume, Chapter 12). Research has shown that a country's growth experience is greatly influenced by increased productivity stemming from improved production technologies and skills of human resources within the country (Hayami 2001).[17] Therefore, countries need to set the right institutional conditions for developing technology and human resources. They must invest in scientific research and education and organize markets to facilitate innovations by entrepreneurs.

Agricultural growth in general, and growth in production of staples in particular, is typically a strong source of poverty reduction, especially at earlier stages of development. The impact of agricultural growth on poverty reduction in a given country will depend on the characteristics of the poorest, the nature of the economy (for example, whether it is closed or open and the nature of rural labor markets [Dercon 2009]), and the nature of the agricultural growth experienced (that is, whether it comes as a result of increasing labor or land productivity). Agriculture's impact on poverty operates through several important channels. First, there is a participation effect, because many of the poorest people rely primarily on agricultural activities. Second, there is a growth linkages effect, because income generated by increased agricultural productivity is spent partly locally, creating income opportunities for the poorest. Third, there is a food price effect that comes with productivity growth in the staples sector, because poor people employed in the nonfarm sector spend 50–70 percent of their income on food and benefit from lower food prices (on these issues, see Binswanger and Quizón 1986; Ravallion and Datt 1996; Rosegrant and Hazell 2001; Diao et al. 2006; Bezemer and Headey 2008). This volume also shows the importance of productivity improvements in the food crop sector through better seeds and inputs; improved rural infrastructure and access to credit; improved growth in lagging regions through, for example, infrastructure improvements, investments, and fiscal policies that target lagging regions; increased education and better land access programs to improve the asset base of the poor; and investments in education and employment for women and disadvantaged groups (Klasen, this volume, Chapter 13).

Good policy at the global level is also crucial for encouraging growth and reducing inequality. Most notably, the uneven playing field in global imbalances and trade rules must be addressed in order for developing countries to adequately benefit from the increased opportunities presented by globalization (von Braun and Díaz-Bonilla 2008; von Braun and Mengistu, this volume, Chapter 10).

In summary, in most countries, growth that includes the poorest in a sustainable way will generally involve accelerated rural and agricultural growth and require increased investments in infrastructure, technology, education, and health. Furthermore, these investments will have to be accompanied by safety net policies that reduce and mitigate risks to enable the transient poor to benefit from growth. Conditional cash transfers (discussed further later in this chapter) are a possible policy instrument for doing this, especially if they are an integral part of broader social strategies that give strong attention to well-functioning labor markets (Levy 2008).

Infrastructure and Migration. Frequently, the poorest regions of a country are the most remote, with the greatest traveling time to the country's capital and main economic centers. A consistent characteristic of the 20 countries considered by Ahmed et al. (this volume, Chapter 6) is that the poorest and most food-insecure households are those located farthest from roads, markets, schools, and health services. The cost of buying or selling goods increases greatly for households located far from markets, so many households engage in subsistence farming, growing food to meet their own consumption needs. As a result, the asset-poor often face lower returns to the few assets they own.

Improving access to markets and services for the asset-poor through physical infrastructure can have significant results. In Bangladesh, enhancing accessibility by improving the surface of roads was found to reduce daily transport costs by 36–38 percent and fertilizer prices by 5 percent. It also increased price indexes of agricultural goods by 4 percent and agricultural output indexes by 30–38 percent. Furthermore, the agricultural wages of males increased by 27 percent and annual per capita consumption by 11 percent (Khandker, Bakht, and Koolwal 2006). In addition, millions of small farmers need improved access to value chains, and many poor households need access to nonfarm rural employment. Infrastructure investments are important in providing this access, as are investments in knowledge and information for poor people so they can take advantage of opportunities to improve their livelihoods.

Sometimes policies that make migration affordable and remunerative for poor households is the best way to improve their access to markets and services. In contrast to investments in public infrastructure, which aim to bring markets and services closer to poor households, this approach brings poor households to markets and services. The characteristics of households that migrate vary from context to context. In some cases (such as in Nepal) it is the poorest households that migrate, whereas in others (such as in Nicaragua) it is better-off households that are able to make the journey. The merits of facilitating migration and the design of policies to facilitate it also vary from context to context. Policies to promote migration may include policies reducing the costs of obtaining documents for international travel (such as passports), reducing the costs of searching for new jobs by encouraging the development of recruiting companies, and developing financial institutions in rural areas to facilitate remittance flows (de Brauw, this volume, Chapter 15).

Targeted Action on Nutrition, Health, Credit, and Education

The policy responses discussed in this section correspond to the characteristics of persistent and extreme deprivation highlighted earlier and are designed to protect the poorest against vulnerability—in particular against ill health, which is one of the most common sources of vulnerability—and to facilitate asset creation by the poorest. As Drèze and Sen (1991) noted, public support has an irreplaceable role to play in addressing deprivation and vulnerability and is effective even at early stages of development.

Targeted actions that allow the poorest to increase their investments in nutrition, health, education, and assets and ensure that the poorest are protected from shocks can effectively and efficiently encourage growth and poverty reduction. Investing in the nutrition and health care of the poorest households enables them to participate to a greater extent in productive activities, and providing credit and insurance allows them to invest in activities with high returns. The centerpiece of such strategies is social protection, but other types of targeted interventions include the provision of nutrition programs for the poorest, "microcredit-plus" programs, social security, and insurance.

Expanding Social Protection and Addressing Vulnerability. Social protection targeted to the poorest households can both provide assistance to the least well-off members of society and protect these households against shocks. As such, social safety nets not only ease poverty momentarily but also enable growth by allowing poor households to create assets, protect their assets, and allocate resources to risky but highly remunerative production activities (Alderman and Hoddinott, this volume, Chapter 20). In the absence of public safety nets, poor people insure each other to some extent by forming groups and providing mutual support at times of crisis (Platteau 1991). These groups, however, cannot protect households against shocks that are severe or that may affect all group members at once. Other interventions need to be developed and can include the following options:

- *Conditional cash transfers (CCTs).* CCT programs, which condition transfers to households based on their meeting certain requirements such as sending children to school, have proven successful in reducing poverty in the short run (through cash transfers) and in the long run (through the human capital formation that they encourage). They work particularly well in countries with low levels of school attendance and an adequate schooling infrastructure. They are not a magic bullet, however; they do not work in every country, and they are not alone sufficient for reducing poverty (Adato and Hoddinott, this volume, Chapter 22).

- *Social security.* This tool has been shown to address the vulnerability faced by the young, the unemployed, and the elderly (Dethier, this volume, Chapter 21). In South Africa, for example, social security benefits for parents with young children and for the elderly have greatly reduced poverty. For social security to work in low-income countries, national governments need to increase financing from general taxation, separate social security from labor market status, and create new institutions to administer social security programs. The needs for administrative efficiency and good governance are two key challenges in implementing programs. Cooperation between actors is needed to yield the maximum efficiency.

- *Market-based or civil society–based insurance.* In providing insurance for the poorest, it is useful to start with the group-based informal insurance that is already in place. This approach reduces the cost of providing insurance and ensures that the new forms of insurance provided do not weaken the groups that are already so effective at dealing with some types of risk (Dercon, this volume, Chapter 25). There is often a trade-off between the provision of insurance and that of credit, so microcredit and microinsurance should be designed together. One product will not fit all problems because different types of risk pose different challenges. For example, lack of information is a large problem for crop insurance, and innovations in information, such as the development of weather-based indexes, can help. To provide health insurance to the poorest, schemes should leverage the large amounts that poor people spend on health care out of pocket. Developing a private health insurance scheme and contracting the provision of health care based on performance is one way to do so.

Ultimately, as Dercon (this volume, Chapter 25) notes, a mix of all approaches is needed. The goal is to ensure that the poorest households do not find themselves constrained in making health, education, and production decisions. It is important that these schemes be carefully designed to maintain the incentives for development in all sectors equally (Levy 2008). Phasing in social protection quickly and comprehensively can reduce the vulnerability of households.

Improving Savings and Credit Markets. When poor households are excluded from financial markets, they have only a few options for obtaining enough capital for investments. The most viable option is to slowly accumulate savings.[18] As noted earlier, poor households may find that using some of their precious few resources to save for very little immediate reward can be just too difficult, and as a result savings rates are often lower among the poor than among others. Interventions to aid savings and access to credit are needed.

Enabling the poorest to save and use credit is also central in allowing them to invest in acquiring assets and skills and to mitigate the effects of adverse shocks. Microfinance has been shown to effectively meet the saving and lending needs of poor rural households, helping them create and protect assets.[19] But the ultra poor are often excluded from microfinance groups by other villagers and require a different type of microfinance (Abed, this volume, Chapter 27). In Bangladesh, offering grants (rather than loans) to the poorest households has allowed the nongovernmental organization BRAC (Bangladesh Rural Advancement Committee) to reach these households. Through grants, these households become less poor and graduate into being microfinance clients. For microfinance to work, there must be an organization with the institutional capacity to organize groups within villages and act as a retailer of the service. Initial financing may need to come from government and donors. Government regulations can also be a constraint, for many countries do not allow microfinance institutions to mobilize savings.

Investing in Health and Nutrition. As Amartya Sen has written, "Health is among the most important conditions of human life and a critically significant constituent of human capabilities" (Sen, quoted in O'Donnell et al. 2008, 1). Ill health is also a cause of poverty: poor people mention ill health most frequently from a list of 15 causes that have driven them into poverty (World Bank 2000a). Ill health is especially damaging when it occurs at the wrong moment, such as just after another health shock, at a time of low income, or in combination with debt (Krishna 2004). Additionally, as already noted, ill health is a means by which poverty is further exacerbated.

Similarly, poor nutrition is also a dimension of deprivation and a means by which deprivation is exacerbated (Dasgupta, this volume, Chapter 8). Poor nutrition is a major cause of increased incidence of disease, given that proper nutrition is essential for the immune system to function. Vitamin deficiencies can have devastating consequences for child survival and development. For example, it is estimated that improving vitamin A status can reduce child mortality by 23–34 percent (Spahn, this volume, Chapter 24). Improving children's nutritional status can also lead to improvements in cognitive development and improved performance at school. In fact, improving access to high-quality education will not have the desired consequences if children are too hungry to learn.

Interventions that reduce the incidence of disease are essential to improving the well-being and reducing the vulnerability of the poorest. To combat disease, the poor need not only access to better medical technologies and better water and sanitation but also increased access to medical facilities. The costs of traveling to medical facilities, doctors' fees, medicines, and bribes can make seeking medical care very expensive for poor households. This situation, in combination with the fact that health services have focused on reaching the majority of the population rather than necessarily targeting the poor, means that richer households often benefit more from health care subsidies than do poor households. This outcome has been documented in a number of countries. For instance, according to the *World Development Report 2004,* wealthier areas received more government subsidies for health care in Bangladesh, the Kyrgyz Republic, Mozambique, Pakistan, and Peru, and in India the richest fifth received three times the health care subsidies received by the poorest fifth (World Bank 2004). Both investing in health services and targeting them to the poorest are important.

Providing finance to the poorest households so that they can obtain health services is an important component of investing in health. CCT programs can help, as described earlier, as can microinsurance. Innovations are needed to ensure that the poorest have access to health insurance that will cover the full costs of gaining access to care (van der Gaag, this volume, Chapter 26).

Fortification of foods such as oil, sugar, wheat, and flour and biofortification of staple foods such as sweet potatoes can greatly improve the nutritional status of poor and hungry households. Using fortified foods can present some challenges, particularly related to food delivery and marketing of the foods for consumer acceptance (Spahn, this volume, Chapter 24). Some food-for-education programs provide fortified meals or take-home rations to children in school, conditioned on a child's school attendance, and these programs have proven effective in increasing school participation and improving the nutritional status of children (Adelman, Gilligan, and Lehrer, this volume, Chapter 23).

Improving the nutritional status of children also requires improving the nutritional status of their mothers. Despite the recent decrease in child malnutrition in South Asia, the region still has the highest prevalence of underweight children in the world. The main reason proposed to explain a higher child malnutrition rate in South Asia than in poorer Sub-Saharan Africa is that South Asian women's nutrition and their practices for feeding and caring for young children are inadequate (Smith et al. 2003; World Bank 2006a). South Asia has particularly high rates of underweight women and low-birthweight babies (Smith et al. 2003; UNS SCN 2004; Svedberg, this volume, Chapter 4). Thus, children and women need special interventions that address the health and nutrition constraints that impede their improved well-being, productivity, and livelihoods over the long term. One such intervention is nutrition education for mothers. A recent study undertaken in Bangladesh found that intensive nutrition education for mothers improved child nutritional status significantly and sustainably even when no nutritional supplements were provided, and this effect is attributable to changes in maternal child feeding and caring practices (Roy et al. 2005).

Investing in Education. Evidence suggests that public investments in education can have strong positive impacts on income growth. For example, Duflo (2001) found that each primary school constructed per 1,000 children in Indonesia in the period between 1973 and 1978 led to an increase of 0.12–0.19 years of education and an increase in wages of 1.5–2.7 percent.

Education also has an intrinsic value separate from whether or not it is a means by which people can increase their income. It is a fundamental part of increased capabilities. The Universal Declaration of Human Rights establishes an individual's right to education and emphasizes free and compulsory primary education for all.

Action to ensure the provision of primary education to all households—particularly ultra-poor households—is needed. High-quality free schooling must be provided, along with resources for credit-constrained households to send their children to school, such as through CCT programs. In some cases there has been a trade-off between the provision of primary schooling for all and the provision of high-quality education. In Uganda, for example, universal primary enrollment compromised the quality of the education provided as classrooms and schools become oversubscribed (Appelton 2001). Similarly, recent evidence from Brazil shows a decrease in quality in the past 10 years—a period during which primary school enrollment was expanded significantly—based on the scores achieved on standardized national tests. If quality suffers with the provision of more schools and teachers, the long-run positive effect sought in human capital formation will be lost. A better understanding is needed of how to expand education systems so that increased enrollment of the poorest comes with an improvement in the quality of education.

Innovative mechanisms for monitoring the quality of education are also needed, because poor parents are often less able than better-off parents to assess the quality of schooling received by their children. In India poorer parents were found to be less able than richer parents to predict whether their school-age children could read (Banerjee et al. 2005). Programs that encourage continual learning and adult literacy can also address the educational deficit faced by many adult members of ultra-poor households.

Inclusion

Although addressing individual experiences and needs is important, a focus on individuals alone will miss a fundamental cause of poverty for many people: the deliberate exclusion, current or historical, of particular groups of people from participating in the betterment available to society as a whole. This section considers how to address these relational features of deprivation by empowering the poorest members of society, including women. As already noted, women in many developing societies bear the brunt of exclusion, with fewer land rights and little decisionmaking power within the household. Interventions designed to address exclusion must take these unique dimensions of women's poverty into account.

Including the Excluded. Addressing the political causes of exclusion has a beneficial effect on growth and targeted building up. Discrimination against groups based on identities of race, region, and ethnicity creates economywide inefficiencies by preventing the victims of discrimination from fulfilling their productive potential. Similarly, improving the nutrition, health, credit, and education of the poorest households is possible only when individuals are not discriminated against in the provision of public services or credit markets. Nevertheless, it is important to keep in mind that politically, reducing discrimination can be very sensitive, because those who gain from discriminating against certain groups may have an incentive to maintain the status quo. Their gains, or perceived gains, from keeping certain groups excluded may outweigh the effect of reduced total welfare.

Several avenues are available for addressing the inequalities that arise from exclusion. As outlined by Stewart (this volume, Chapter 32), approaches can be broadly classified into three groups: direct policies, indirect policies, and integrationist policies. Direct policies targeted toward excluded groups are commonly thought of as affirmative action. They include targets, quotas, and preferential treatment to improve the discriminated groups' access to jobs, assets, services, government contracts, and political representation. Evidence suggests that this approach can lead to increased equality that engenders greater respect and improves efficiency, although it may also provoke opposition among more privileged groups. Indirect policies are more universal and include tax and spending policies designed to help particular groups. Such policies include progressive taxation; legal policies to correct discrimination in, for instance, housing and employment; and macroeconomic policies that favor particular activities. Integrationist policies are designed to reduce group consciousness among both the excluded and the nonexcluded. They might include bringing people from different groups together in schools and universities. Such policies can promote national identity but can also threaten cultural identities and conceal deep inequalities.

Action often needs to be taken simultaneously in many arenas, because action in one arena alone may not bring about the desired result. Increased political participation alone has not necessarily led to needed changes in social relations. In India, for instance, where one-third of the seats in local councils are reserved for women and scheduled castes and tribes, women still have a low level of participation in council meetings (Khetan and Mehta, this volume, Chapter 35). Given the impact of a history of discrimination and exclusion on perceptions and aspirations, overcoming discrimination takes time and requires continual striving for equality between groups on a number of fronts.

In addition, more open debate and information about the forms and consequences of excluding social groups and effective means of addressing discrimination are needed. One largely "invisible" group, for instance, consists of people with disabilities, 80 percent of whom live in developing countries. National datasets often do not show who has disabilities (such datasets also often lack information on minority groups), making it difficult to know what the poverty rates are in these groups. Where data are available, they confirm the finding of many participatory poverty assessments that the level of poverty is much higher in households with heads who have disabilities (Hoogeveen 2005). Obstacles to their participation take a heavy toll on these people, as well as on their families and communities, who spend enormous amounts of time and resources caring for them. People with disabilities also face discrimination and exclusion that limit their opportunities for full social, economic, and political participation. In Tanzania, for example, children with disabilities have relatively low school attendance, so by the age of 17, children with disabilities have missed 4 years of primary education compared with 1.7 years among children without disabilities (World Bank 1996). State involvement in developing norms and standards for inclusion, creating an enabling environment, and planning for accessible infrastructure and technologies is crucial in addressing this important issue (McClain-Nhlapo, this volume, Essay 4). Additionally, the state needs to work at involving people with disabilities themselves in setting policy, for the ultimate goal is not pity but empowerment.

Achieving equality between groups requires governance reforms that empower the poor and the excluded to raise their voices and demand accountability and that increase service providers' incentives to respond to their needs. As Narayan (2005) has written, "Empowerment is the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives" (41). Investing in the social capital—the relationships and networks—of the poorest can greatly facilitate this empowerment. For example, in a number of cases, facilitating the development of groups of poor women has brought about increased empowerment and many improvements in welfare. In the Indian state of Andhra Pradesh, successful groups are those that have gathered women of similar socioeconomic status in a village, ensuring that the group is formed on the basis of affinity among the members rather than narrowly defined interests. Federations of these groups at the village level then use the trust built in self-help groups to provide poor women with the economic and political space within which to undertake activities such as marketing, bulk purchasing of commodities, and exertion of pressure on local governments for the provision of services (Kumar Thallam, this volume, Essay 5).

Property Rights for the Rural Poor. According to Green (2008), "One of the most agonizing aspects of living in poverty is not having secure rights to your house or land" (70). As discussed earlier, when a household's tenure is uncertain or nonexistent, the household may lose the benefits from its investments in land. Land reform can get at the root of social and economic inequality (Green 2008). Providing property rights is not a simple matter, however, because property rights are derived from many sources (government, custom, and religious laws). In addition, the history of land rights is in many respects context-specific and often complex, even though in general there has been a move from communal patterns of landholding to more individualistic private property rights.

Strategies for legal reform need to take these complexities into account and be designed to help provide for women and marginal groups (Meinzen-Dick, Kameri-Mbote, and Markelova, this volume, Chapter 17). Further, legal reform that works for the poorest needs to go beyond titling programs to include legal literacy programs and dispute resolution mechanisms and should take into account complementary investments in credit and extension services.

Strategies for Effective Action

Identifying the appropriate areas of action and the best policies and programs to implement is only the first step. Poverty can be reduced only when these policies can be financed and implemented appropriately and effectively. Choosing appropriate and feasible policies for a given setting, securing adequate financing, and knowing when to scale up successful programs and when to keep the scale small to facilitate experimentation are all essential to policy success.

The mix of areas of action will look different for countries at different stages of development (Fan, Brzeska, and Shields, this volume, Chapter 40). Also, policies need to be context-specific; what works in one country may not work in another. Nevertheless, globalism can serve a useful role in reducing poverty and hunger by strengthening learning across countries. It is essential that more be understood about what approaches work best in which contexts. Recent increases in the number of randomized evaluations help, but the number of such evaluations needs to be increased and the resulting data combined with other information and analyses to better answer the question of what will work in a given context at a given time.[20]

As outlined by Regina Birner in Chapter 39 of this volume, all policy instruments for addressing poverty and hunger face at least one of three challenges: political feasibility, administrative feasibility, and fiscal feasibility. This section considers these three challenges and possible solutions, as well as strategies for scaling up successful projects.

Administrative Feasibility

One element that is key to ensuring administrative feasibility is building the capacity for implementation and innovation on the basis of existing institutional conditions, including the capacity to design and implement policies and programs to reach the poorest. Improving capacity to implement programs requires that skill levels and organizational arrangements receive more attention. It is also important to address the historical reasons for low levels of capacity in the first place; improving health and education services for all improves capacity.

Building capacity for effective action also includes strengthening capacity for social entrepreneurship (Babu and Pinstrup-Andersen, this volume, Chapter 43). Social entrepreneurs and enterprises can provide innovative ideas on how to mobilize poor people and take actions to improve their welfare. Social entrepreneurs can also improve the effectiveness and implementation of existing programs. However, psychological and cultural barriers that encourage conservatism and discourage innovation are often commonplace in rural areas. To really stimulate social entrepreneurship, education systems need to be reoriented toward problem solving and entrepreneurship education and need to get better at identifying and encouraging entrepreneurs when they do arise.

Political Feasibility

To ensure the political feasibility of a pro-poor strategy, governments need to be more accountable to the poor. Indeed, it is important to improve the underlying conditions in which policies are formulated and implemented. Poor people need to have a strong political voice, a vote, and a role in democratic institutions. Political power can be directed to poor people by, for example, reserving seats for marginalized groups in political bodies, promoting their empowerment, and pursuing social mobilization for them that imparts the idea that another world is possible. Past social movements, such as the labor movement, the women's movement, and the cooperative movement, have helped empower poor and marginalized people. But it is not realistic to expect poor people to always speak with a single voice; their interests may differ significantly because they belong to different subgroups. Among a sample of households in Andhra Pradesh, India, for instance, the newly poor subgroup expressed a desire for health services, the persistent poor wanted wage labor, and the escaped poor wanted irrigation and education.

The development community can promote the conditions for self-empowerment, such as the right to associate, freedom of speech, a free press, transparency, access to justice, and accountable political institutions. It can encourage leadership at all levels. And it can choose project implementation methods that create space for empowerment, such as community-oriented development. Building the demand side is not enough, however. State institutions need to have the capacity, incentive, and motivation to respond to this demand, and even to take action on their own.

Governance improvements are also needed to ensure the political feasibility of any strategy. Although improving governance is a long-term project, short-term improvements are also needed to help the poor of today become less poor tomorrow. For most of the poor, sound governance means actually gaining access to the services and rights to which they are entitled, unhampered by corruption and exclusion. Officials need to measure the costs of the benefits that actually reach the poor and build these costs into their budgets. Efforts must be increased to ensure that these investments reach those for whom they are intended. In addition, there is a strong need for independent recourse mechanisms. What good is it to have citizens who can demand services if their concerns are ignored? Often an independent body to hear complaints and put pressure on officials can be helpful. Governance issues should be an integral part of poverty reduction projects, and this approach will require funding and enhanced organizational capacity. The media can help by giving the poor an implicit voice.

Fiscal Feasibility

Many of the policy proposals discussed require significant financing. Although the financial costs of some of these programs, such as social protection, are not as great as might initially be believed (Chronic Poverty Research Centre 2008), additional funds may still be needed. Several avenues are available for increasing funds:

- *Reform revenue and outlays at the national level.* Reforming tax systems to be more progressive, improving tax collection, and replacing input and output subsidies with public investment are strategies national governments can use to increase the financial resources they can commit to some of the areas of action identified (Dethier, this volume, Chapter 21; Fan, Brzeska, and Shields, this volume, Chapter 40). Meaningful public expenditure reviews can help. The tax system can have a large impact on ultra poverty. A regressive system based on indirect taxes will reduce the income of the poorest by making basic food items, basic services, and the like more expensive.

- *Increase aid and improve its use.* There is also a role for better-targeted financing from richer countries. As the 2002 Monterrey Consensus Document states, in order for poor countries to achieve the MDGs, a substantial increase in official development assistance (ODA) is necessary (Hirvonen 2005). In particular, more aid needs to go to the poorest countries, which traditionally have not received the bulk of aid. For example, since the 1970s Sub-Saharan Africa, where 75 percent of the world's ultra poor live, has received only about 22–38 percent of the total share of ODA, albeit at an increasing rate over the years (IDA 2007).[21] Further, the effectiveness of aid is hampered by high transaction costs, volatility, and unpredictability, which make government planning and investment difficult. Social strategies cannot be sustainably implemented on such an insecure basis.

Scaling Up Successful Projects

Scaling up successful experiments and model projects in different countries is a critical task, as is choosing the scale at which these projects are most effective (Hartmann and Linn, this volume, Chapter 44). Scaling up can be defined as a combination of strategies and technologies to expand proven programs with greater speed and at a larger scale in order to bring more high-quality benefits to more people more equitably and more sustainably. This process involves turning small-scale models into larger ones that can shift the current system at a sustainable rate and level. The primary incentive for scaling up is to assist the clients, namely the poorest and hungry.

Successful scaling up requires improved technology, the mobilization of adequate resources to cover long-term investment, skilled management systems with feedback mechanisms, the presence of an enabling environment in terms of markets and financing, investments in people, building of constituencies, and a shared vision and goal for all stakeholders. The organizations involved need to be modified and strengthened, action plans and budgets need to be coordinated, and a built-in monitoring and evaluation process needs to be established. Success has been achieved if there is a widespread impact at an affordable cost.

Constraints on the scaling-up process include lack of accountability, dependence on leaders, lack of adaptive management approaches, lack of adequate resources, and government overregulation. Lack of financing, donors' demands for short-term results, competition between partners, and changing development can also pose challenges to successful scaling up. Several countries, however, have successfully scaled up interventions, including Brazil and Thailand:

- In Brazil, several CCT programs—Bolsa Escola, Bolsa Alimentação, and others—were joined and successfully scaled up into Bolsa Família. Designed to eradicate extreme hunger and poverty, the program relies on regional, provincial, and local coordination. The program interfaced with the media, and adequate public resources were allocated. It also had a mechanism for monitoring and evaluation, and these processes included social participation (Ananias de Souza, this volume, Essay 2).

- In Thailand, several elements were key to the country's success in reducing the number of underweight children from 1982 to 1996. Thailand's approach relied on long-term health plans, with a focus on behavior change and prevention and on community-based programs. Health volunteers were well trained, and nutrition was included in the government's poverty alleviation strategy. Finally, the strategy was linked to agricultural production.

Conclusion: The Way Forward

Research on the ultra poor and hungry is still at an early stage. Researchers generally focus on the entire group of poor living below the dollar-a-day poverty line without differentiating people at the top or bottom of that group. Partly as a result, most efforts at poverty alleviation have worked best for people living just below the poverty line. This volume offers rich evidence that the ultra poor require specific attention in research and that related research needs to be based on sound theory. Core elements of theory should include concepts of "growth+"—that is, it should address the nature of growth that serves the poorest, poverty traps, drivers of inequality, causes of exclusion and discrimination, lack of insurance and risks, the public policy process, and the governance of social strategies.

This chapter, and the chapters that follow, show that there is a need to focus on inclusive growth, improved access to assets and markets for the poorest households, the phasing in of social protection more quickly and comprehensively, accelerated investments in health and nutrition programs (particularly for children and women), and increased political will and action to include the excluded. They also show that implementing policies and programs effectively requires strategies for improving financing, developing the capacity for implementation, increasing accountability, and ensuring excellence in scaling up. Setting sound priorities requires a framework that captures synergies and trade-offs, analyses based on sound data, consideration of alternative options, recognition of the political process, and a strong evaluation culture.

Because of the limited scope of the chapters in this book, some important factors relevant to poverty reduction for the poorest and the hungry are not adequately covered in the chapters that follow. In particular, the roles of demographic change and human capital accumulation in poverty and hunger reduction are not well covered. This introductory chapter has therefore devoted some discussion to these significant issues.

As shown in Table 1.1, the chapters are organized in five parts as follows:

- The first collection of chapters (Part 1) considers the measurement and understanding of poverty and hunger.

- The next three collections (Parts 2, 3, and 4) consider areas of action that can be particularly effective in reducing extreme poverty and hunger. Each collection refers to one of the three areas of action highlighted in Table 1.1. The collection of chapters in Part 2 focuses on policies that encourage growth that benefits the poor and address inequality. Part 3 addresses targeted interventions that build up the nutrition, health, credit, and education of the poorest households, and Part 4, focusing on the needs of marginalized peoples, looks at how to address inequality between groups and at strategies that empower the poor.

- The fifth and final collection of chapters (Part 5) examines how to effectively implement policies and programs. These chapters consider how to implement programs when lack of capacity poses a key constraint, how to choose the appropriate scale on which to act and to scale up when needed, how to improve governance to ensure the effective design and implementation of policies for the poorest, and how to mobilize resources and prioritize their allocation to ensure the most progress.

The MDGs are appropriately considered only as a way station on the path to ending absolute poverty by 2025. The poorest, who struggle far below the poverty line, have so far not been served effectively by the MDGs. Ultimately, effectively addressing ultra poverty is a matter not of adopting some good projects and some efficient yet small targeted interventions but of setting comprehensive social policies in the context of growth and opportunity and creating market-oriented economies that respect and foster the rights of the poor.

Summing Up

Who Are the Poor and Hungry Today?

This volume establishes the following facts about those who remain poor and hungry today:

1. The poorest are becoming increasingly concentrated in Sub-Saharan Africa and South Asia.

2. Poverty and widespread hunger remain even in regions that have experienced rapid economic growth and substantial reductions in poverty.

3. A twin problem needs to be addressed: the urban poor are increasing in number and the prevalence of hunger is increasing in urban areas, while the poor are still predominantly rural.

4. Poverty and hunger reduction has been slower among the poorest and among excluded groups—ethnic minorities, disadvantaged people, and those with disabilities. In addition, poor women and children are particularly vulnerable to the long-term effects of poverty and hunger.

5. Although the total number of people in poverty may change little, this stability masks substantial movements for some, in and out of poverty. Others far below the poverty line (usually the very poorest) will be there for longer, perhaps for generations.

6. New risks are arising for the poor, as a result of, for instance, climate change, economic imbalances, and health crises.

What Action Is Needed?

Action in several areas can accelerate the reduction of ultra poverty and hunger:[22]

1. *Focusing on inclusive growth.* A different pattern of growth—one that includes the poorest and hungry from the beginning—is needed. In many countries, such growth will generally involve accelerated rural and agricultural growth.

2. *Improving access to assets and markets.* Appropriate property rights are needed to address inequality in assets. Millions of small farmers need improved access to value chains, and many poor households need access to nonfarm rural employment. Enabling the poorest to save and use credit is also central in allowing them to invest in assets and skill acquisition and to mitigate the effects of adverse shocks.

3. *Phasing in social protection more quickly and comprehensively.* Social protection needs to be phased in much more comprehensively and earlier in the development process to reach those who will not benefit sufficiently from general economic growth (such as children and the elderly).

4. *Accelerating investments in health and nutrition programs, particularly for children and women.* Many of the poorest, including children and women, need special interventions that address the health and nutrition constraints, and related barriers to education, that impede the improvement of their well-being, productivity, and livelihoods over the long term.

5. *Including the excluded.* Actions in areas 1 through 4 all require an effective state that is responsive to the needs of the poorest and the socially excluded. Actions to empower women are also particularly important to ensure their full participation.

What Political and Institutional Change Is Needed?

Effective action requires political and institutional change in the following areas:

1. *Political core issues.* For effective poverty and hunger reduction, a set of political core issues needs more attention: Conflicts and instability need to be overcome. Governance and rights need to come to the forefront in poverty reduction policies while ensuring that sound economic policies are in place.

2. *Scale.* Scaling up successful experiments and model projects is a critical task, as is choosing the scale at which these projects are most effective.

3. *Political process.* New attention should be directed to the political process to create broad-based support for action. New synergies between old and new actors still need to be developed.

4. *Local action.* The decentralization of government can facilitate local empowerment, but at the local level it is crucial to establish the capacity to mobilize resources and to promote sound governance with accountability.

5. *Capacity to implement.* Improving capacity to implement programs requires that skill levels and organizational arrangements be given more attention.

Notes

1. As recently recognized by Collier (2007) and Ahmed et al. (2007; this volume).

2. Measures of subjective well-being are based on an individual's own assessment of his or her welfare and thus take into consideration the subjective and multidimensional nature of well-being and poverty.

3. PPP exchange rates convert dollar amounts into local currency. These exchange rates are calculated by comparing the cost of a given basket of goods in each country. This exchange rate is useful for comparing living standards across countries because the PPP exchange rate takes into account differences in costs of living between countries. The data required to compute PPP exchange rates are collected, however, only at given points in time. The rest of this chapter refers to exchange rates computed on the basis of global data collection efforts undertaken in 1993 and 2005.

4. According to Chen and Ravallion (2008a), the new estimates improve on the previous ones in three ways: (1) they correct for large biases in the price surveys that were previously used to calculate PPPs; (2) they apply a revised international poverty line of US$1.25 a day (PPP), which represents the mean of the poverty line of the 15 poorest countries in terms of consumption per capita and is therefore more representative of the poverty lines of the poorest countries than was the US$1.08-a-day (PPP) measure; and (3) they are derived from a larger set of household surveys and are therefore more precise.

5. Somewhat similar trends are observed when using a poverty line of US$1.08 at 1993 PPP.

6. Similar to the dollar-a-day measure, the poverty line of 50 cents a day corresponds to a poverty line of US$0.54 at 1993 PPP. Only the 1993 PPP is used for this analysis because it was conducted before the 2005 PPP estimates were available. The following numbers thus refer to a dollar-a-day poverty line of US$1.08 at 1993 PPP and to a 50-cents-a-day poverty line of US$0.54 at 1993 PPP.

7. For example, in his pathbreaking 1903 survey of food expenditures among working-class populations in York, England, which were disaggregated into five income groups, Seebohm Rowntree found that food consumption and the nutritional content of food were very similar among the highest three income groups even though these groups had markedly different incomes (Rowntree 1903).

8. See Wiesmann (2006). Child mortality is not only an indicator of hunger—the focus of the first MDG—but also the focus of the fourth MDG, which is to reduce the mortality rate among children under 5 by two-thirds.

9. Dietary diversity has been shown to be associated with improved child anthropometric status (Ruel 2002, 2003).

10. See Wiesmann (2006) for details on the measurement and construction of the GHI.

11. It is important to note that the time-series data, particularly for Sub-Saharan Africa, have some limitations. See Wiesmann (2006) for a detailed discussion of the data needs.

12. Ivanic and Martin (2008) found that in Peru, the effects of commodity price changes on

the poor were smaller than those found in other countries. Price increases in beef, of which both rural and urban households were net sellers, had the largest absolute impact, reducing poverty in both settings by 0.1 percentage point. As for Vietnam, the authors found that increases in the price of rice had large effects on rural poverty, with a 10 percent increase in rice prices reducing rural poverty by 0.8 to 1 percent. Urban poverty increased by 0.2 percent, but because of the large rural poverty reductions, the positive effect of the rice price increases on rural households outweighed the negative effects on the urban households. Citing Ravallion and van der Walle (2008), the authors explain that the positive impacts on rural households in Vietnam may be due to the "relatively egalitarian distribution of land in Vietnam and the absence of a large class of poor landless laborers" (Ivanic and Martin 2008, 3).

13. With the exception of Eastern Europe.

14. Nevertheless, a portion of the migrants tend to be relatively low-skilled workers whose productivity is greater abroad than at home.

15. In China and Pakistan, the consumption of households in the bottom income deciles fluctuated much more than the consumption of households in the upper income deciles, suggesting that they were less able to protect themselves against shocks (Alderman 1996; Jalan and Ravallion 1999). In Ethiopia, fluctuations in adult nutrition were found to be larger for women and individuals from poorer households (Dercon and Krishnan 2000).

16. The analysis of Banerjee and Duflo was conducted for poverty lines of US$1.08 at 1993 PPP and US$2.16 at 1993 PPP, referred to as one and two dollars a day in accord with the naming convention introduced earlier in this chapter.

17. It is important to keep in mind that unskilled labor intensity is a key factor in determining whether a technology is pro-poor.

18. Households could borrow from informal markets, but such markets usually charge very high interest rates. Households can also borrow from family members, but family members may themselves be strapped for cash and not have enough funds to lend.

19. Although Hulme and Mosley (1996) found that microloans were more beneficial to borrowers living above the poverty line than to borrowers living below the line, a more recent paper by Hulme and Moore (2006) reassesses that conclusion and suggests that at least in the case of Bangladesh, microfinance has been able to reach the poorest—that is, people "with low and unstable incomes, little or no land or assets, low social status, and few if any alternative sources of financial services that are both accessible and affordable" (7).

20. Randomized evaluations are not the only form of research that is needed to better understand what works. Indeed, as argued by Deaton (2009), randomized control trials (RCTs), which are often (and wrongly) viewed as "the gold standard," and quasi-experimental designs have to overcome a number of technical difficulties, which may undermine the internal validity of the research. Further, even in the most ideal RCT, there may be problems with the external validity of the results, for the program may work very differently outside the experiment. Thus, while very valuable in improving the scientific basis for policy recommendations, it is not clear that results emerging from RCTs, as stated by Deaton (2009), "automatically trump" results emerging from other types of research using different methodologies.

21. Furthermore, some argue that ODA allocation within these countries tends to favor the interests of the "rich" (Hefeker and Michaelowa 2003). Poor targeting arises because much aid is allocated to serve the strategic interests of donor countries or allocated to countries with reasonably sound governance and economic policies, where it is believed that aid will work better (Dollar and Levin 2004), rather than to countries that need aid the most. There is also a clear bias in aid flows

toward countries that have strong political, historical, colonial, and economic ties with donors (Isopi and Mattesini 2008).

22. This section is extracted from von Braun and Pandya-Lorch (2007).

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Part 1

Understanding Ultra Poverty and Hunger: Theory and Measurement

This first collection of chapters considers the measurement and understanding of poverty and hunger. Although there is broad agreement within the development community that, as Sen (1999) puts it, "Poverty must be seen as the deprivation of basic capabilities" (87),[1] there is less agreement about how to identify the world's poorest and determine where they live. As Deaton (2006) notes, it is often easy for an individual to say whether or not he or she is poor and whether individuals in his or her village are poor, but it is not so easy to determine how many people in a country are poor and almost impossible to determine who in the world is poor.

The first set of chapters in Part 1, Chapters 2–4, focus on this measurement issue and describe trends in global poverty and hunger using the most common poverty and hunger measurements. The subsequent three chapters concentrate on the ultra poor, suggesting ways to identify them, distinguish their main characteristics, and track their progress. The final chapter looks more explicitly at the causes of ultra poverty and the mechanisms that perpetuate it.

Measuring Poverty and Hunger

How poverty is measured affects people's understanding of the characteristics and causes of poverty and their decisions about what actions are needed to reduce it. The way poverty is measured also determines who is identified as poor and influences any assessment of the extent of poverty and progress in reducing it.

In measuring national and global poverty, the development community tends to focus on one dimension—income poverty, measured as the per capita expenditure of a household. Establishing a measure of global poverty, however—even using just this one dimension—poses challenges. It is difficult to define one poverty line that is comparable across countries. A global poverty line must accurately compare standards of living in one currency with another, and data need to be frequently and accurately collected in a comparable way across many different countries. Using the convergence of the poverty lines of the poorest countries in the developing world as a basis, Shaohua Chen and Martin Ravallion have established a global poverty line roughly equal to a dollar a day adjusted for purchasing power through purchasing power parity (PPP) exchange rates. As pointed out in Chapter 1, in August 2008 Chen and Ravallion revised the poverty line from US$1.08 using the 1993 PPP to US$1.25 using the 2005 PPP. In Chapter 2 the two authors use the revised line of US$1.25 at 2005 PPP to discuss estimates of global poverty and trends in reducing it since 1990. They also present evidence on the recent urbanization of poverty. The chapter focuses on measures of poverty incidence and so does not consider the degree of severity of the poverty of those counted as poor. As discussed later, Chapters 5 and 6 disaggregate those living on less than a dollar a day to consider trends in different levels of poverty.

The focus on income poverty arises largely because this indicator is seen to correlate with other dimensions of poverty. There is some basis for this argument; as Sen (1999) has written, "Inadequate income is a strong predisposing condition for an impoverished life" (87). As Deaton (2006) notes, however, "The fact that income tends to be positively correlated with other aspects of well-being also alerts us to the fact that poor people in the world are poorer, and rich people are richer, than we would recognize on the basis of their incomes alone. Africans not only have less money than Europeans and Americans, they also have lower life expectancy and less chance of ever going to school" (11). Additionally, in cases in which households are not income poor but are poor in health, education, or another dimension, a focus on income poverty increases the risk that these people will be missed. Focusing on income poverty alone also makes it easier to ignore the role that improving other areas—for example, improving health care, increasing the number of children going to school, or strengthening people's ability to participate in the political process—can play in reducing poverty.

To get at the multidimensionality of poverty, the international community uses other indicators, such as child mortality, primary school enrollment rates, or hunger. Indexes such as the Human Development Index and the Global Hunger Index (GHI; see Chapter 1 for a discussion of the GHI) have each been successful at focusing attention on more than one dimension of development and hunger. Nonetheless, although aggregating different measures into one index is invaluable in focusing policy and public opinion interest, it has methodological problems (see, for example, McGillivray and White 1992) and has been the subject of considerable debate within the profession. In Chapter 3, Sabina Alkire and James Foster address this debate and introduce a new methodology for multidimensional poverty measurement that is free from some of the problems indexes have faced in the past. As noted in Chapter 1, in recent years progress in measuring standardized, subjective well-being has allowed useful comparisons of welfare across continents (McGillivray 2006). These measures, although not discussed in this collection, can serve as useful indicators of relative poverty.

In Chapter 4 Peter Svedberg provides a closer look at hunger. He considers the two dimensions of hunger—nutrient deficiencies and calorie deficiencies—focusing on the two largest developing countries, China and India, whose progress greatly influences global poverty and hunger trends. The chapter compares their contrasting experiences in reducing child malnutrition and highlights the link between child malnutrition and mortality. Svedberg also notes the disturbing paradox of development in South Asia, where despite increases in income and remarkable improvements in child malnutrition, the region still has the highest prevalence of underweight children in the world—higher even than in poorer Sub-Saharan Africa.

Ultimately, these first chapters in Part 1 point to the fact that a multidimensional analysis is important for measuring poverty or hunger, but the development community will have to invest much more in collecting, aggregating, and standardizing data before such measures can be used to understand the location of the world's poorest households or to assess global progress in reducing the incidence of extreme poverty.

Identifying and Characterizing the Ultra Poor

Chapters 5 and 6 look more closely at the ultra poor, at who they are, where they live, and the extent of deprivation they suffer, by focusing on two measures: income poverty and hunger. In Chapter 5, Ahmed, Hill, and Wiesmann use a new and unique methodology, based on disaggregating the incomes of those living on less than a dollar a day, to better identify the poorest households and improve assessments of whether the very poorest are being reached.[2] Relying on a global poverty database, they distinguish three groups among those living on less than a dollar a day, identifying the poorest group, the ultra poor, as those living on less than 50 cents a day.[3] The authors look at the progress achieved in terms of poverty reduction for each of the three groups and find that progress against poverty has been slowest among the ultra poor (those living on less than 50 cents a day). The income poverty analysis in the chapter is supplemented with an assessment of trends in a multidimensional measure of hunger, the GHI.

In Chapter 6, Ahmed, Hill, Smith, and Frankenberger use household datasets and the existing literature to better understand the characteristics and trends of extreme poverty and hunger in 20 developing countries across the globe. They identify characteristics of poor households, which in many ways reflect the other dimensions of poverty: lack of education and assets, remoteness, and membership in an excluded group. The subsequent chapter by Benson, Epprecht, and Minot further examines one of these characteristics—remoteness. The authors highlight the importance of studying the spatial distribution of the poor for an improved understanding of where the poor live and the characteristics of these locations. They outline the methodology behind a poverty map—the main tool used today to look at the relationship between poverty and geographic factors—which provides estimates of the incidence and severity of poverty for relatively small geographic areas (for example, a subdistrict or community). They illustrate the usefulness of the technique for understanding the relationship between ultra poverty and remoteness using three country examples—Malawi, Mozambique, and Vietnam—where poverty mapping was conducted on the basis of estimated area-specific poverty lines. For example, in Malawi the poverty line used incorporates the cost of daily food and nonfood requirements (Benson, Chamberlin, and Rhinehart 2005), whereas in Mozambique it is based on consumption levels (MPF, EMU, and IFPRI 1998; Simler and Nhate 2005) and in Vietnam on household food (2,100 calories per person per day) and nonfood expenditures (Minot, Baulch, and Epprecht 2006).[4] Benson, Chamberlin, and Rhinehart also illustrate the policy relevance of poverty maps for better design and targeting of interventions in the three countries. Later in the book Domingo Panganiban (Essay 3) also takes on the topic, describing how mapping has enabled the implementation of poverty alleviation programs in the Philippines. Nevertheless, as noted by Tarozzi and Deaton (forthcoming), it is important to keep in mind that poverty maps, although they are a useful analytical and policy tool, cannot identify the location of poverty as precisely as might first be assumed.

The Causes and Dynamics of Poverty

In the final chapter of this part of the book, Partha Dasgupta takes as his prime question not the measurement of extreme poverty and hunger but their causation. He argues that much of the research in the past 30 years has focused on describing the lives of the world's poorest rather than explaining their poverty. Although description can be worthwhile—indeed, it is an important part of starting to understand causal relationships and highlighting the presence of relationships one might not have anticipated—description alone does not provide guidance for action. It does not highlight what is a cause and what is an effect of deprivation or what causes may be mutually reinforcing (with the result that alleviating just one cause results in little material difference). Nor does it specify what causal processes involve positive feedback, trapping individuals in extreme poverty and hunger. Dasgupta considers two poverty traps: a hunger trap in which lack of nutrition results in continued lack of nutrition and a population-response poverty trap in which households with little access to natural resources become larger, putting more pressure on natural resources. This chapter highlights the tendency for extreme deprivation to persist across an individual's lifetime and within communities across many generations. As such it provides an explanation of the finding presented by Ahmed, Hill, and Wiesmann that at the global level, ultra poverty has proved persistent. Dasgupta's chapter is a theoretical exposition of a dynamic that underpins an increasing empirical literature on poverty traps (Barrett and Carter 2006) that is the subject of some dispute (see, for example, Jalan and Ravallion 2002). For a further discussion of this topic, see the introductory chapter.

Notes

1. An individual's capabilities are defined as "the substantive freedoms he or she enjoys to lead the kind of life he or she has reason to value" (Sen 1999, 74).

2. Other recent analyses have disaggregated poor households by looking at how long they have stayed in poverty, reflecting the reality that whereas some individuals have faced persistent or chronic poverty (Chronic Poverty Research Centre 2004), others have moved in and out of poverty (Baulch and Hoddinott 2001; Krishna, this volume, Chapter 33).

3. The dollar-a-day line of US$1.08 at 1993 PPP is used for this analysis. The three groups are those living on between US$0.81 and US$1.08 a day, those living on between US$0.54 and US$0.81 a day, and those living on less than US$0.54 a day, all at 1993 PPP.

4. The various surveys underlying the maps were undertaken at different times. In Mozambique the poverty lines ranged from 3,359 MT (US$0.29) to 8,714 MT (US$0.75) per person per day in late 1996 (see MPF, EMU, and IFPRI 1998 for more details). In Vietnam the poverty line was set at 1,789,871 VND per person per year in 1999 (which at the time roughly corresponded to US$0.37 per person per day), with adjustments made for regional differences in prices (see Minot, Baulch, and Epprecht 2006 for more details).

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Chapter 2

The Changing Profile of Poverty in the World

Shaohua Chen and Martin Ravallion

Assessing the world's progress against poverty calls for frequent and careful measurements using multiple data sources, including household surveys, national accounts, and price data. Fortunately, the task of measuring poverty is becoming easier, and the results are probably becoming more accurate over time.[1] The best data for assessing progress against poverty come from surveys of the living standards of nationally representative samples of households. In the past 25 years there has been enormous progress in designing, implementing, and processing such surveys for developing countries, thanks in large part to the efforts of national statistics agencies throughout the world and the support of the donor community and international development agencies. These data provide key information about global and regional progress in alleviating poverty (see Box 2.1).

Signs of Progress in Reducing Global Poverty

The number of people in the developing world living on less than US$1.25 a day fell from 1.9 billion in 1981 to 1.4 billion in 2005. The choice of poverty line matters,

This chapter draws on S. Chen S. and M. Ravallion, The developing world is poorer than we thought, but no less successful in the fight against poverty, Policy Research Working Paper 4703, World Bank, Washington, DC <http://econ.worldbank.org/docsearch>, and M. Ravallion, S. Chen, and P. Sangraula, New evidence on the urbanization of global poverty, *Population and Development Review* 33, no. 4 (December 2007): 667–701. This chapter provides some updates to the estimates in the latter piece.

Box 2.1 Measuring poverty

The World Bank's "global" poverty measures have been based mainly on an international poverty line that is intended to be representative of the national poverty lines found in the world's poorest countries. The latest version of that line that we use here is US$1.25 a day and US$38.00 a month at 2005 purchasing power parity (PPP) for the consumption of households. This is a conservative definition of poverty because richer countries tend to have higher lines. We also use a line set at US$2.00 a day (or US$60.83 a month at 2005 PPP), which is the median poverty line of all low- and middle-income countries for which data are available.

These international poverty lines were converted to local currencies using the same PPP exchange rates and updated over time using the best available consumer price index. The poverty lines were then applied to data on household consumption or income per person from the available household survey data to determine how many people in each country fall below the lines. The poverty measures in this chapter were developed using almost 700 household surveys spanning 115 countries to estimate a time series of measures at roughly three-year intervals from 1981 to 2005.

In estimating an urban–rural breakdown, a key issue is how to deal with the fact that the cost of living is generally higher in urban areas than in rural ones. The existing PPP exchange rates used to convert the international poverty lines into local currencies do not distinguish rural areas from urban ones, so this information was drawn from the World Bank's country-specific poverty assessments (PAs), which have now been completed for most developing countries. These PAs, which describe the extent of poverty and its causes in each country, are the best available source of information on urban–rural differentials for setting international poverty lines.

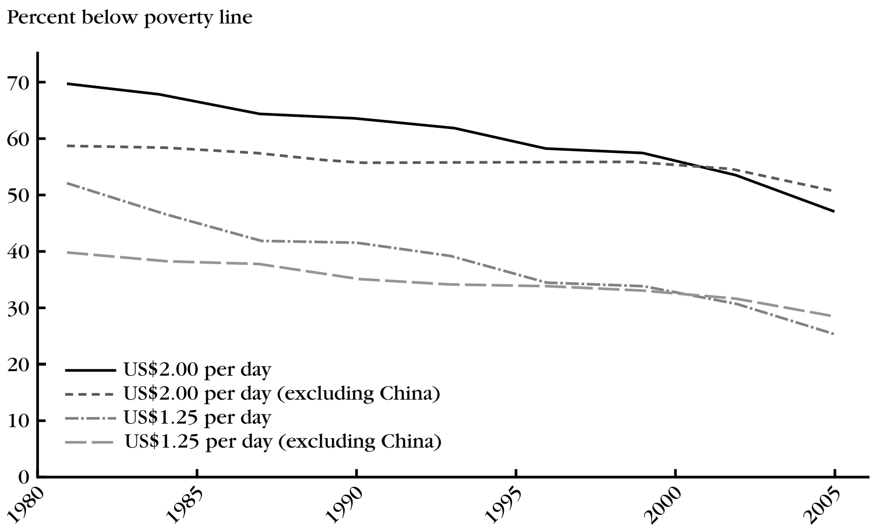
In measuring urban versus rural poverty, the international line is considered the national poverty line, and we then unpack the implicit urban and rural poverty lines consistent with the ratio of the national urban poverty lines to rural ones from the PAs and the fact that the national PPP from the 2005 International Comparison Program (ICP) is based on expenditure-weighted prices. (There are some exceptions when the 2005 ICP sampling information suggests that the international poverty line is best interpreted as an urban poverty line.)

however. The number living on less than US$2.00 a day actually rose by about 20 million over this period, to 2.56 billion in 2005.

As a share of the population, the global poverty rate for those living on less than US$1.25 a day fell from 52 percent in 1981 to 25 percent in 2005, and that for people living on US$2.00 a day fell from 69 percent in 1981 to 47 percent in 2005 (Figure 2.1). For those living below both poverty lines, the trend of poverty reduction was about 1 percentage point per year over 1981–2005. This rate exceeds the rate of poverty reduction of 0.8 percentage point per year that would be required to halve the number of people living under the 1990 poverty rate of US$1.25 a day by 2015. So, in the aggregate, the world is on track to achieve the first Millennium Development Goal (MDG 1).

But there is no reason for complacency. There are four important caveats. First, even achieving MDG 1 will leave a great many very poor people in the world. Poverty reduction over 1981–2005 resulted in a yearly decrease of about 21 million people living on less than US$1.25 a day. At this rate of decline, by 2015, even though the 1990 poverty rate will have been halved, more than 1 billion people will still live on less than US$1.25 a day. Even factoring in the prospects for more rapid growth in some developing countries, there will still be more than 900 million people living on less than US$1.25 a day in 2015.

Figure 2.1 Poverty measures over time, 1981–2005



Source: S. Chen and M. Ravallion, The developing world is poorer than we thought, but no less successful in the fight against poverty, Policy Research Working Paper 4703, World Bank, Washington, DC, 2007.

Second, progress has been slower in reducing poverty for those living on US$2.00 a day. The number of people living below the US$2.00-a-day line actually rose over most of the period 1981–1994, falling since the end of the 1990s. A linear projection forward to 2015 leads to the prediction that then about 2.6 billion people will be living on less than US$2.00 a day (with about 1.6 billion living on between US$1.25 and US$2.00). The population share for this line would be about 42 percent in 2015, well short of the 32 percent figure needed to halve the 1990 index. But one should be wary of such linear projections. There are signs that the number of people living on less than US$2.00 a day has been falling since about 2000, but it is too early to call this trend a sustained reversal.

It is clear, however, that the projected success in achieving MDG 1 critically depends on where the poverty line is drawn. The relatively slow progress in reducing the US$2.00-a-day poverty count reflects, of course, the rising numbers of people living on between US$1.25 and US$2.00 a day. That is not too surprising; those escaping extreme poverty will not rapidly enter the global middle class. Yet the number of people living on more than US$2.00 a day has expanded even more rapidly.

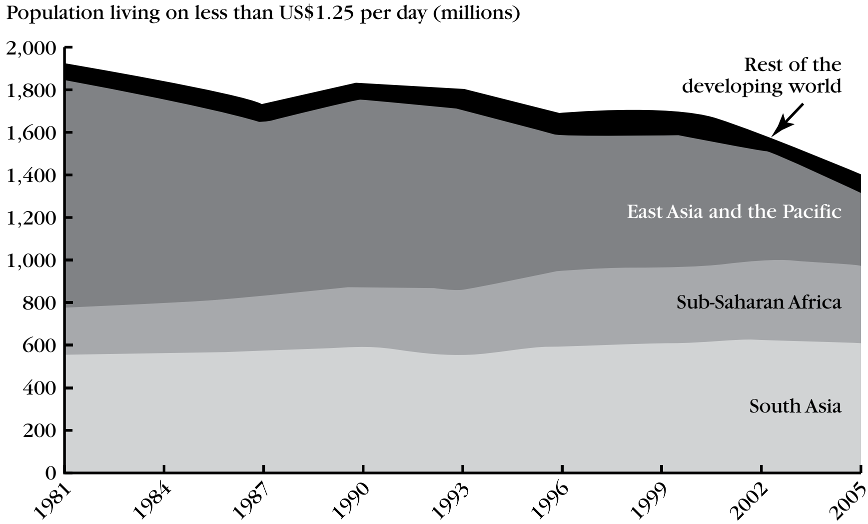
Third, China naturally carries the greatest weight in these calculations given its population size. The trend rates of decline in the percentage living in poverty are roughly halved when one focuses on the developing world outside China (see Figure 2.1). Excluding China, if the trend rate of decline in poverty over 1981–2005 for those living on less than US$1.25 a day continues until 2015, the index will fall to 17 percent—more than half of its 1990 value. Similarly, when China is excluded, the number of people living on less than US$1.25 a day is fairly static, with no clear trend. Moreover, there was a trend increase in the number of people living on less than US$2.00 a day in the developing world outside China over 1981–2005, though the number declined again after 1999.

Fourth, given the lags in survey data, our estimates do not include the impacts of the spike in food prices in 2007–08 and the global financial crisis (GFC) that followed. Elsewhere we have argued that the GFC added about 1 percentage point to the headcount index for US$1.25 a day in 2009.[2]

Mixed Regional Results in Reducing Poverty

The geographic profile of poverty in the world is changing, in part because of the striking differences in the evolution of the poverty measures across regions (Figure 2.2). The number of poor people fell sharply in East Asia (as measured by both poverty lines). Both the number and the proportion of poor people generally increased in Eastern Europe and Central Asia in the 1990s, after which there was a marked decline. In Latin America the number of poor generally increased, with some reduction after 2002, but the percentages fell. The Middle East and North

Figure 2.2 Poverty measures by region, 1981–2005



Source: S. Chen and M. Ravallion, The developing world is poorer than we thought, but no less successful in the fight against poverty, Policy Research Working Paper 4703, World Bank, Washington, DC, 2007.

Africa showed a declining trend in the percentage of people under the US$1.25 line. In South Asia the percentage of poor people fell, but the number of poor living on less than US$1.25 a day was fairly static and the number living on less than US$2.00 a day rose.

The poverty counts rose in Sub-Saharan Africa for both poverty lines, although with encouraging signs of a reduction in the percentage below both lines after 2000, in keeping with what was seen in other regions. The rate of decline of poverty among those in Sub-Saharan Africa living on less than US$1.25 a day was about 1 percentage point a year from 1999 to 2005. Using the US$2.00 line, Sub-Saharan Africa has continued to show progress since the 1996, although the rate of decline in the incidence of poverty there lags behind the developing world as a whole.

The regional composition of poverty has thus changed dramatically. The decline in poverty between 1981 and 1984 was largely due to China, so this discussion will focus on the period 1984–2005. In 1984 the region with the highest share of the world's US$1.25-a-day poor was East Asia, with 52 percent of the total. One-third of the world's poor were in China. By 2005 East Asia's share had fallen to 23 percent (15 percent in China). This drop was made up largely by the rise in the share of the poor in South Asia (from 30 percent in 1984 to 43 percent in 2005) and, most strikingly, Sub-Saharan Africa, whose share of the number of people living on less than US$1.25 a day increased from 13 percent in 1984 to 28 percent 20 years later. Projecting these numbers forward to 2015, Sub-Saharan Africa's share of those living on less than US$1.25 a day will be almost 40 percent.

New Light Shed on Urban and Rural Poverty

The urban–rural profile of poverty in the world is also changing. There is a widespread perception that poverty is urbanizing rapidly in the developing world; indeed some observers believe that poverty is now mainly an urban problem, although, as we will see, this view is exaggerated.

The majority of the poor still live in rural areas. Despite the rapid urbanization of the developing world's population, it remains true that more than three-quarters of the developing world's poor live in rural areas, even allowing for the higher cost of living facing the poor in urban areas. The rural poverty rate of 40 percent for those living on less than US$1.25 a day in 2002 was more than double the urban rate (Table 2.1). Similarly, though almost 70 percent of the rural population lived on less than US$2.00 a day, the proportion in urban areas was less than half that figure. Of those living on less than US$1.25 a day, 79 percent were still in rural areas in 2002, and this was true of 76 percent of those living on under US$2.00 a day.

The rural poverty count fell more than the urban count. From 1993 to 2002, the number of people living on less than US$1.25 a day fell by 230 million—the net effect of a decline of 294 million in the number of rural poor and no change in the number of urban poor. The lack of a trend in the urban poverty count implies that the main proximate causes of the overall decline in poverty have been urban population growth and declining poverty within rural areas.

Poverty is becoming more urban. The share of people living on less than US$1.25 a day in urban areas rose from 18 percent to 21 percent over 1993–2002, whereas the urban share of the population as a whole rose from 38 percent to 42 percent over the same period. Even so, it will be many decades before a majority of the developing world's poor live in urban areas. If poverty urbanizes in the future in a way consistent with how it has urbanized in the past, fewer than half the poor will live in urban areas by 2030, even though the UN predicts that the urban population share of the developing world will reach 60 percent by then. Using the US$2.00-a-day poverty line gives a slightly higher share of the poor living in urban areas, but this share has been rising at a slower pace than has the share of the poor measured using the US$1.25-a-day line. Since the late 1990s, the urbanization of poverty has decelerated.

The poorest are also urbanizing faster than the population as a whole. For those under the US$1.25-a-day poverty line, the ratio of urban poverty incidence to total

Table 2.1 Urban and rural poverty measures, 1993 and 2002

		Number of poor (millions)			Percent below poverty line			Urban share of the poor (%)
Poverty line	Year	Urban	Rural	Total	Urban	Rural	Total	
US$1.25 a day	1993	291.3	1,341.2	1,632.5	18.3	51.5	38.9	17.8
	2002	291.2	1,111.4	1,402.6	14.5	40.2	29.4	20.8
US$2.00 a day	1993	594.1	1,967.3	2,561.4	37.3	75.5	61.0	23.2
	2002	604.5	1,904.8	2,509.3	30.0	69.0	52.5	24.1

Source: The authors' calculations.

poverty incidence has risen with urbanization, implying that the poor have been urbanizing slightly faster (in proportionate terms) than the population as a whole. The urban share of the poor under the US$2.00-a-day line has risen at a slower pace than that under the US$1.25-a-day line.

Conclusion

The data presented here show that the world is on track to meet MDG 1. Yet roughly 900 million poor people will remain mired in extreme poverty in 2015 if the pre-GFC trends are restored soon.

The profile of global poverty is changing both regionally and between urban and rural areas. The dramatic decrease in the poverty numbers in East Asia has come with much slower progress in South Asia and especially Sub-Saharan Africa, which is not on track to achieve MDG 1. Meeting that goal will require a dramatic increase in Africa's rate of progress against poverty.

Poverty is also becoming more urban. About one-fifth of the developing world's poor now live in urban areas. Looking forward, the recent pace of urbanization and current forecasts for urban population growth imply that a majority of the world's poor will still live in rural areas for many decades to come.

To some observers, the urbanization of the developing world's population is the unwelcome forebear of new poverty problems, with urban slums blossoming in congested cities. Others see urbanization as a positive force for development, with the economy gradually shifting out of agriculture to more remunerative activities.

There is no denying that new urban problems can emerge in poor and rapidly urbanizing countries. The experiences of countries over time, however, are generally consistent with the view that an increasing share of the population living in urban areas plays a positive role in overall poverty reduction, largely through the higher levels of economic growth associated with more rapid urbanization.

Notes

1. Throughout this chapter measurements of poverty are based on household consumption expenditures per capita or income per capita when data on consumption were not available.

2. See S. Chen and M. Ravallion, The impact of the global financial crisis on the world's poorest, VOX, Portal of the Centre for Economic Policy Research, 2009, <http://www.voxeu.org/index.php?q=node/3520>.

For Further Reading

Chen, S., and M. Ravallion. The developing world is poorer than we thought, but no less successful in the fight against poverty. Policy Research Working Paper 4703. World Bank, Washington DC: 2008. <http://econ.worldbank.org/docsearch>.

Ravallion, M., S. Chen, and P. Sangraula. New evidence on the urbanization of global poverty. *Population and Development Review* 33, no. 4 (December 2007): 667–701.

Chapter 3

Counting and Multidimensional Poverty

Sabina Alkire and James Foster

The concept of multidimensional poverty has risen to prominence among researchers and policymakers. The compelling writings of Amartya Sen, participatory poverty exercises in many countries, and the Millennium Development Goals (MDGs) all draw attention to the multiple deprivations suffered by many of the poor and the interconnections among these deprivations. A key task for research has been to develop a coherent framework for measuring multidimensional poverty that builds on the techniques developed to measure unidimensional (monetary) poverty and that can be applied to data on other dimensions of poverty.

Why Do We Need Multidimensional Measures?

Human progress—whether it is understood as well-being, fulfillment, the expansion of freedoms, or the achievement of the MDGs—encompasses multiple aspects of life, such as being educated, employed, and well nourished. Income and consumption indicators reflect material resources that are vital for people's exercise of many capabilities. The use of monetary indicators alone, however, often reflects an assumption that these indicators are good proxies for multidimensional poverty: that people who are consumption poor are nearly the same as those who suffer malnutrition, are ill educated, or are disempowered. But monetary poverty often provides insufficient policy guidance regarding deprivations in other dimensions. As Table 3.1 illustrates, it is an empirical question whether counting as poor only those who are deprived in terms of consumption can result in omitting a significant

This chapter summarizes S. Alkire and J. Foster, Counting and multidimensional poverty measures, OPHI Working Paper Series 7, 2007, <www.ophi.org.uk>.

Table 3.1 Lack of overlap between monetary poverty and other measures of poverty

	Other nonpoor	Other poor
Consumption nonpoor	Nonpoor-Nonpoor	Error omission (I)
Consumption poor	Error inclusion (II)	Poor-Poor

Source: Devised by the authors.

proportion of poor people in some areas and in over-reporting poverty in others. Ruggeri-Laderchi, Saith, and Stewart (2003) observed that in India, 43 percent of children and more than half of adults who were capability poor (using education or health as the indicator) were not in monetary poverty; similarly, more than half of the nutrition-poor children were not in monetary poverty. Monetary poverty thus appears to significantly misidentify deprivations in other dimensions. In such situations, multidimensional poverty measures are required to provide a more accurate representation of the multiple deprivations different people suffer.

The Problem of Complex Poverty Measures

Although more individual and household survey data are available today than at any time previously, the question remains how to condense social and economic indicators into lean measures that can be easily interpreted and can inform policy. The problem of overly complex poverty measures has haunted past initiatives. A satisfactory multidimensional poverty measure should satisfy some basic criteria. For example, it must

- be understandable and easy to describe;
- conform to "common-sense" notions of poverty;
- be able to target the poor, track changes, and guide policy;
- be technically solid;
- be operationally viable; and
- be easily replicable.

The multidimensional poverty methodology presented in this chapter meets these criteria. It is related to the user-friendly "counting" approaches but provides a more flexible way to identify who is poor. It has a number of desirable properties, including decomposability. It is very adaptable to different contexts and purposes in that different dimensions and indicators can be selected depending on the purpose at hand. For example, different dimensions of poverty might be relevant in different countries. The methodology could also be used in one sector, to represent quality of education or dimensions of health, for example. In addition, different weights can be applied to dimensions or indicators. Furthermore, ordinal, categorical, and cardinal data can all be used. The signal advantages of this measure for policy are that it is highly intuitive, is easy to calculate, and can be decomposed by geographic area, ethnicity, or other variables. The measure can then be broken down into its individual dimensions to identify which deprivations are driving multidimensional poverty in different regions or groups. This last factor makes it a powerful tool for guiding policies to efficiently address deprivations in different groups. It is also an effective tool for targeting.

The Dual-Cutoff Method of Identification

Poverty measurement can be broken down conceptually into two distinct steps: (1) the identification step defines the cutoffs for distinguishing the poor from the nonpoor, and (2) the aggregation step brings together the data on the poor into an overall indicator of poverty. Choosing an approach by which to identify the poor is more complex when poverty measures draw on multiple variables. At present, there are three main methods of identification: unidimensional, union, and intersection:

1. In the *unidimensional* approach, the multiple indicators of well-being are combined into a single aggregate variable, and a poverty cutoff is set on this aggregate variable. A person is identified as poor when his or her achievements fall below this cutoff level. The unidimensional method of identification takes into account dimensional deprivations, but only insofar as they affect the aggregate indicator. There is minimal scope for valuing deprivations in many dimensions independent of one another, something that is viewed as an essential characteristic of a multidimensional approach.

2. The *union* approach regards someone who is deprived in a single dimension as multidimensionally poor. It is commonly used, but as the number of dimensions increases it may be overly inclusive and may lead to exaggerated estimates of poverty. For example, using Indian National Family Health Survey data with 11 dimensions, 91 percent of the population would be identified as poor.

3. The *intersection* method requires that someone be deprived in all dimensions in order to be identified as poor. Often considered too restrictive, this method

generally produces untenably low estimates of poverty. According to the intersection method, in the Indian example mentioned, no one was deprived in all 11 dimensions.

The problems with existing approaches have been widely acknowledged, and the need for an acceptable alternative is clear. Our method of identification uses two forms of cutoffs and a counting methodology. The first cutoff is the traditional dimension-specific poverty line or cutoff. This cutoff is set for each dimension and identifies whether a person is deprived with respect to that dimension. The second cutoff delineates how widely deprived a person must be in order to be considered poor. If the dimensions are equally weighted, the second cutoff is simply the number of dimensions in which a person must be deprived to be considered poor. This equally weighted approach, known as the counting approach, is widely used in policy work. For example, Mack and Lansley (1985) identified people as poor if they were deprived in 3 or more of 26 dimensions, and the United Nations Children's Fund's *Child Poverty Report 2003* identified any child who was deprived in two or more dimensions as in extreme poverty. Once we have identified the cutoffs in terms of who is poor and who is not, we aggregate our data using a natural extension of the Foster Greer Thorbecke poverty measures in multidimensional space.

12 Steps to a Multidimensional Poverty Measure

Our methodology can be intuitively introduced in 12 steps. The first 6 steps are common to many multidimensional poverty measures; the remainder are more specific to our methodology.

Step 1: Choose Unit of Analysis. The unit of analysis is most commonly an individual or household but could also be a community, school, clinic, firm, district, or other unit.

Step 2: Choose Dimensions. The choice of dimensions is important but less haphazard than people assume. In practice, most researchers implicitly draw on five means of selection, either alone or in combination:

- Ongoing deliberative *participatory exercises* that elicit the values and perspectives of stakeholders. A variation of this method is to use survey data on people's perceived necessities.

- A list that has achieved a degree of legitimacy through *public consensus,* such as the universal declaration of human rights, the MDGs, or similar lists at national and local levels.

- *Implicit or explicit assumptions* about what people do value or should value. At times these assumptions are the informed guesses of the researcher; in other situations they are drawn from convention, social or psychological theory, or philosophy.

- *Convenience or a convention that is taken to be authoritative* or used because these are the only data available that have the required characteristics.

- *Empirical evidence regarding people's values,* data on consumer preferences and behaviors, or studies of what values are most conducive to people's mental health or social benefit.

Clearly these processes overlap and are often used in tandem empirically; for example, nearly all exercises need to consider data availability or data issues, and often participation, or at least consensus, is required to give the dimensions public legitimacy.

Step 3: Choose Indicators. Indicators are chosen for each dimension on the principles of accuracy (using as many indicators as necessary so that analysis can properly guide policy) and parsimony (using as few indicators as possible to ensure ease of analysis for policy purposes and transparency). Statistical properties are often relevant—for example, when possible and reasonable, it is best to choose indicators that are not highly correlated.

Step 4: Set Poverty Lines. A poverty cutoff is set for each dimension. This step establishes the first cutoff in the methodology. Every person can then be identified as deprived or nondeprived with respect to each dimension. For example, if the dimension is schooling ("How many years of schooling have you completed?"), "6 years or more" might identify nondeprivation, while "1–5 years" might identify deprivation in the dimension. Poverty thresholds can be tested for robustness, or multiple sets of thresholds can be used to clarify explicitly different categories of the poor (such as poor and extremely poor).

Step 5: Apply Poverty Lines. This step replaces the person's achievement with his or her status with respect to each cutoff; for example, in the dimension of health, when the indicators are "access to health clinic" and "self-reported morbidity body mass index," people are identified as being deprived or nondeprived for each indicator. The process is repeated for all indicators for all other dimensions. Table 3.2 provides an example for a group of four people. ND indicates that the person is not deprived (in other words, his or her value in that dimension is higher than the cutoff), and D indicates that the person is deprived (his or her value is lower than the cutoff).

Step 6: Count the Number of Deprivations for Each Person. This step is demonstrated in the last column of Table 3.2. (Equal weights among indicators are

Table 3.2 Example of application of poverty lines, part 1

Person	Health: Access to a good health clinic	Health: Body mass index	Living standard: Housing quality	Living standard: Employment	Quality of education: Composite indicator	Empowerment: Autonomy	Total count
Person 1	ND	D	ND	D	D	D	4
Person 2	ND	ND	D	ND	D	ND	2
Person 3	D	D	D	ND	ND	ND	3
Person 4	D	D	D	D	D	D	6

Source: Devised by the authors.
Notes: ND, not deprived; D, deprived. Shading indicates people who are poor (defined as deprived in at least four dimensions).

assumed for simplicity. General weights can be applied, however, in which case the weighted sum is calculated.)

Step 7: Set the Second Cutoff. Assuming equal weights for simplicity, set a second identification cutoff, k, which gives the number of dimensions in which a person must be deprived in order to be considered multidimensionally poor. In practice, it may be useful to calculate the measure for several values of k. Robustness checks can be performed across all values of k. In the example in Table 3.2, k is set to 4 and the persons whose data are shaded are identified as poor.

Step 8: Apply Cutoff k *to Obtain the Set of Poor Persons and Censor All Nonpoor Data.* The focus is now on the profile of the poor and the dimensions in which they are deprived. All information on the nonpoor is replaced with zeros. This step is shown in Table 3.3.

Step 9: Calculate the Headcount, H. Divide the number of poor people by the total number of people. In our example, when $k = 4$, the headcount is merely the proportion of people who are poor in at least 4 of d dimensions. For example, as seen in Tables 3.2 and 3.3, two of the four people were identified as poor, so $H = 2/4 = 50$ percent. The multidimensional headcount is a useful measure, but it does not increase if poor people become more deprived, nor can it be broken down by dimension to analyze how poverty differs among groups. For that reason we need a different set of measures.

Step 10: Calculate the Average Poverty Gap, A. A is the average number of deprivations a poor person suffers. It is calculated by adding up the proportion of total deprivations each person suffers (for example, in Table 3.3, Person 1 suffers 4 out of 6 deprivations and Person 4 suffers 6 out of 6) and dividing by the total number of poor persons. $A = (4/6 + 6/6)/2 = 5/6$.

Table 3.3 Example of application of poverty lines, part 2

	Health		Living standard		Quality of education	Empowerment	
Person	Access to a good health clinic	Body mass index	Housing quality	Employment	Composite indicator	Autonomy	Total count
Person 1	ND	D	ND	D	D	D	4
Person 2	0	0	0	0	0	0	0
Person 3	0	0	0	0	0	0	0
Person 4	D	D	D	D	D	D	6

Source: Devised by the authors.
Notes: ND, not deprived; D, deprived. 0 denotes the censored observations of the nonpoor. Shading indicates people who are poor (defined as deprived in at least four dimensions).

Step 11: Calculate the Adjusted Headcount, M_0. If the data are binary or ordinal, multidimensional poverty is measured by the adjusted headcount, M_0, which is calculated as H times A. Headcount poverty is multiplied by the "average" number of dimensions in which all poor people are deprived to reflect the breadth of deprivations. In our example, $HA = 2/4 \times 5/6 = 5/12$.

Step 12: Decompose by Group and Break Down by Dimension. The adjusted headcount M_0 can be decomposed by population subgroup (such as region, rural/urban, or ethnicity). After constructing M_0 for each subgroup of the sample, we can break M_0 apart to study the contribution of each dimension to overall poverty. To break the group down by dimension, let A_j be the contribution of dimension j to the average poverty gap A. A_j could be interpreted as the average deprivation share across the poor in dimension j. The dimension-adjusted contribution of dimension j to overall poverty, which we call M_{0j}, is then obtained by multiplying H by A_j for each dimension.

Basic Properties of the Multidimensional Measure M_0

The adjusted headcount M_0 is useful for a variety of reasons worth mentioning:

- It can be calculated for different groups in the population, such as people from a certain region, ethnic group, or gender.

- The poverty level increases if one or more people become deprived in an additional dimension, so it is sensitive to the multiplicity of deprivations.

- It adjusts for the size of the group for which it is being calculated, allowing for meaningful international comparison across different-sized countries.

- It can be broken down into dimensions to reveal to policymakers what dimensions contribute the most to multidimensional poverty in any given region or population group.

Related Multidimensional Measures: Calculate the Adjusted Poverty Gap (M_1) *and Squared Poverty Gap* (M_2). If at least some data are cardinal, replace the "1" for each deprived person by his or her normalized poverty gap (the poverty line minus the person's achievement divided by the poverty line), and calculate the average normalized poverty gap G, which is the sum of the values of the poverty gaps divided by the number of deprivations (in the case of ordinal data, the poverty gap will always be 1). The adjusted poverty gap M_1 is given by HAG, or the M_0 measure multiplied by the average poverty gap. The squared poverty gap M_2 is calculated by squaring each poverty gap individually and replacing G with the average squared normalized poverty gap S, so the measure is HAS. The squared measure reflects inequality among the poor.

Showing How Multidimensionality Matters

This example of the measurement methodology and its variations is based on U.S. data from the 2004 National Health Interview Survey for adults aged 19 and older (n = 45,884). Four indicators were used:

1. *Income:* a person is deprived if he or she lives in a household that falls below the standard income poverty line; income is measured in poverty line increments and is grouped into 15 categories.

2. *Health:* a person is deprived if he or she self-reports "fair" or "poor" health.

3. *Health insurance:* a person is deprived if he or she lacks health insurance.

4. *Schooling:* a person is deprived if he or she lacks a high school diploma.

The population was divided into four groups: Hispanic/Latino (Hispanic), white (non-Hispanic), black/African American, and other. Table 3.4 presents the traditional income poverty headcount (the share of the population below the income cutoff) and the multidimensional measures H and M_0, where the latter are evaluated using k = 2

Table 3.4 Profile of U.S. poverty by ethnic/racial group

Group (1)	Population (2)	Percent contribution (3)	Income poverty headcount (4)	Percent contribution (5)	M (6)	Percent contribution (7)	M_0 (8)	Percent contribution (9)
Hispanic	9,100	19.8	0.23	37.5	0.39	46.6	0.23	47.8
White	29,184	63.6	0.07	39.1	0.09	34.4	0.05	33.3
Black	5,742	12.5	0.19	20.0	0.21	16.0	0.12	16.1
Other	1,858	4.1	0.10	3.5	0.12	3.0	0.07	2.8
Total	45,884	100.0	0.12	100.0	0.16	100.0	0.09	100.0

Source: S. Alkire and J. E. Foster, Counting and multidimensional poverty measurement, Oxford Poverty and Human Development Initiative Working Paper 7, University of Oxford, Oxford.
Note: *H,* headcount.

and equal weights. Column 2 gives the population share in each group, while column 4 presents the share of all income-poor people found in each group. Comparing these two columns, it is clear that the incidence of income poverty is disproportionately high for the Hispanic and African American populations.

Moving now to the multidimensional headcount ratio H, column 7 gives the percentage of all multidimensionally poor people who fall in each group. The percentage of the multidimensionally poor who are Hispanic is much higher than the respective figure in column 5, whereas the percentage who are African American is significantly lower, illustrating how this multidimensional approach to identifying the poor can alter the traditional, income-based poverty profile. Whereas column 7 gives the distribution of poor people across the groups, column 9 lists the distribution of deprivations experienced by the poor people in each group. The resulting figures for M_0 further reveal the disproportionate Hispanic contribution to poverty that is evident in this dataset.

Why does multidimensional poverty paint such a different picture than the traditional, income-based poverty profile? Table 3.5 uses the methodology outlined earlier to identify the dimension-specific changes driving the variations in M_0. The final column of Table 3.5 reproduces the group poverty levels found in column 8 of Table 3.4, and the rows break these poverty levels down by dimension. The factor contributions to poverty were calculated by aggregating the share of the respective population that is both poor and deprived in one particular dimension and dividing it by the total number of dimensions. The first row gives the decomposition for the Hispanic population, with column 2 indicating that 20 percent of Hispanics are both multidimensionally poor and deprived in income. Column 6 has the overall M_0 for Hispanics, which is simply the average of H_1 through H_4. The second row expresses

Table 3.5 Contribution of each dimension to overall adjusted headcount, M_0

Group	H_1 (Income)	H_2 (Health)	H_3 (Health insurance)	H_4 (Schooling)	M_0
Hispanic	0.200	0.116	0.274	0.324	0.229
Percent contribution	21.8	12.7	30.0	35.5	100
White	0.045	0.053	0.043	0.057	0.050
Percent contribution	22.9	26.9	21.5	28.7	100
African American	0.142	0.112	0.095	0.138	0.122
Percent contribution	29.1	23.0	19.5	28.4	100
Other	0.065	0.053	0.071	0.078	0.067
Percent contribution	24.2	20.0	26.5	29.3	100
Overall	0.089	0.073	0.096	0.121	0.095
Percent contribution	23.4	19.3	25.4	31.9	100

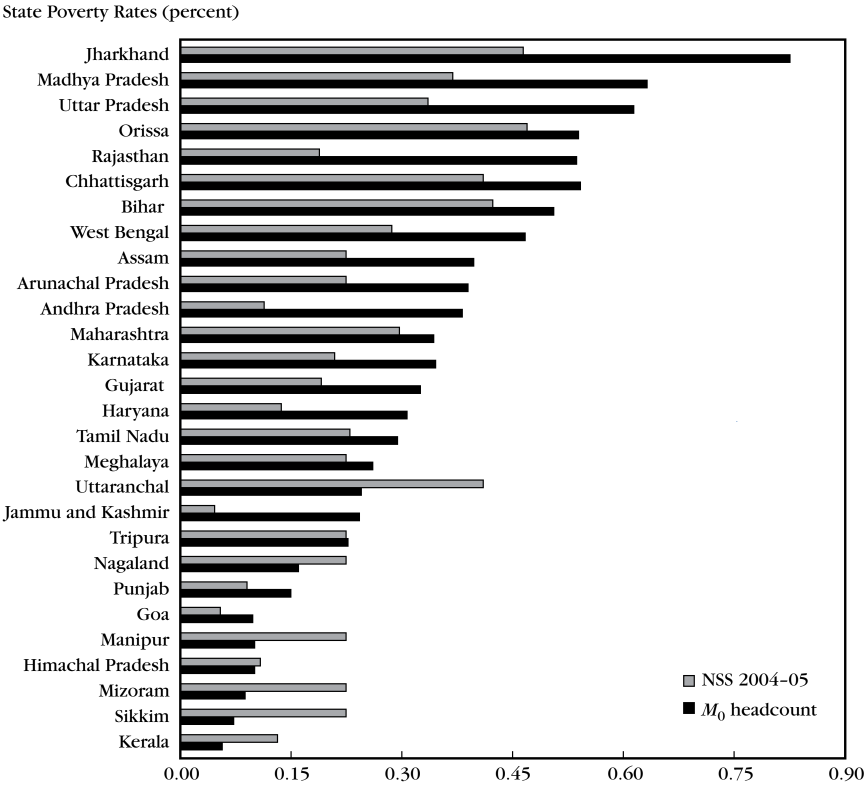
Source: S. Alkire and J. E. Foster, Counting and multidimensional poverty measurement, Oxford Poverty and Human Development Initiative Working Paper 7, University of Oxford, Oxford.
Note: M_0, adjusted headcount; H, headcount.

the same data in percentage terms, with column 2 providing the percentage contribution of the income dimension to the Hispanic level of M_0 or, alternatively, the percentage of all deprivations experienced by the Hispanic poor population that are income deprivations. Notice that for Hispanics, the contribution from health insurance and schooling is quite high, whereas the contribution of income is relatively low. In contrast, the contribution of income for African Americans is relatively high. This result explains why, in comparison with traditional income-based poverty, the percentage of overall multidimensional poverty originating in the Hispanic population is rising, whereas the contribution for African Americans is lower. The example shows how the measure M_0 can be readily broken down by population subgroup and dimension to help explain its aggregate level.

Additional applications are under way in Bhutan, China, India, Pakistan, Latin America, and Sub-Saharan Africa. These demonstrate different qualities of the measure:

- *The measure can identify and target particularly for public support more accurately than can measures of income poverty.* The conditional cash transfer (CCT) program Oportunidades in Mexico and the below-the-poverty-line (BPL) calculations in India all use a particular measure to identify qualified recipients for public support. In India, the multidimensional headcount measure M_0 taken using the identification method we have recounted elsewhere (the dark bar in Figure 3.1) in rural areas (with dimensions similar to the government's BPL measure) is in some cases strikingly different from income poverty estimates (light bar).

Figure 3.1 Measures of poverty for states in India, 2004–05

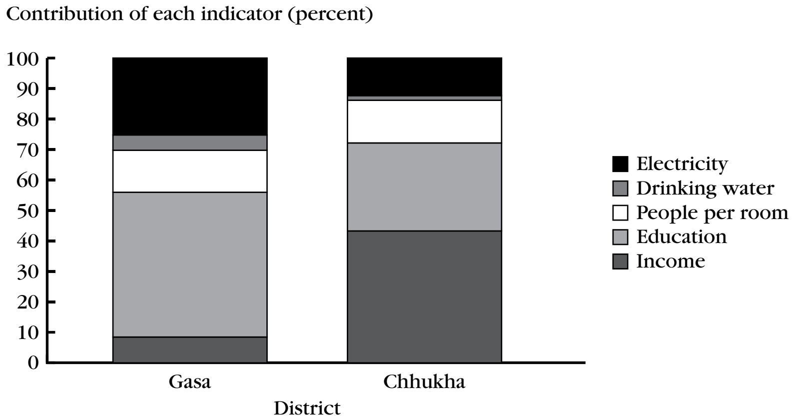


Source: S. Alkire and S. Seth, Multidimensional poverty and BPL measures in India: A comparison of methods, Oxford Poverty and Human Development Initiative Working Paper 15, University of Oxford, Oxford, 2009.

Note: NSS, National Sample Survey; M_0, multidimensional headcount.

- *The measure can be decomposed to see what is driving poverty in different regions or groups.* In Bhutan, the rank of the districts changed when moving from income poverty to multidimensional poverty. The relatively wealthy state of Gasa fell 11 places when ranked by multidimensional poverty rather than by income, and the state of Chhukha, which was ranked 11th of 20 by income, rose 3 places when ranked by multidimensional poverty. Decomposing the M_0 measure by dimension reveals that in Gasa, poverty is driven by a lack of electricity, drinking water, and overcrowding; income is hardly visible as a cause of poverty (Figure 3.2). In Chhukha, income is a much greater contributor to poverty than other dimensions; hence its increase. Although further analysis is required, these results

Figure 3.2 Composition of multidimensional poverty in two districts of Bhutan (M_0 with k = 2), 2007



Source: Based on M. E. Santos and K. Ura, Multidimensional poverty in Bhutan: Estimates and poverty implications, Oxford Poverty and Human Development Initiative Working Paper 14, University of Oxford, Oxford, 2008.

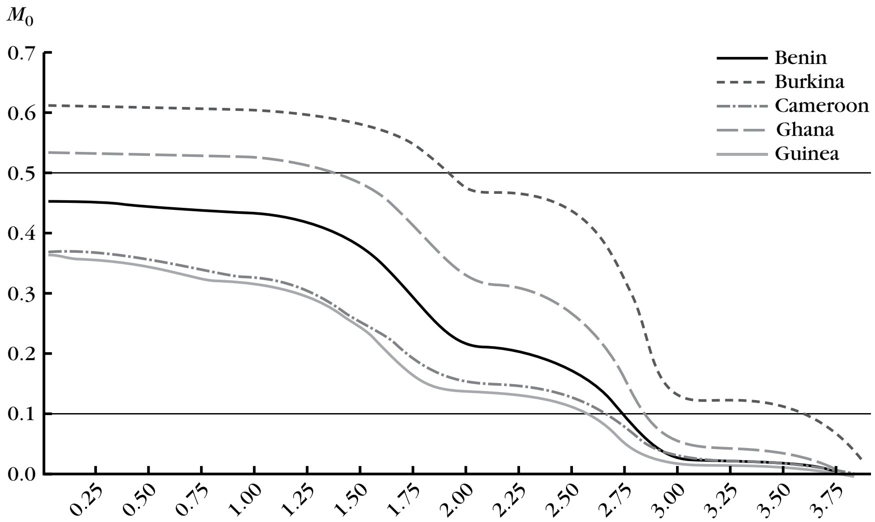
suggest that policy priorities to reduce multidimensional poverty will differ significantly in each state.

- *The robustness of multidimensional poverty can be tested using different assumptions.* In Sub-Saharan Africa, five countries were compared using Demographic and Health Survey data (Figure 3.3). For all possible values of k (the second cutoff), Burkina Faso is always poorer than Nigeria, regardless of whether we count as poor persons those who are deprived in only one dimension or those deprived in every dimension (assets, health, education, and empowerment, in this example).

Conclusion

This chapter has introduced a new methodology for multidimensional poverty measurement. The methodology consists of (1) a dual cutoff identification method that extends the traditional intersection and union approaches and (2) a set of poverty measures that have a range of desirable properties, including decomposability. This multidimensional methodology is appropriate for reporting multidimensional poverty in the same way as income poverty lines and also for tracking changes in poverty in a nation or state over time. The instrument is also particularly suited to targeting the poor. At present, work is ongoing to compare this measure with national poverty measures (such as income or any other measure) in more than

Figure 3.3 Adjusted multidimensional headcount M_0 as poverty cutoff k is varied in five countries



Source: Y. M. Batana, Multidimensional measurement of poverty in sub-Saharan Africa, Oxford Poverty and Human Development Initiative Working Paper 13, University of Oxford, Oxford, 2008.

20 countries. Further extensions are applying the methodology to address other multidimensional issues such as quality of education, governance, child poverty, fair trade, and targeting of CCTs.

For Further Reading

Alkire, S., and J. Foster. Counting and multidimensional poverty measures. OPHI Working Paper Series 7. Oxford Poverty and Human Development Initiative, Oxford, 2007. <www.ophi.org.uk>.

Atkinson, A. B. Multidimensional deprivation: Contrasting social welfare and counting approaches. *Journal of Economic Inequality* 1, no. 1 (2003): 51–65.

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Chapter 4

Child Malnutrition in India and China: A Comparison

Peter Svedberg

In the early 1990s, India and China were home to more than half the preschool children in the developing world who were malnourished, as measured by stunting or underweight.[1] Since then, child malnutrition has declined in both countries but from different levels and at different paces. There are also notable differences in the concentration of child malnutrition along the state–province, rural–urban, and female–male divides. This chapter highlights the main differences in levels and trends for these dimensions of malnutrition and considers the most likely explanations for the observed differences. It is hoped that both countries can learn from each other's experiences and thereby design and implement more efficient policies for further alleviation of malnutrition.

Levels and Trends in Child Malnutrition

In both India and China, three national surveys of child stunting and underweight have been carried out (in India, National Family Health Surveys were conducted in 1992–93, 1998–99, and 2005–06, while in China, National Surveys were undertaken in 1982, 1992, and 2002). The earliest survey year for which child malnutrition in India and China can be compared, after some adjustment of the data, is 1992 (see Box 4.1). At that time, the incidence of stunting among children aged 0–3 years was notably higher in India than in China (47 versus 32 percent), and underweight was three times more prevalent (52 versus 17 percent, respectively).

In India, the share of underweight children declined by a few percentage points between the two early surveys but remained virtually unchanged from 1998/99

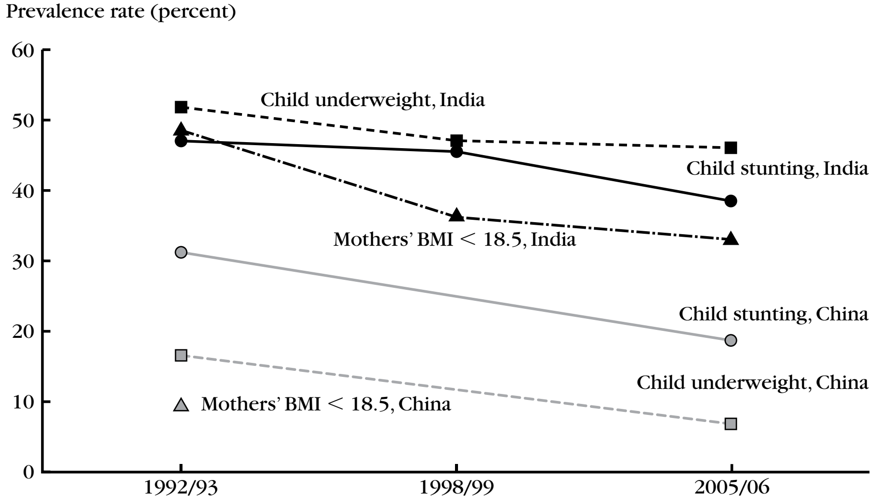
Box 4.1 National surveys, data comparability, and statistical caveats

In both India and China, only three national surveys of child stunting and underweight have been carried out. For each country, numerous smaller surveys cover selected states and provinces or only rural or urban children. These surveys are not sufficiently representative to allow intercountry or intertemporal comparison. The results of the three National Family Health Surveys from India are, with a few minor adjustments in the first survey (1992/93), internally comparable. In China, national surveys were undertaken in 1982, 1992, and 2002. The first survey is not comparable with the two later surveys, however, because the children covered were not chosen at random (they were mainly the 20 percent of children attending kindergartens, where they enjoyed supplementary feeding and health care).

The direct comparability of the survey results from 1992 is compromised because the Indian survey covered 0- to 4-year-olds, while the Chinese survey covered 0- to 5-year-olds. To accomplish comparability between the two countries and also over time, all estimates of stunting and underweight were recalculated to include 0- to 3-year-olds only, the age group covered in the Indian surveys from 1998/99 and 2005/06. Another correctable incomparability is that the estimates available from the 2002 Chinese survey were derived based on recent (2006) revisions of what the World Health Organization defines as child stunting and underweight. These new norms produce somewhat higher rates of prevalence for stunting and lower rates for underweight than the earlier norms, so the data have been recalculated in accordance with the earlier standards.

In addition, the estimated gender differences reported for India are ambiguous. This may seem puzzling considering the strong preference for sons revealed by the boy/girl ratio of 1.11 at birth in 2001, mainly as a consequence of sex-selective abortions. However, if the less-desired female infants tend to die before or closely after birth, this may artificially reduce the incidence of stunted and underweight female children. In China, the one-child-only policy probably tends to leave some female children unregistered in rural areas, and the same applies to temporary migrants' children in urban areas. Neither of these possible biases has been accounted for in the respective national surveys.

Figure 4.1 Child stunting and underweight and mothers with low body mass indexes in China and India, 1992/93–2005/06



Source: Calculated by the author from national surveys.
Note: BMI, body mass index.

to 2005/06. Child stunting, in contrast, was almost flat between 1992/93 and 1998/99 but declined by 8 percentage points between 1998/99 and 2005/06. The different development for underweight and stunting has yet to be analyzed and explained (Figure 4.1).

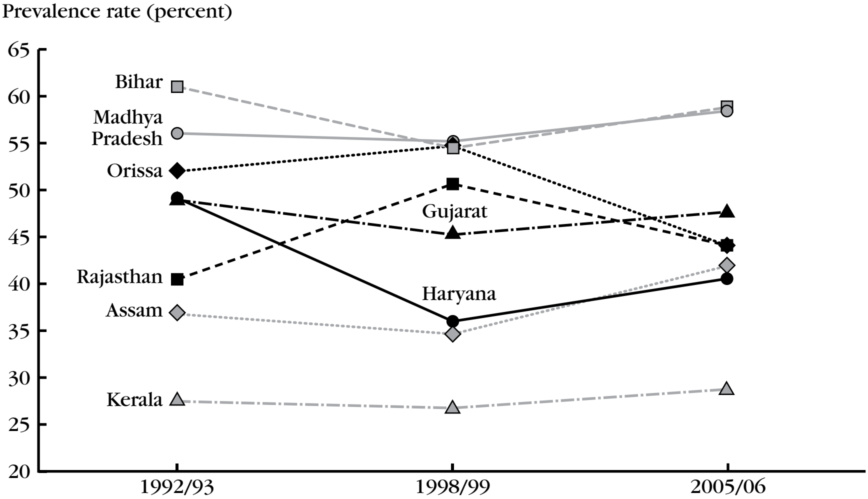
In China, the decline in child underweight and stunting between the 1992 and 2002 surveys was quite dramatic—a reduction of about half. This means that China reached its Millennium Development Goal (MDG) by 2002, more than a decade ahead of the target year 2015. If present trends prevail in India, it will miss its MDG by a substantial margin.

For India, nationally representative estimates of malnutrition in adult women (mothers) allow intertemporal comparison. The share of mothers with a body mass index (BMI) of less than 18.5 declined notably between the first two surveys but only by a minuscule 3.2 percentage points between 1998/99 and 2005/06, from 36.2 to 33.0 percent. For China, no estimate of mothers' BMI from the 2002 survey has yet been published. In the 1992 survey, 9.9 percent of adult women in China were underweight, about one-fifth the rate in India around that time.

Intracountry Differences

The prevalence of child underweight has declined uninterruptedly in 7 of the 15 largest Indian states since 1992/93, while it increased in the other 8 states between

Figure 4.2 Child underweight in eight large Indian states where it increased in a subperiod between 1992/93 and 2005/06



Source: Calculated by the author from national surveys.

two of the survey years. In 6 of these states, the increase took place between the two most recent surveys (Figure 4.2). There are no comparable estimates of changes in child underweight (or stunting) by province in China.

In 2005/06, the prevalence of child stunting and underweight in India was about twice as high in some of the landlocked states in the north as in the coastal states in the south. A large but not nationally representative Chinese survey from 2000 shows that the prevalence of stunting and underweight was highest in the inland provinces in the west.

Rural–Urban Differences

In India, the ratio of the prevalence of child stunting in rural and urban areas went up from 1.21 in 1992/93 to 1.36 in 1998/99 but declined marginally by 2005/06. The equivalent ratio for underweight increased uninterruptedly from 1992/93 to 2005/06, although the change was not drastic by any means.

In China, the concentration of child malnutrition in rural areas is much higher than in India. The 1992 National Survey shows that the rural–urban prevalence ratio was above 3.00 for both stunting and underweight. According to preliminary reporting from the 2002 survey by the World Health Organization (WHO) of the United Nations, the ratios have declined somewhat.

Gender Disparities

Some subnational studies of gender differences in anthropometric status have found that female children in India are at a disadvantage, some have found no gender difference, and a few have found that male children are more frequently stunted or underweight. Although the evidence to date has been mixed, a strong perception lingers that young girls are nutritionally worse off than boys.

The three national Indian nutrition surveys also show mixed results. The first survey, from 1992/93, reports no significant gender difference in either stunting or underweight. The 1998/99 survey, based on the WHO norms for estimating stunting and underweight in children that were in place at that time, shows that female children were at a highly significant disadvantage in both measures. However, when the newly revised WHO norms are applied, no gender difference is found in the prevalence of stunting in 1998/99, while boys are found to have been at a significant disadvantage in terms of underweight. WHO raised the norms for stunting more for boys than for girls, which helps to explain this reversal, but other statistical problems also make interpretation difficult (see Box 4.1). The 2005/06 Indian survey results, based on the new WHO norms, reveal no significant difference in either stunting or underweight between boys and girls.

In China, the prevalence of stunting and underweight in 1992 was slightly higher for boys than for girls, but the difference is not statistically significant. In 2002, under the revised WHO norms, boys were at a statistically significant disadvantage in terms of stunting, while there was no difference in terms of underweight.

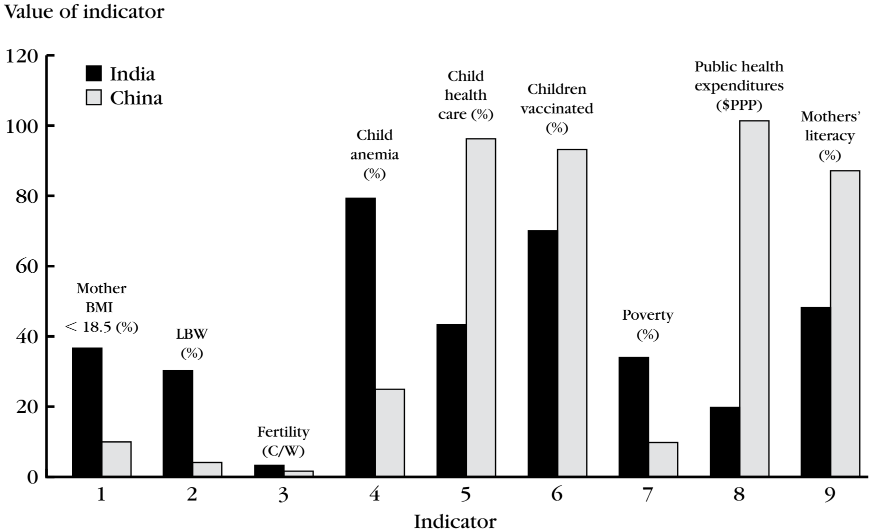
Can the India–China Differences Be Explained?

The two most striking differences between India and China are the much higher prevalence of child stunting and underweight and the slower rates of decline in India. One way of exploring the causes is to compare factors that have been demonstrated to affect child malnutrition in the empirical literature at large.

In macrolevel studies based on cross-country or cross-state observations, per capita real income (poverty) and indicators of female (mothers') status usually correlate most highly. Most microlevel studies in the epidemiological tradition find that mothers' nutritional status, low birth weight (LBW), feeding practices, fertility, and access to professional health care are the main determinants of child malnutrition (Figure 4.3).

The first proximal determinant, mothers' own nutritional status as measured by the share of women with a BMI of less than 18.5, is widely acknowledged as the chief reason behind LBW (the second indicator). LBW, in turn, is the most powerful predictor of child malnutrition in infancy and early childhood. On these two indicators alone, India scores extremely poorly in comparison with China.

Figure 4.3 Selected proximal and underlying determinants of child malnutrition in India and China, 2004 or closest year



Source: Calculated by the author from national surveys and WHO (World Health Organization), *World health statistics 2007* (Geneva: WHO, 2008).

Note: BMI, body mass index; LBW, low birth weight; C/W, number of children per woman; PPP, purchasing power parity.

A high fertility rate implies that the average household has many children, which reduces the resources and time a mother has to care for each child. High fertility also goes hand in hand with shorter birth spacing and mothers' being very young at first birth, which further compromise their ability to provide good care. The fertility rate—number of children per woman—is almost twice as high in India (3) as it is in China (1.7).

Child-feeding practices, reflecting both long-standing traditions and economic constraints, also differ between India and China. Child anemia, a marker of micronutrient deficiencies in lactating mothers' breast milk and in the weaning food fed to infants and young children, is three times higher in India than in China. This may help explain why the prevalence of child stunting is so much higher in India than in China (see Figure 4.1).

Frequent illness among children is another well-documented cause of malnutrition. Children may often fall ill because they are not fully vaccinated or not provided with adequate health care. In China, almost all children receive professional health care and are fully vaccinated. In India, fewer than half receive qualified health care, and 30 percent are not vaccinated (see Figure 4.3).

There are also pronounced gaps between India and China when it comes to underlying causes of child malnutrition (indicators 7–9 in Figure 4.3). The prevalence of poverty, as estimated by the World Bank, is three times higher in India than in China. Poverty is the chief determinant of the proportion of households that can afford an adequate diet and health care. Private, out-of-pocket health expenditures account for the bulk of total expenditures on health care in both India (75 percent) and China (64 percent), but government health expenditures per capita are five times higher in China, according to WHO estimates. Finally, maternal literacy, which has been found to improve all the proximal determinants of child malnutrition presented in Figure 4.3, is almost twice as high in China as in India.

Conclusions

All indicators consulted show India trailing China by far when it comes to factors conducive to alleviating child malnutrition. It is hence not surprising that the prevalence of child malnutrition is much higher in India than in China and that progress has been slower in India. This is not to say, however, that the most important variable explaining the difference has been identified. That question will require further detailed research to resolve.

The fact that the prevalence of underweight and stunting in China has declined rapidly since the early 1990s does not mean that child malnutrition is on the way to being eliminated there. One-fifth of children in rural areas are still stunted, indicating that diets are of low quality and micronutrient deficient and that health care is inadequate. That underweight is now almost absent in China suggests that calorie insufficiency is no longer a problem there. The problem is rather the opposite: an increased prevalence of child overweight, another manifestation of malnutrition. According to the new WHO norms, 12.5 percent of all children in China are overweight or obese (above two standard deviations from the median norms); about 40 percent of children have a weight for their age above the "normal" (above one standard deviation). Child malnutrition is therefore still a concern in China, although with different connotations than in the past.

Note

1. The traditional Waterlow three-tiered classification of anthropometric failure has been the main instrument used for assessing children's malnutrition based on stunting (short height for age), underweight (low weight for age), and wasting (low weight for height). Many children have double or triple anthropometric handicaps; they are (a) stunted and underweight, (b) wasted and underweight, or (c) stunted, underweight, and wasted. This chapter will focus on the first of these groups.

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Chapter 5

The Poorest and Hungry: Looking below the Line

Akhter U. Ahmed, Ruth Vargas Hill, and Doris M. Wiesmann

Today there are about 1 billion extremely poor people in the developing world who subsist on less than a dollar a day.[1] Of those, half a billion live on less than 75 cents a day, and 162 million live on less than 50 cents a day.[2] More than 800 million people cannot afford to meet their minimum calorie requirements. Chronically underfed and largely without assets other than their own labor power, these poorest remain highly vulnerable to the crushing blows of illness and natural or human-made calamities. These extreme poor are a group that hovers on the outer limits of human survival.

Substantial progress in reducing poverty has been made since 1990, suggesting that the first of the Millennium Development Goals (MDGs)—to halve the proportion of people living in extreme poverty and hunger by 2015—will be met at the global level. If it is, who will be likely to move out of poverty and hunger, and who will remain left behind? This chapter addresses this question by developing a better understanding of where the world's poorest and hungry live and by examining whether business as usual will result in improvements in their welfare. The analysis suggests it will not.

This chapter was drawn from Akhter U. Ahmed, Ruth Vargas Hill, Lisa C. Smith, Doris M. Wiesmann, and Tim Frankenberger, *The World's Most Deprived: Characteristics and Causes of Extreme Poverty and Hunger* (Washington, DC: International Food Policy Research Institute, 2007).

Looking Below the Dollar-a-Day Line: Subjacent, Medial, and Ultra Poverty

While the MDGs characterize the extremely poor as those living on less than a dollar a day, here they are disaggregated into three groups according to their location below the dollar-a-day poverty line: subjacent poor (living on between 75 cents and a dollar a day), medial poor (living on between 50 cents and 75 cents a day), and ultra poor (living on less than 50 cents a day). Of the 969 million people living on less than a dollar a day in 2004, half were living in subjacent poverty, one-third in medial poverty, and about one-sixth (162 million) in ultra poverty. Disaggregating dollar-a-day poverty into these groups provides a simple way of looking below the dollar-a-day line to see where those in each group live and how each group has fared over time.

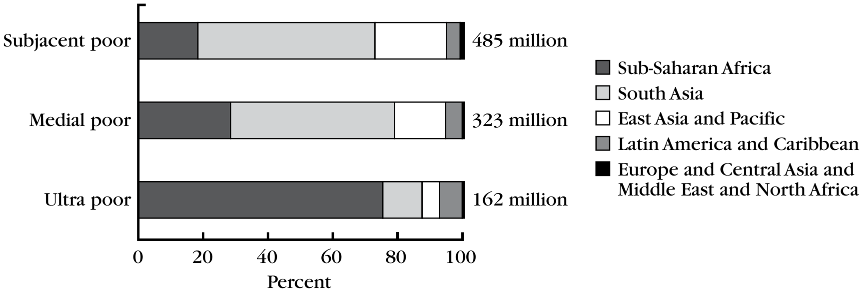
Where Do the Subjacent, Medial, and Ultra Poor Live?

While South Asia accounts for most of the developing world's subjacent and medial poor, Sub-Saharan Africa is home to a staggering three-quarters of all ultra poor (Figure 5.1). The severity of poverty in Sub-Saharan Africa becomes clear when we look at rates of subjacent, medial, and ultra poverty (Figure 5.2). In the developing world as a whole and in all regions excluding Sub-Saharan Africa, from 1990 to 2004 the rates of subjacent poverty were higher than the rates of medial and ultra poverty, but in Sub-Saharan Africa many more people were living in ultra poverty than in subjacent and medial poverty.

Progress in Reducing Subjacent, Medial, and Ultra Poverty

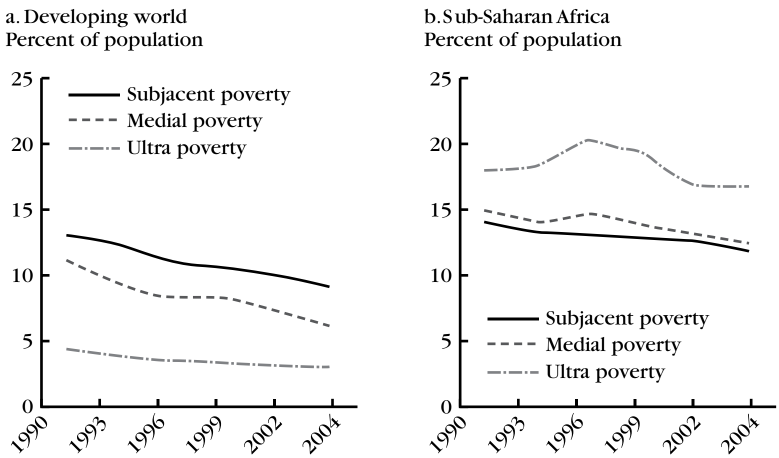
While remarkable progress against poverty and hunger has been achieved in some regions, progress has been slow in areas where poverty and hunger are severe. In 1990, South Asia and East Asia and the Pacific were each home to about 40 percent of the world's subjacent poor, 40 percent of the world's medial poor, and a quarter of the world's ultra poor. However, since then, East Asia and the Pacific have experienced a substantial reduction in the proportion and number of people living in all three types of poverty. In contrast, South Asia experienced an increase in the number of people in subjacent poverty and a significant but smaller reduction in the number of medial and ultra poor (Figure 5.3). Since 1990, the number of poor in each group in Sub-Saharan Africa has increased, particularly that of the ultra poor. The limited progress in reducing poverty in this region indicates that business as usual will not lead to improvements in well-being in a timely manner for a large

Figure 5.1 Where the poor live in the developing world, 2004



Source: Devised by the authors using data from the World Bank's PovcalNet, <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>.

Figure 5.2 Trends in rates of subjacent, medial, and ultra poverty, 1990–2004

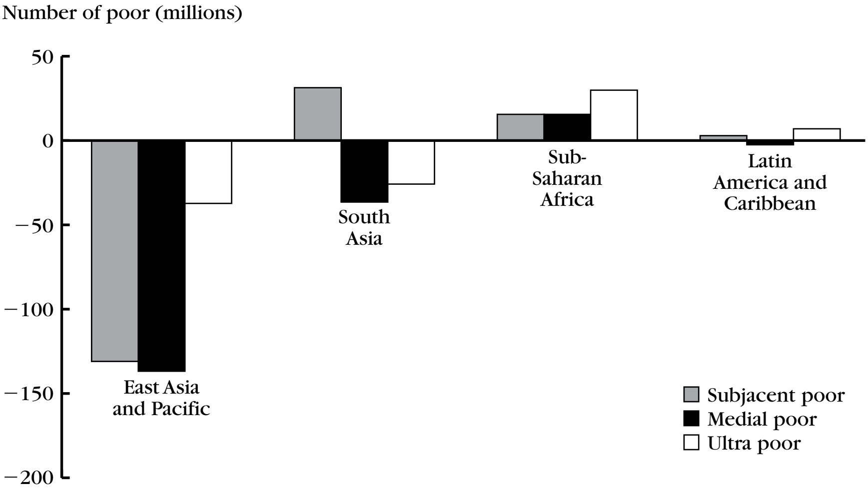


Source: Devised by the authors using data from the World Bank's PovcalNet, <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>.

share of the world's absolute poorest. Indeed, the continued prevalence and severity of poverty in Sub-Saharan Africa is one of the major ethical challenges of today.

The severity of poverty and the limited progress in reducing it indicate that the poorest in Sub-Saharan Africa may be trapped in poverty; in fact, microlevel evidence of poverty traps has been found for a number of countries in the region (such as Côte d'Ivoire, Kenya, Madagascar, and South Africa). In addition to these regional differences, globally and within regions, progress against poverty has been slower for people living well below the dollar-a-day line. Figure 5.2 shows that the proportion

Figure 5.3 Regional changes in number of poor, 1990–2004

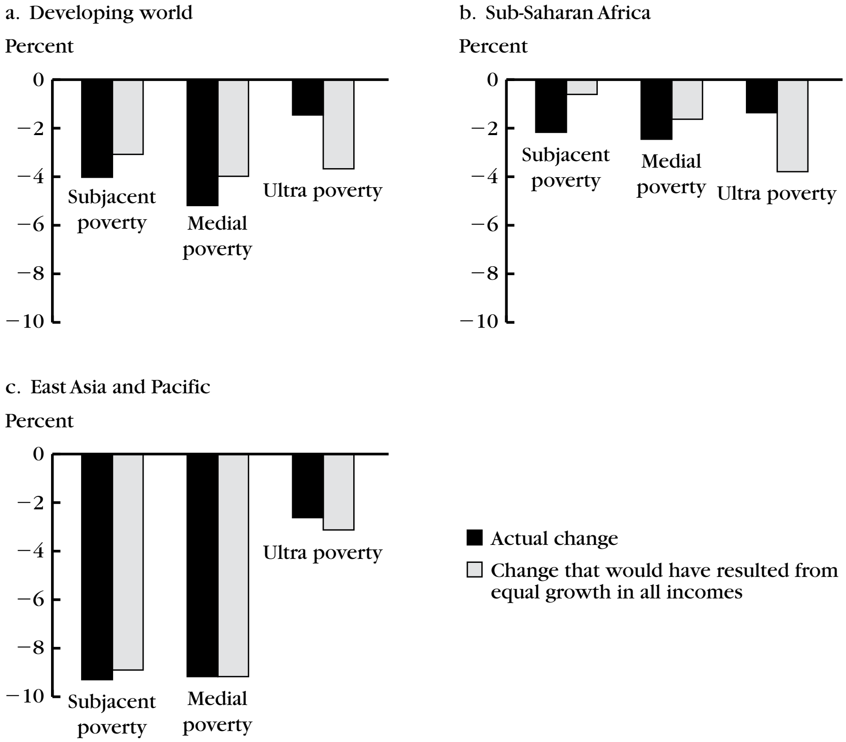


Source: Devised by the authors using data from the World Bank's PovcalNet, <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>.

of people living in ultra poverty has fallen more slowly than the proportion of those living in subjacent and medial poverty, and further analysis indicates that, indeed, the incidence of ultra poverty fell less than it would have had all incomes grown equally.

Although panel data are needed to definitively determine whether those in ultra poverty have fared better or worse than those closer to the line, national poverty data can provide some indication. Calculations indicate the amount that subjacent, medial, and ultra poverty would have been reduced (or increased in some cases) had poverty reduction been due to everyone's income growing by the same amount, with the underlying income distribution remaining unchanged. This "equal growth" poverty reduction scenario is then compared with the actual amount of poverty reduction (see Figure 5.4, in which the "equal growth" poverty reduction scenario is shown as a white bar next to the actual change in each poverty rate). However, there are differences in the experiences of the ultra poor across regions, as Figure 5.4 indicates for East Asia and the Pacific and Sub-Saharan Africa. In East Asia and the Pacific, growth benefited all groups nearly equally, while in Sub-Saharan Africa, those in ultra poverty are being substantially left behind what little progress toward reducing poverty is occurring in the region. The slow contraction in the rates of ultra poverty in Sub-Saharan Africa suggests the majority of those living in ultra poverty will continue to do so in this region into the future.

Figure 5.4 Percentage change in poverty, 1990–2004



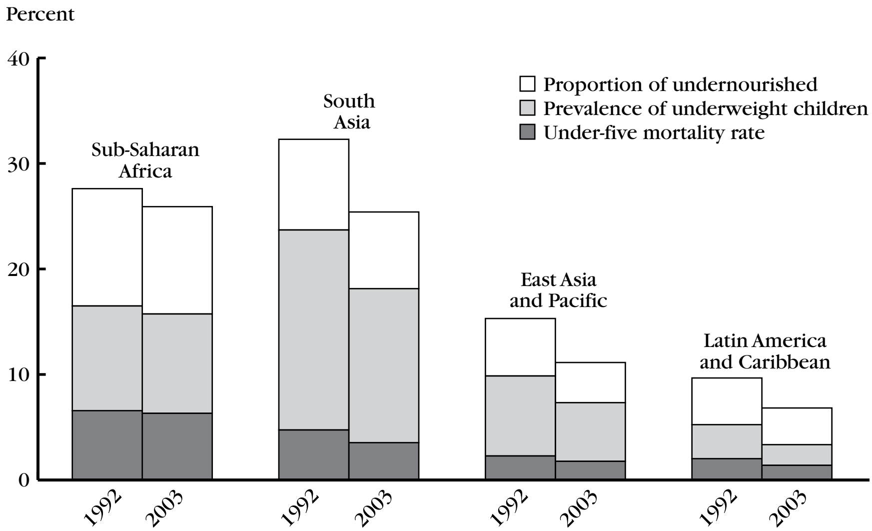
Sources: Devised by the authors using data from the World Bank's PovcalNet, <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>; Gini coefficients for the developing world are from B. Milanovic, True world income distribution, 1988 and 1993: First calculations based on household surveys alone, *Economic Journal* 122 (January 2002); Gini coefficients for Sub-Saharan Africa and East Asia and the Pacific are from T. Besley and R. Burgess, Halving global poverty, *Journal of Economic Perspectives* 17, no. 3 (2003).

If poverty traps exist, those in ultra poverty may be so poor that optimal behavioral choices cause them to move out of poverty much more slowly than those who are less poor. Results indicate that the incidence of poverty among those living just below the dollar-a-day poverty line fell more than it would have had all incomes grown equally, whereas the incidence of ultra poverty fell less. This finding suggests that the well-being of those living at just below a dollar a day improved more than the well-being of those living well below the line in ultra poverty. It points to poverty traps or substantially lower income growth for those in ultra poverty.

The Location of Global Hunger

Progress in meeting the hunger MDG is examined using the Global Hunger Index (GHI), which was designed to capture three dimensions of hunger: insufficient food availability, shortfalls in the nutritional status of children, and child mortality. Accordingly, the GHI includes the following three equally weighted indicators: the proportion of people who are food-energy deficient as estimated by the Food and Agriculture Organization of the United Nations, the prevalence of underweight children under the age of five as compiled by the World Health Organization, and the under-five mortality rate as reported by the United Nations Children's Fund. The GHI ranks countries on a 100-point scale, with 0 the best score (no hunger) and 100 the worst, though neither of these extremes is found in practice. In general, a value greater than 10 indicates a serious problem, a value greater than 20 is alarm-

Figure 5.5 Regional trends in the Global Hunger Index and its components, 1992 and 2003



Source: Devised by the authors based on D. Wiesmann, *A global hunger index: Measurement concept, ranking of countries, and trends,* Food Consumption and Nutrition Division Discussion Paper 212 (Washington, DC: International Food Policy Research Institute, 2006).

Note: According to Wiesmann, the method of estimating the proportion of undernourished used by the Food and Agriculture Organization of the United Nations is based on three parameters: dietary energy supply per capita (derived from macrodata on agricultural production, net trade flows, and stock changes, as well as uses other than food consumption), the variation of dietary energy intakes across households, and minimum dietary energy requirements. The author also relies on the World Health Organization's definition of underweight—low weight for age—pointing out that the *prevalence of underweight* indicator refers to the proportion of children suffering from weight loss and/or reduced growth.

ing, and one exceeding 30 is extremely alarming. According to the GHI, the hot spots of hunger are in Sub-Saharan Africa and South Asia. Sub-Saharan Africa had a GHI score of about 25 in 2003, closely followed by South Asia (see Figure 5.5), despite the fact that poverty is about 10 percentage points lower in South Asia.

Trends in Global Hunger

Ideally, an index should be used to summarize, not replace, its component measures, so both the GHI and its components are examined to determine how the prevalence of hunger has changed over time. In Sub-Saharan Africa, the overall progress from 1992 to 2003 was relatively slight compared with that in other regions (see Figure 5.5). The proportion of people who were food-energy deficient fell by about 4 percentage points,[3] but the proportion of underweight children and the under-five mortality rate improved very little.

The high proportion of ultra poor people in Sub-Saharan Africa, in addition to the high burden of diseases such as malaria and AIDS there, most likely contributes to the comparatively high child mortality rates found in this region. Food shortages, the large extent of ultra poverty, and the high prevalence of life-threatening infectious diseases are major problems that have to be tackled in Sub-Saharan Africa.

South Asia made large strides in combating hunger in the 1990s. In 1992, South Asia's GHI score was 5 points higher than Sub-Saharan Africa's, but by 2003 South Asia's regional score had caught up with Sub-Saharan Africa's. Despite the remarkable improvement in child nutritional status in South Asia, however, the region still has the highest prevalence of underweight children in the world.

Starting from a much lower GHI score of about 15, East Asia and the Pacific experienced a reduction of only 4 points in its GHI from 1992 to 2003. However, the lower level of the GHI at the outset suggests that in the early 1990s, the share of the population already able to meet the most basic food and nutritional needs was larger in this region than in Sub-Saharan Africa and South Asia.

In Latin America and the Caribbean, there was sustained progress up to 2003, though not at a great pace: the GHI declined by about 3 points. A look at the composition of the GHI reveals that the proportion of people who were food-energy deficient exceeded the prevalence of underweight in children and the under-five mortality rate.

Conclusion

The persistence of severe deprivation suggests that business as usual will take too long to improve the welfare of the world's most deprived. This finding motivates a focus on policies and programs that are particularly effective at improving the welfare of the world's poorest and hungry. The nature of these interventions is taken up by other chapters in this book.

Notes

1. This is US$1.08 at 1993 purchasing power parity (PPP).
2. Similarly, 75 cents is US$0.81 at 1993 PPP, and 50 cents is US$0.54 at 1993 PPP.
3. Wiesmann uses the term "food-energy deficiency" to denote undernourishment. As defined by FAO, undernourishment refers to the condition of people whose dietary energy consumption is continuously below the minimum dietary energy required for maintaining a healthy life and carrying out light physical activity with an acceptable minimum body weight for attained height. See D. Wiesmann, *A global hunger index: Measurement concept, ranking of countries, and trends,* Food Consumption and Nutrition Division Discussion Paper 212 (Washington, DC: International Food Policy Research Institute, 2006).

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Chapter 6

The Poorest and Hungry: Characteristics and Causes

Akhter U. Ahmed, Ruth Vargas Hill, Lisa C. Smith, and Tim Frankenberger

Understanding the characteristics of the world's poorest and hungry and the reasons for which their deprivation persists is important when designing policies to meet their needs and improve their welfare. This chapter contributes to this understanding by analyzing household data and reviewing empirical research in 20 countries: Burundi, Ethiopia, Ghana, Kenya, Malawi, Mozambique, Rwanda, Senegal, and Zambia in Sub-Saharan Africa; Bangladesh, India, Pakistan, and Sri Lanka in South Asia; Laos, Timor-Leste, and Vietnam in Southeast Asia; Tajikistan in Central Asia; and Guatemala, Nicaragua, and Peru in Latin America.[1] The characteristics considered here are limited to those that can be compared across countries, at least to some extent.

The findings indicate that the poorest often live in remote rural areas; are more likely to be ethnic minorities; and have less education, fewer assets, and less access to markets. Remoteness, exclusion, and lack of education are especially likely to characterize those living on less than 50 cents a day.[2] Location, unexpected and unfortunate events, and the dynamics of poverty traps and exclusion all have roles to play in explaining deprivation.

This chapter was drawn from Akhter U. Ahmed, Ruth Vargas Hill, Lisa C. Smith, Doris M. Wiesmann, and Tim Frankenberger, *The world's most deprived: Characteristics and causes of extreme poverty and hunger* (Washington, DC: International Food Policy Research Institute, 2007).

Measuring Severe Poverty and Hunger

Many cross-country poverty studies measure poverty using the criterion of living on less than a dollar a day—the threshold defined by the international community as constituting extreme poverty. In addition to comparing those living above and below the dollar-a-day line, this chapter disaggregates those living below the line into three groups to more easily examine and compare their characteristics:

- *Subjacent poor:* those living on more than 75 cents but less than a dollar a day
- *Medial poor:* those living on more than 50 cents but less than 75 cents a day
- *Ultra poor:* those living on less than 50 cents a day

Similarly, in terms of hunger, those consuming more than and fewer than 2,200 calories a day—the average energy requirement for adults undertaking light activity—were compared, and those consuming fewer than 2,200 calories were disaggregated into three groups to more easily examine and compare their characteristics:

- *Subjacent hungry:* those consuming more than 1,800 but fewer than 2,200 kilocalories (kcal) a day
- *Medial hungry:* those consuming more than 1,600 but fewer than 1,800 kcal a day
- *Ultra hungry:* those consuming fewer than 1,600 kcal a day[3]

In the 20 countries considered in this analysis, poverty and hunger fall along a spectrum from dire to relatively low incidences. The highest incidences of ultra poverty and ultra hunger are found in Sub-Saharan Africa, but the level of deprivation is also high in South Asia, Nicaragua, and Timor-Leste. Analysis suggests that, by and large, those living on less than a dollar a day also consume fewer than 2,200 calories and that there is a high correlation (correlation coefficient of 0.63, significant at the 99 percent level of confidence) between living in ultra poverty and living in ultra hunger.

Characteristics of the Poorest and Hungry

Spending on Food, Fuel, Housing, and Health Care

Across income groups and regions, expenditures on food represent the highest share of household budgets. In general, poorer households and those in rural areas spend a relatively higher proportion of the family budget on food than others, but the differences are not large. Expenditures on fuel represent the second-highest share in Bangladesh, India, and Pakistan, while housing costs represent the second-highest share in Tajikistan and in all three sample countries in Latin America.

No clear pattern linking health care expenditures and poverty emerges across these countries. This is a potentially worrisome finding, because poverty assessments for these countries have repeatedly found that ill health is more prevalent among poor people. For example, in Bangladesh, serious illness, accidents, or death occur in 43–48 percent of poor households compared with 29 percent of households classified as nonpoor. In Vietnam, long-term illness has repeatedly been mentioned in the participatory poverty assessment as a defining characteristic of poor families. And in Guatemala, the prevalence of diarrhea among children is higher among those in the poorer quintiles. The finding that poorer households spend no more than others on health suggests that the poorest spend less on health care per need than do wealthier households.

Remoteness

Despite an increasing proportion of poor in urban areas, the incidence of dollar-a-day poverty is higher in the rural areas of all the study countries for which poverty data are available. The same pattern of rural disadvantage is found below the dollar-a-day line, but there is a tendency toward greater rural–urban differences as poverty deepens. The incidence of subjacent poverty is 2.4 times higher in rural areas than in urban areas, the incidence of medial poverty is 2.65 times higher, and the incidence of ultra poverty is 4 times higher. The poorest and most food-insecure households are located farthest from roads, markets, schools, and health services. In Nicaragua, for example, the incidence of extreme poverty is 20 percent higher in the central rural region, where people travel twice as long to reach the closest health care service and primary school. In Zambia, poor people are 33 percent more likely to be located more than 20 kilometers from the nearest market than are those who are not poor, and in Laos the rate of poverty is lower in villages with roads than in those without.

In addition to being an indicator of wealth, an electricity connection also indicates, to a certain extent, the "connectedness" of households to roads, markets, and communications infrastructure and to the resulting income-earning opportunities and public services. Consistently across countries, poor households have considerably less access to electricity than do those living above a dollar a day. Those living well below a dollar a day in ultra poverty are even less likely to be connected; on average, they are four times less likely to be connected than are households living above the dollar-a-day line. In rural areas of Sub-Saharan Africa, the proportion of ultra-poor households with electricity connections is almost zero.

Education

Education has been shown to have significant positive impacts on agricultural productivity, employment, access to credit, use of government services, adult and child health, and education outcomes. Looking below the dollar-a-day poverty line reveals that uneducated women and men are much more likely to experience ultra poverty than subjacent poverty. In nearly all the study countries, the proportion of adult males without schooling is almost double or more among the ultra poor compared with the nonpoor, and in Nicaragua and Vietnam, adult males living in ultra poverty are three times more likely to be unschooled than are those living on more than a dollar day. In Bangladesh, nearly all women in ultra-poor households are uneducated (92 percent) compared with fewer than half of the women in households living on more than a dollar a day (49 percent). The data overwhelmingly show that the poorest are the least educated.

Quality primary education can provide children from poor families with the tools to move out of poverty. In all study countries, however, the evidence is the same: children from poorer families are less likely to go to school. In India, 48 percent of children living in ultra poverty attend school compared with 81 percent of children living on more than a dollar a day—a gap of 33 percentage points. In Vietnam the gap is 30 percentage points, and in Ghana and Burundi it is 28 and 24 percentage points, respectively. In some countries, enrollment rates remain alarmingly low although poverty rates have declined; despite Pakistan's success in achieving a poverty rate of 11 percent, 65 percent of the country's children living on less than a dollar a day still do not attend school. Without education, the future of children living in ultra poverty will be a distressing echo of their current experience.

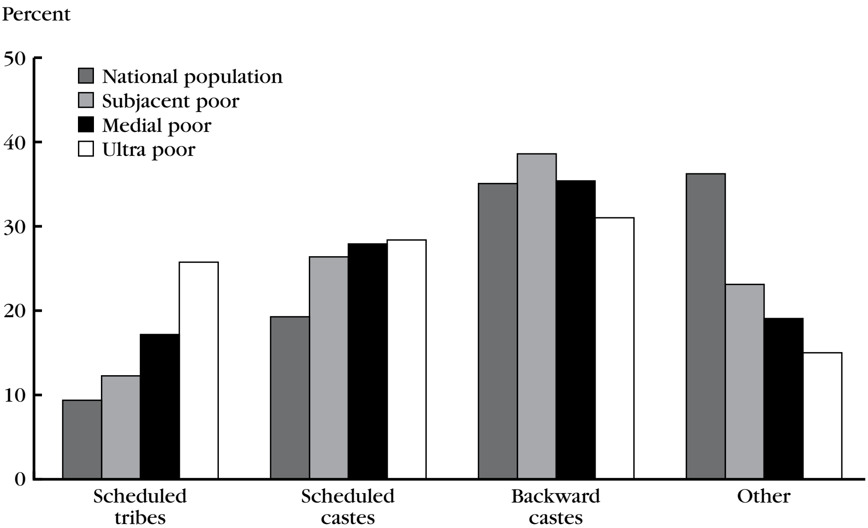
Landholding in Rural Areas

The ownership or control of productive assets is an important indicator of livelihood, because assets generate income. In all parts of Asia, the poorest are landless. Rates of landlessness are higher among those living on less than a dollar a day, and the incidence of landlessness increases for those living in ultra poverty. For example, nearly 80 percent of the ultra poor in rural Bangladesh do not own land. In Sub-Saharan Africa, however, little difference has been found between the incidence of landlessness among the poorer and the less poor households, and in some cases the reverse was true. This finding corresponds to the findings of other studies that in Sub-Saharan Africa, the poorest often own some land (but too little) and lack access to other key assets and markets. In Latin America, although the incidence of landlessness is high, it has actually been found to be higher among those living on more than a dollar a day than among those living on less than a dollar a day. This suggests that in Latin America, the poorest are more likely to be self-employed cultivators than are the nonpoor, perhaps because they lack employment opportunities in nonagricultural sectors.

Membership in Excluded Groups

In each of the 20 countries considered in this study, some groups—not the majority—have consistently higher prevalences of poverty and hunger. Individuals in groups excluded from regional progress against poverty remain among the poorest in Asia. In Laos, for example, the prevalence of poverty is more than twice as high among the minority Mon-Khmer as among the majority Lao, and in Vietnam the incidence is more than six times higher among ethnic minorities than among the Kinh and Chinese. In India, disadvantaged castes and tribes (referred to as scheduled castes and tribes) are overrepresented among the ranks of the poor, particularly among those living in ultra poverty (Figure 6.1). This overrepresentation is more evident for scheduled tribes than for scheduled castes.

Figure 6.1 India: Proportion of scheduled castes and scheduled tribes in the national population living in subjacent, medial, and ultra poverty, 2001



Source: Calculated by the authors using the National Sample Survey, 55th Round Socio-Economic Survey, National Sample Survey Organization, India, 2001.

Note: Backward castes are defined as those whose ritual rank and occupational status are above those of scheduled castes and scheduled tribes but who remain socially and economically depressed.

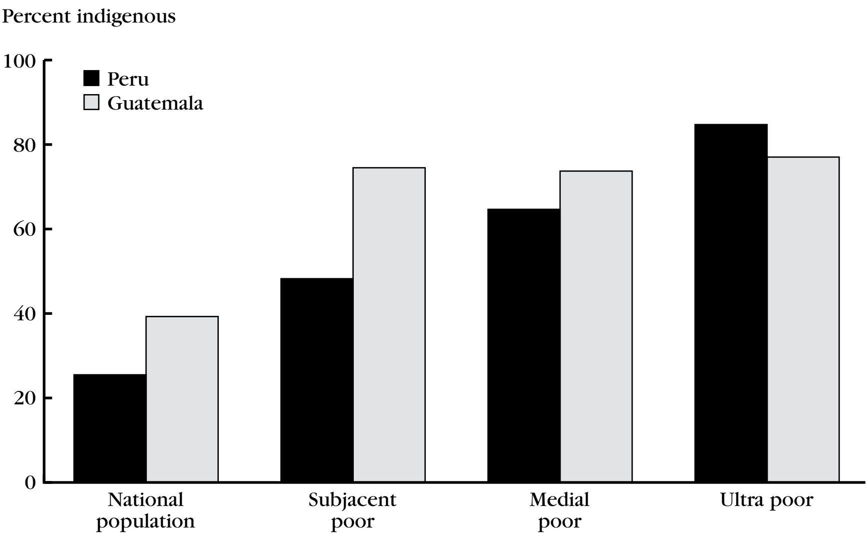
In Latin America, indigenous groups are overrepresented among the poor, increasingly so further below the dollar-a-day poverty line (see Figure 6.2 for the poverty rates of indigenous peoples in Guatemala and Peru). In Guatemala, stunting is more than twice as prevalent among indigenous children as it is among nonindigenous children. In Peru, the incidence of poverty is twice as high for indigenous groups as for nonindigenous groups.

In Sub-Saharan Africa, access to land and other resources depends on membership in groups of common descent, which results in outsiders' having difficulty accessing resources and securing stable livelihoods. This is true in Senegal, where refugees from Mauritania and displaced people from the Casamance are most likely to remain in poverty. The genocide in Rwanda also evidenced the importance of ethnicity in determining access to resources.

Being Female

Some weak evidence supports the hypothesis that female-headed households are overrepresented among the ultra poor, but in general, large differences are not found. Examining only the differences between male- and female-headed households hides the reality that within households headed by men, the welfare of women

Figure 6.2 Guatemala and Peru: Proportion of indigenous in the national population living in subjacent, medial, and ultra poverty, 2000



Sources: Calculated by the authors using the Encovi 2000, Instituto Nacional de Estadistica–Guatemala, and Peru Living Standards Measurement Survey 1994, Encuesta Nacional de Hogares Sobre Medicion de Vida, Peru.

and girls may be less than that of their male family members. Although empirical evidence of this is limited, a previous study for the International Food Policy Research Institute by Quisumbing, Haddad, and Pena found that at the individual level, women were poorer than men in 6 of the 10 countries considered but significantly so in only 3 of those countries. Some studies in South Asia have shown that within households, women take in significantly less food and sometimes less high-quality food such as meat and eggs.

The Role of Poverty Traps and Exclusion in Explaining These Findings

The characteristics highlighted in this chapter are both important and measurable in a way that allows comparison across countries and settings. The available data indicate that the poorest are those from excluded groups, those living in remote areas with little education and few assets, and—in Asia—the landless. But why do these characteristics prevail among the poorest, and why do those in ultra poverty become and stay poor? In the past few years, much has been learned about the causes of persistent poverty and hunger. The following paragraphs summarize findings from some of these studies, particularly studies on the 20 countries considered in this chapter.

The location of a household—its country and location within the country—has a large impact on potential household welfare. The disparity in the incidences of poverty and hunger across countries attests to the importance of locational characteristics in determining poverty and hunger. Against the backdrop of institutions, technology, and infrastructure, causes of persistent poverty and hunger also operate at the individual or group level. Two themes underlie many of these explanations: poverty traps and exclusion.

The inability of poor households to invest in assets and in educating their children, the constrained access to credit of those with few assets, and the lack of productive labor for the hungry are all indicative of the presence of a trap in which poverty begets poverty and hunger begets hunger. The coincidence of severe and persistent poverty and hunger (see Ahmed, Hill, and Wiesmann, this volume, Chapter 5) is also consistent with the presence of a poverty trap. Although some studies find little evidence of poverty begetting poverty, a number of studies at the individual and household levels provide clear evidence that poverty and hunger put into play mechanisms that cause their persistence. In these cases, poverty and hunger inherited at birth or resulting from unfortunate and unexpected events in the lifetime of an individual (very often health shocks) can persist for many years.

Additionally, the systematic exclusion of certain individuals from access to resources and markets increases the propensity of ethnic minorities, scheduled castes and tribes, women, and those with ill health and disabilities to be poor. This tendency of certain groups to be excluded from institutions and markets that would allow them to improve their welfare changes only slowly over time and gives rise to persistent poverty and hunger.

Conclusion

Understanding who the poorest and hungry are is crucial for the effective design of interventions to improve their welfare. Without context-specific and timely information, it is difficult to design programs that fit their needs. It is thus important to broaden the collection of and access to accurate data on the poorest and hungry.

The evidence presented in this chapter suggests that effective interventions to reach those living on less than 50 cents a day may require targeting remote households, traditionally excluded from resources and markets, and taking into account both low levels of education and—in Asia—landlessness. This study suggests that interventions to insure the poor against health shocks, address the exclusion of groups, prevent child malnutrition, and enable investments—particularly in education—for those with few assets are essential to helping the poorest move out of poverty.

Notes

1. The countries were chosen from those with available datasets and to represent the spectrum of dire to quite low poverty incidences within each major developing region.

2. As in Chapter 5, 50 cents refers to US$0.54 at 1993 purchasing power parity (PPP). Similarly, 75 cents is US$0.81 at 1993 PPP, and a dollar is US$1.08 at 1993 PPP. This analysis was conducted before the 2005 PPP estimates became available.

3. Note that the 2,200-kcal cutoff roughly corresponds to what is known as the "average" energy requirement for light activity (such as sitting and standing) recommended by the Expert Consultation on Human Energy and Protein Requirements. It represents the average among people in the same age–sex groups regardless of weight, parasite load, pregnancy status, and other factors that contribute to the amount of energy required. The 1,800-kcal cutoff identifies people who do not consume sufficient dietary energy to meet the "minimum" requirement for light activity as established by the Food and Agriculture Organization of the United Nations. People whose energy consumption falls below this requirement cannot even meet the energy needs of the lowest-weight person of their same age and sex group. The 1,600-kcal cutoff was chosen to identify those suffering from very severe, life-threatening hunger.

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Chapter 7

Mapping Where the Poor Live

Todd Benson, Michael Epprecht, and Nicholas Minot

A key consideration in planning action to assist poor and hungry households is simply to have a good understanding of where they live and the characteristics of those locations. For the past 10 years, poverty researchers at the World Bank, the International Food Policy Research Institute, and other organizations have worked with local analysts to produce detailed poverty maps for more than 30 countries. Such maps provide estimates of the incidence and severity of poverty for relatively small areas—such as at the subdistrict and even community levels—and enable the user to better understand the spatial distribution of the poor and to investigate the relationship between poverty and other geographic factors. Knowledge of where the poor and hungry live and of the manner in which those locations are connected (or not) to other locations can provide key insights for action to address poverty and hunger. In this chapter, the poverty maps developed for Malawi, Mozambique, and Vietnam are used to demonstrate how a better understanding of the spatial distribution of the poor and hungry deepens awareness of how they live and provide a fuller appreciation of the challenges they face in seeking to live healthy and active lives and to realize their full human potential.

Policymakers and researchers are interested in the spatial distribution of poverty for several reasons. First, poverty maps synthesize a large amount of information on the spatial distribution of poverty in a format that is easy for the nontechnical reader to understand. Broad national or regional poverty measures may hide stark differences in welfare levels within a country or region. Detailed poverty maps provide a clearer picture of how poverty levels vary across a country. In time, as more countries develop a series of comparable small-area poverty maps for different years, an examination of trends in poverty at the local level will provide a better understanding of where poverty reduction strategies have and have not proven successful, prompting modifications so that the strategies can be made more effective.

Second, knowledge of these patterns facilitates the targeting of programs designed, at least in part, to reduce poverty. Many countries use some form of geographic targeting for government programs that provide the poor with services such as credit, food aid, input distribution, health care, and education. The efficiency and cost-effectiveness of many of these programs are enhanced by more carefully targeting them to areas where more of the poor reside or where the incidence of poverty is higher.

Third, the patterns of a country's distribution of poverty (as seen in the maps) provide a starting point for investigating the geographic factors associated with poverty, such as access to markets or other public services, climate, or topography. When examining a detailed poverty map, most map readers immediately ask why poverty levels are high in some areas and low in others. A range of analytical techniques has been used with poverty maps to investigate the spatial determinants of poverty. A better understanding of the geographic factors associated with poverty will allow for the development of poverty reduction strategies that focus on modifying those factors, thereby enabling households living in poor areas to improve their standard of living.

How Are Poverty Maps Generated?

Until recently, maps of the incidence of poverty were generated from household survey data, but this approach usually generates poverty rate estimates for a limited number of provinces or states. About 10 years ago, researchers developed a method to produce much more detailed poverty maps by combining census and household survey data (Box 7.1). This new approach generates estimates of poverty and inequality for hundreds or even thousands of administrative units within a country, allowing for the creation of high-resolution maps of poverty and inequality. It is important to note that poverty mapping analysis generally does not involve the collection of new data. Rather, it makes use of existing survey and census data, the latter of which is an often underexploited source of information on spatial patterns in a country.

As an example of the results of such an analysis, Figure 7.1 shows a map of the incidence of income poverty (measured by per capita expenditures) from the poverty mapping exercise for Malawi. This map was based on analyses of the 1997–98 Integrated Household Survey (IHS) and the 1998 Population and Housing Census. The initial poverty analysis of the IHS alone permitted poverty measures to be calculated for only the 28 districts and 4 urban centers of the country. In contrast, this map provides poverty information for approximately 360 subdistrict administrative units. Considerable heterogeneity in poverty levels within districts can be seen.

Another example can be seen in Figure 7.2, which shows poverty maps for Vietnam. This analysis, based on the 1997–98 Vietnam Living Standards Survey and the 1999 Population and Housing Census, shows that the incidence of poverty

Box 7.1 Methods for constructing a poverty map

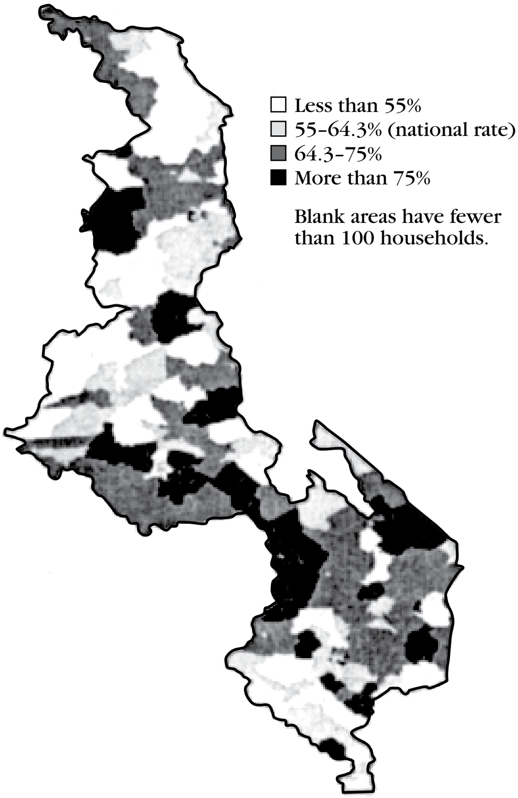
The most common way that poverty is measured for policy and monitoring purposes is by comparing the value of per capita expenditure (including cash expenditure for consumption, the value of food produced for one's own consumption, and the value of owner-occupied housing) against a poverty line. Various poverty measures for a population can be computed based on the distribution of consumption in that population relative to the poverty line, the most common of which is the incidence of poverty, also called the headcount ratio. Traditionally, information used to determine the distribution of consumption has come from household income and expenditure surveys. These national surveys generally have sample sizes of 2,000 to 6,000 households, which typically allow estimates of poverty for just 5 to 15 regions within a country.

The only household information that is regularly collected in most countries that would allow for much finer estimates of local conditions comes from the population and housing census, which is usually conducted every decade. However, census questionnaires are generally limited to household characteristics and rarely include the questions on income or expenditure that would be necessary to examine poverty directly.

The new approach involves two steps. First, household survey data are used to econometrically estimate the relationship between per capita expenditure and household characteristics such as age and sex composition, educational attainment, occupation, housing characteristics, and asset ownership. Second, census data on those same household characteristics are inserted into the regression equation to generate estimates of per capita expenditure for each household in the census. The estimates for each household are unreliable, but, when aggregated over several thousand households, they yield relatively precise estimates of various measures of poverty and inequality. These estimates are then mapped using geographic information systems software. An important feature of this method is that standard errors for the poverty and inequality measures are also computed, enabling users to have some idea of how accurate the estimates are.

The World Bank has developed a software program called PovMap to automate much of the analysis, reducing the time and technical skills needed to carry out this type of study. PovMap requires that the user identify the household characteristics to be used to predict expenditure, specify the names of key files and variables, and choose among a number of analysis options. The output consists of estimates of poverty and inequality for each geographic unit, as well the standard errors for each (see <http://iresearch.worldbank.org/PovMap>).

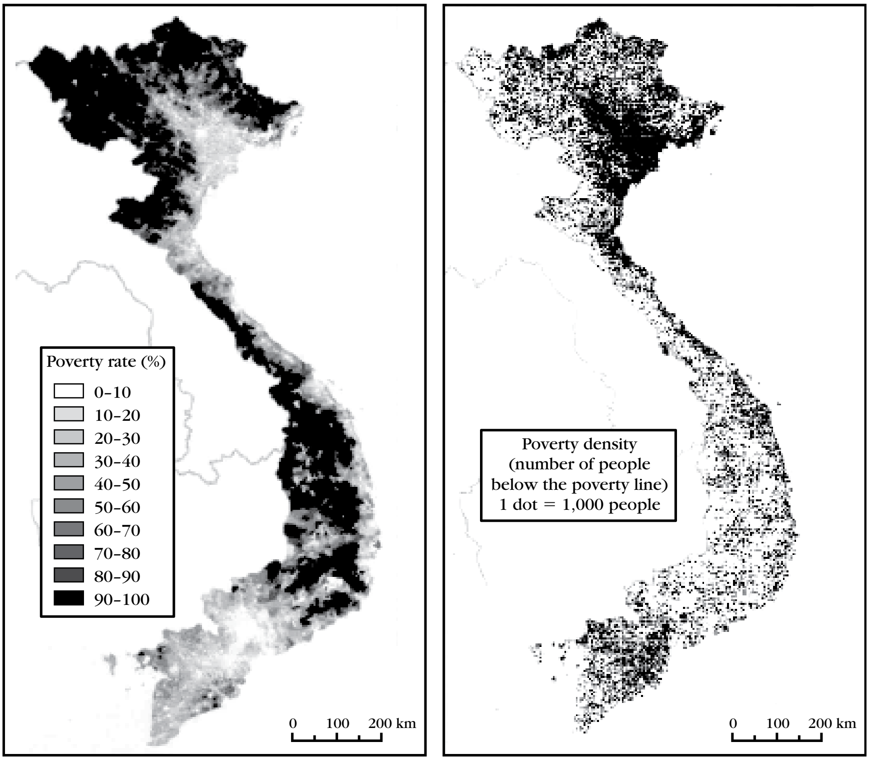
Figure 7.1 Malawi: Poverty headcount at the traditional authority level, 1997–98



Source: T. Benson with J. Kaphuka, S. Kanyanda, and R. Chinula, *Malawi: An atlas of social statistics* (Washington, DC, and Zomba, Malawi: IFPRI and National Statistical Office, 2002).
Note: Color versions of the figures in this chapter can be accessed at <http://www.ifpri.org/2020chinaconference/pdf/beijingbrief_bensonmaps.pdf>.

is highest in the remote areas of the northeast and northwest regions, the upland areas of the north central coast, and the northern part of the central highlands. Poverty rates are intermediate in the Red River and Mekong River deltas. The lowest poverty rates are found in the principal cities of Hanoi and Ho Chi Minh City, in other urban areas, and in the southeast region. However, an analysis of the density of poverty, as seen in the map at right in Figure 7.2, shows that most of the rural poor live in the lowland deltas. In the deltas, the incidence of poverty is relatively low but the absolute number of poor people is high due to the high population density.

Figure 7.2 Vietnam: Poverty headcount at the commune level and density of poverty, 1999



Source: M. Epprecht and A. Heinimann, eds., *Socioeconomic atlas of Vietnam: A depiction of the 1999 population and housing census* (Berne: Swiss National Centre of Competence in Research [NCCR] North-South, University of Berne, 2004).

Note: Color versions of the figures in this chapter can be accessed at <http://www.ifpri.org/2020chinaconference/pdf/beijingbrief_bensonmaps.pdf>.

Using Poverty Maps for Policy and Program Design

This section presents several examples from Vietnam, Malawi, and Mozambique of how poverty maps have provided new insights to guide poverty reduction strategies. Such maps provide a better understanding of the relative significance of spatial factors in accounting for the distribution of poverty in a country and how those factors might modify approaches taken to reduce poverty.

Many antipoverty programs are geographically targeted in Vietnam. However, by showing the difference between areas where the prevalence of poverty is high and areas where the density of poverty is high, the two maps in Figure 7.2 highlight a key element to be considered in the targeting of such programs. Programs that concentrate exclusively on areas with high poverty rates will not reach the majority of the poor, because the majority live in areas in which there are also many nonpoor households.

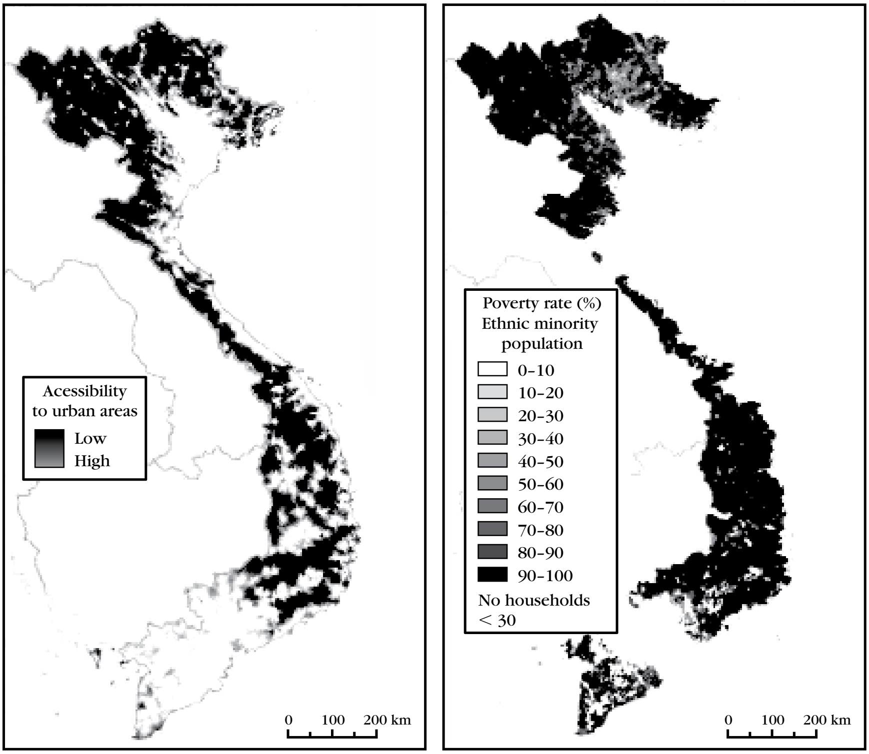
These findings are not unique to Vietnam. In almost every case in which it has been examined, the incidence of poverty is highest in areas with low population densities, implying that in many countries, the majority of the poor do not live in the poorest areas.

The poverty mapping analysis for Mozambique highlights the limitations of geographic targeting of poverty reduction programs in that country. The authors of the study, Simler and Nhate, note that although there is much to recommend geographic targeting—it is less costly to administer than household- or individual-level targeting, and it allows programs to be tailored to the specific conditions of an area—it is not sufficient in itself for targeting to be used for poverty reduction purposes in Mozambique. The "poor areas" of the country have significant numbers of nonpoor. An analysis of the consumption inequality measures from the Mozambique poverty map showed that of the total inequality in the country, about 85 percent occurs within districts; differences between districts account for only about one-sixth of the total variance in per capita consumption (although this is in part determined by the sizes of districts). Because the most local administrative unit in the country—the administrative post—is heterogeneous in terms of household welfare, with poor and nonpoor living in close proximity, it is unlikely that significant efficiency gains will be realized from targeting poverty reduction programs exclusively by administrative post. This finding that much of the income inequality in developing countries exists within small administrative units such as villages and towns is common across poverty mapping studies. It suggests that in many countries, programs that treat all households or individuals within an area equally in terms of their welfare level will likely result in large targeting errors by providing benefits to many nonpoor or by failing to provide benefits to the poor who live in less poor administrative posts.

Poverty maps have also been used to investigate the geographic factors associated with poverty in several countries. In rural Malawi, spatial regression models were used to estimate the incidence of poverty for about 3,000 small, spatially defined populations as a function of about two dozen independent variables. The results indicated that the poverty rate is positively related to the dependency ratio and is an indicator of matrilineal inheritance patterns and also that it is negatively related to the average maximum educational attainment in households, crop diversity, and nonfarm employment.

Similarly, the district-level poverty map for Vietnam was used to explore the importance of topography, soil type, land cover, climate, and access to urban areas

Figure 7.3 Vietnam: Access to urban areas and poverty headcount of ethnic minorities at the commune level, 1999



Source: M. Epprecht and A. Heinimann, eds., *Socioeconomic atlas of Vietnam: A depiction of the 1999 population and housing census* (Berne: Swiss National Centre of Competence in Research [NCCR] North-South, University of Berne, 2004).

Note: Color versions of the figures in this chapter can be accessed at <http://www.ifpri.org/2020chinaconference/pdf/beijingbrief_bensonmaps.pdf>.

in explaining rural poverty (Figure 7.3). The average slope (or variation in elevation) of a location was more important than its elevation per se. Poor soils (rocky, salty, sandy, or acid sulfate soils) were positively associated with poverty. And a location's distance to a small town of 10,000 inhabitants was more closely related to poverty than was its distance to a medium-sized town (100,000 inhabitants) and its distance to a city (1 million inhabitants). This finding highlights the important role of local infrastructure—such as local markets, health care facilities, and schools—in poverty reduction.

An additional analysis for Vietnam using commune-level poverty rates highlighted the importance of sociocultural differences, such as language barriers or other cultural distinctions. The results provide strong evidence that remoteness is a considerably weaker determinant of poverty than is the ethnicity of a household. Language barriers, for instance, might prevent an ethnic minority family from completing the paperwork required to obtain credit or from purchasing appropriate drugs at a pharmacy, even if the travel time to a bank branch or a pharmacy is minimal. The broad spatial patterns of poverty are largely due to the spatial distribution of the ethnic minority populations and, to a much lesser extent, to spatial patterns in terms of physical accessibility or other overtly spatial factors. These results suggest that development policies aimed at balancing welfare levels across subpopulations require an increased emphasis on the targeting of specific population segments within an area.

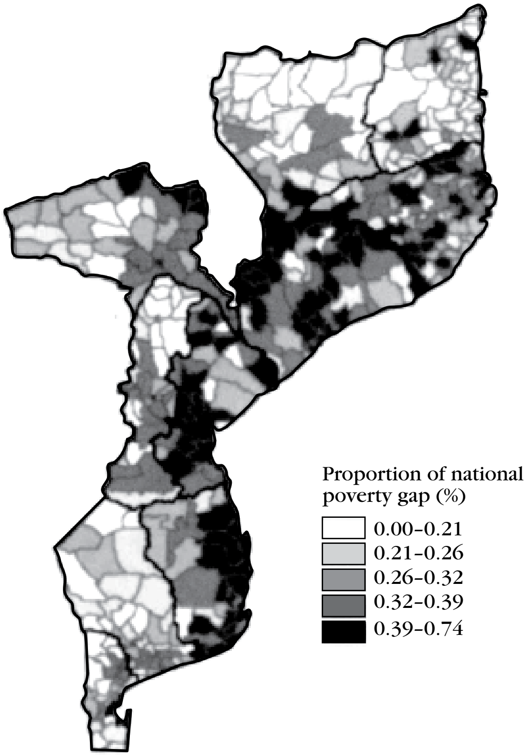
Finally, poverty maps have also been shown to be valuable for prioritizing the allocation of resources across local government units. The maps provide governments and their development partners with necessary information to ensure that those areas that most need resources receive the highest priority. One way in which this was done for Mozambique was to calculate the aggregate poverty gap between current conditions and a hypothetical state in which poverty would be eliminated. The size of the aggregate increase in income perfectly targeted to the poor that would be necessary for each person currently below the poverty line to exactly reach the poverty line was calculated. This increase could come from economic growth, a transfer program, or some other means. In 1996–97, the national poverty gap for Mozambique totaled US$2.3 million per day (based on the 1997 foreign exchange rate). The share of the total poverty gap that can be attributed to each of the 424 administrative posts of the country is presented in the map in Figure 7.4.

Future Directions in Poverty Mapping

Poverty mapping methods are being extended in several ways. First, studies in Cambodia and Tanzania have estimated the probability of child stunting or child wasting (instead of per capita expenditure), leading to the creation of high-resolution maps of the incidence of child malnutrition. Preliminary results suggest that these maps are less accurate than poverty maps because it is more difficult to "predict" malnutrition using household characteristics, but they merit further attention.

Second, studies in Malawi, Vietnam, and elsewhere have used "geographically weighted regression" with poverty estimates for small areas to examine whether the relationship between measures of poverty and the demographic, social, economic, or agroecological characteristics of those locales varies across a country. Preliminary results indicate that such relationships do vary significantly from one area to another. One

Figure 7.4 Mozambique: Percentage of total poverty gap by administrative post, 1996–97 (US$2.3 million per day)



Source: K. R. Simler and V. Nhate, *Poverty, inequality, and geographic targeting: Evidence from small-area estimates in Mozambique*. Food Consumption and Nutrition Discussion Paper 192 (Washington, DC: International Food Policy Research Institute, 2005).

Note: Color versions of the figures in this chapter can be accessed at <http://www.ifpri.org/2020chinaconference/pdf/beijingbrief_bensonmaps.pdf>.

implication of this finding is that programs that address the causes of poverty need to be tailored to local conditions rather than being uniform across the country.

Third, a study of Tanzania applied a variation of the poverty mapping method to examine trends in poverty over time by applying the prediction equation to household characteristics in four comparable surveys carried out from 1999 to 2003. Although this approach avoids some problems in measuring changes in poverty by comparing household budget surveys (mainly, the problem of adjusting values for inflation), it does assume that the relationship does not change over time, an assumption that requires further testing.

Conclusion

An important objective of poverty mapping analyses is to promote well-informed debate on poverty and welfare inequalities in a country and what should be done about them based on reliable data and objective and transparent analyses. Poverty maps provide a considerably more detailed understanding of the distribution of poverty in a country than was previously available for many countries. In spite of their many strengths, however, it is also important to be aware of their limitations. Several are listed here.

Like the results of all quantitative analyses, poverty maps are subject to errors, such as those that arise from poor quality in the underlying data, from poor choices in the selection of model components, or from computations. Moreover, the analyses required to create poverty maps require more than a basic understanding of econometric techniques. Although this is a capacity problem, it also poses a problem for using the maps in policy processes and program design, for decisionmakers are unable to confidently use the poverty map estimates of poverty because they are often not clear as to how they were derived.

Since poverty maps typically are dependent on national censuses, which generally are conducted only once a decade, poverty maps provide a static understanding of the spatial distribution of poverty. Poverty maps are not very useful for understanding short-term poverty dynamics within a country.

Particularly when using consumption- and expenditure-based household welfare measures, it is difficult to create international poverty maps. The surveys of each country or the ways in which poverty rates are computed from household income and expenditure surveys render it very difficult to develop fully compatible datasets that encompass several countries from which to develop poverty maps.

Poverty maps can provide important new insights on the spatial distribution of welfare, poverty, and inequality within a country at quite a high level of detail. Moreover, these measures are presented in an objective manner that includes information on the potential range of error in the estimates. However, a broader perspective on their use should be adopted. Given their limitations, it is best to use poverty mapping results for policy formulation and program design alongside a range of other information on poverty and welfare. Doing so both provides a fuller understanding of poverty in its multiple dimensions—going beyond the consumption- and expenditure-based definition used in the maps—and serves to triangulate the accuracy of the poverty mapping results.

For Further Reading

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Minot., N., B. Baulch, and M. Epprecht. *Poverty and inequality in Vietnam: Spatial patterns and geographic determinants.* Research Report 148. Washington, DC: International Food Policy Research Institute, 2006.

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Chapter 8

Poverty Traps: Exploring the Complexity of Causation

Partha Dasgupta

Describing and explaining are two very different engagements, and yet development experts routinely write as though to describe were to explain. If this were not the case, it would be hard to understand why they have found it necessary to repeatedly describe the lives of the world's poorest over the past 30 years. Consider the following sentence constructed from numerous writings—for example, by Banerjee and Duflo, Narayan, the United Nations Development Programme, and the World Bank (see the section headed "For Further Reading" for details)—wherein poverty is defined as a state of affairs in which someone has access to very little income:

> In the world of the poor, people do not enjoy food security, do not own many assets, are stunted and wasted, do not live long, cannot read or write, do not have access to easy credit, are unable to save much, are not empowered, cannot insure themselves well against crop failure or household calamity, do not have control over their own lives, do not trade with the rest of the world, live in unhealthy surroundings, suffer from "incapabilities," and are poorly governed.

Let's call the previous passage *Description.* Although no one would have ever doubted the validity of *Description,* it offers little guidance for action. It does not say what is a cause and what is an effect; it does not distinguish between proximate and deep causes; it does not say what is a variable and what is a parameter in the environment in which the poor reside; and it does not say whether those that are variables can be interpreted in samples to "move" together over time (time-series data) or across parameter values at a given time (cross-sectional data). Above all, the passage does not help to identify the pathways that lead to the state of affairs in which *Description* holds. And yet an enormous literature has drawn on the elements of *Description* to directly arrive at policy prescriptions. It seems that even the Millennium Development Goals and the United Nations' plans for meeting them reflect this methodological stance.

Despite its length, *Description* omits at least two items: the sentence should have gone on to say that the poor suffer from a deteriorating natural resource base and high birth rates. These points have been kept out of *Description* because neither reproductive behavior nor the local natural resource base has been of much interest to contemporary development experts, an issue that will be discussed later in this chapter.

Multiple Causations of Poverty

Theoretical considerations and empirical evidence show that the persistence of poverty in a world of economic progress elsewhere should be traced to socioeconomic, metabolic, and ecological processes involving positive feedback. In mathematically simple systems, the positive feedback may be a reflection of fixed costs. For example, maintenance costs in human metabolic processes are substantial, as are overhead costs in running a household in a world where water cannot be obtained from turning on a tap, where energy is not available at the flick of a switch, and where cooking is a vertically integrated activity, meaning that all the ingredients are in their rawest form. In more complicated systems, positive feedback is a feature of complementarities among the drivers of the processes in question. For example, primary education, nutritional intake, and health care are complementary inputs in child development. Remove one input, and the child does not develop much. The shadow value of a service is negligible if its complements are unavailable. For example, when a child is undernourished, the value of education to her is low, because an undernourished child is unable to imbibe much knowledge and skills. Of course, fixed costs themselves could be manifestations of complementarities among the drivers of the systems in question; the point is that if we peer into the microfoundations of a process, we may discover that complementarities among the various drivers give rise to those fixed costs.

One implication of positive feedback is that in the world of the poor, each item in *Description* reinforces the others, implying that the productivity of labor effort, ideas, manufactured capital, and land and natural resources are all very low and remain low. The lives of poor people are filled with problems each day. In contrast, the rich suffer from no such deprivation. People in the rich world face what today are called challenges. An implication of the positive feedback alluded to here is that in the world of the rich, the productivity of labor effort, ideas, manufactured capital, and land and natural resources are all very high and continually increasing. Success in meeting each challenge reinforces the prospects of success in meeting further challenges. Because the aim of this chapter is to stimulate discussion, the theory and empirics of poverty traps are not reproduced here. Instead, extrapolating the logic of positive feedback, the discussion shows how some people can become trapped in poverty, while others—people not dissimilar to them—are able to escape and prosper. The chapter thus follows two parallel expository routes, providing an informal account of the multiple causations of poverty and formal modeling approaches presented in Boxes 8.1–8.3.

Even though *Description* suggests the phenomenon of multiple causation, the temptation to seek monocausal explanations for the twinned presence of poverty and wealth in our world is so powerful that even development experts have not always been able to overcome it. But the presence of mutual causation (namely, several variables influencing one another over time) has implications for interpreting data. The phenomenon is displayed in a simple deterministic model (Box 8.1). The model includes several economic variables that influence one another over time. In fact, of course, people's lives involve and feed into many processes. One process, creating metabolic pathways, works at the level of the individual. Those pathways are based on physiological links connecting (a) undernourishment and a person's vulnerability to infectious diseases, (b) nutritional status and work capacity among adults, and (c) nutritional status and physical and mental development among children. The ways those pathways can harbor poverty traps is sketched in the section headed "Nutrition, Health, and Human Productivity" and modeled in Box 8.2.

Box 8.1 The idea of mutual causation

Mutual causation is at the center of *Description.* In order to formalize mutual causation and to show how cross-sectional data on poverty should be interpreted, consider a system that can be described at any moment of time t by three (scalar) variables $X(t)$, $Y(t)$, and $Z(t)$. We call X, Y, and Z the state variables of the system. A system with three state variables was chosen because the discussion focuses on the possible links among poverty, population size, and the state of the natural resource base.

Imagine that the process driving the system can be described by a triplet of deterministic differential equations:

$$dX(t)/dt = E(X(t), Y(t), Z(t), q), \tag{1}$$

$$dY(t)/dt = F(X(t),\ Y(t),\ Z(t),\ q), \text{ and} \tag{2}$$

$$dZ(t)/dt = G(X(t),\ Y(t),\ Z(t),\ q), \tag{3}$$

where q is a (scalar) parameter and E, F, and G are continuous functions of X, Y, and Z. For simplicity of exposition, assume that X, Y, Z, and q are all observable. Notice first that the causal connection among X, Y, and Z is mutual: equations (1)–(3) say that over time, each state variable influences the others. Time series of X, Y, and Z enable the econometrician to estimate E, F, and G. Data, however, are frequently cross-sectional (for example, cross-household, cross-village, cross-district, and cross-country). It is customary to interpret such data by first assuming that each observation in the sample represents a stationary point of equations (1)–(3). A stationary point is a triplet of numbers ($\underline{X}$, $\underline{Y}$, $\underline{Z}$) for which

$$E(\underline{X},\ \underline{Y},\ \underline{Z},\ q) = 0, \tag{4}$$

$$F(\underline{X},\ \underline{Y},\ \underline{Z},\ q) = 0, \text{ and} \tag{5}$$

$$G(\underline{X},\ \underline{Y},\ \underline{Z},\ q) = 0. \tag{6}$$

But $\underline{X}$, $\underline{Y}$, and $\underline{Z}$ are functions of q. Write them as $\underline{X}(q)$, $\underline{Y}(q)$, and $\underline{Z}(q)$. If the process defined by equations (1)–(3) has positive feedback, equations (4)–(6) can have multiple solutions for the *same* value of q. So, one possible scenario is that every observation in the dataset (say, of size N) is associated with the same value of q but with a different stationary point (see Box 8.2).

But q is observable. So now suppose that each observation in the dataset has a distinct value of q. If N were very large, the sample values of q could be approximated by an interval of numbers. We could plot $\underline{X}(q)$, $\underline{Y}(q)$, and $\underline{Z}(q)$. We would discover that they "move together." We would then say that they are correlated. *Description* involves this form of reasoning.

It may be that $\underline{X}(q)$, $\underline{Y}(q)$, and $\underline{Z}(q)$ do not look like continuous functions. Values of q at which the functions jump are called *bifurcations.* Their presence would point to nonlinearities in the system defined by equations (1)–(3). These equations offer a timeless economic model with microfoundations that can be interpreted in terms of the stationary point (4)–(6).

Box 8.2 A nutrition-based poverty trap

To illustrate positive feedback, consider the following stylized example:

> Denote time by t. The present is $t = 0$. Consider a person whose health (that is, nutritional status) at t is denoted by a scalar index $H(t)$. Let $W(H(t))$ be the flow of well-being enjoyed by the person. Naturally, one would suppose that $dW/dH > 0$. Now let $J(H,q)$ denote a person's income, where q is, as in Box 8.1, a (scalar) parameter that reflects the person's environment (q is a scalar index of what is a vector of parameters). Assume that the curve J shifts vertically upward with increasing values of q.

What might q reflect? It could reflect (1) factors that are exogenous to the economy, such as rainfall, and factors that are exogenous to the person but endogenous to the economy, such as the following: (2) the effectiveness of property rights, (3) the extent to which government and communities have effective support programs in place, (4) the degree to which markets are open to the person, and (5) the person's nonlabor assets (including education). To these add (6) the extent to which the person has reasons to *trust* others, which may be the most important of all.

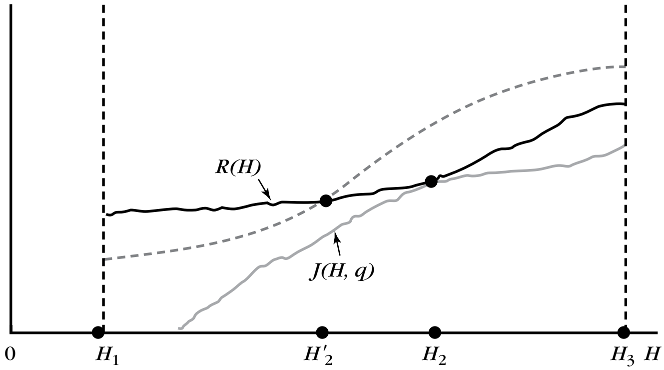
Let $R(H)$ denote the person's nutritional requirement (expressed in units of income). $J(H, q)$ and $R(H)$ are taken to be continuous functions of H. Now imagine that a person's health status, viewed as a stock, obeys the deterministic differential equation

$$dH(t)/dt = J(H(t), q) - R(H(t)),\ H_3 > H(t) > H_1, \tag{7}$$

and if, for any t', $H(t') = H_1$ (resp., H_3), then $H(t) = H_1$ (resp., H_3) for all $t > t'$. ($H = H_1$ and $H = H_3$ are called "absorbing barriers.") The constant that preserves dimensionality in equation (7) has been implicitly set equal to unity.

In equation (7), H is the state variable and q is a parameter. In Figure 8.1, $J(H, q)$ and $R(H)$ have been drawn so that they intersect once, at H_2. (Maintenance costs are reflected in the fact that $R > 0$ even when $H = H_1$.) Equation (7) possesses three stationary points (or *equilibria*): H_1, H_2, and H_3. Of these, H_2 is unstable, while H_1 and H_3 are stable. Notice also that a person whose initial nutritional status, $H(0)$, is slightly in excess of H_2 enjoys growth

Figure 8.1 Nutrition-based poverty trap



Source: Devised by the author.

in well-being, while someone with $H(0)$ slightly less than H_2 is trapped in a deteriorating situation. In short, there are people in the neighborhood of H_2 who are similar but who face widely differing fortunes. Poverty traps give rise to *horizontal inequity.*

Suppose that q decreases slightly, say, because of deteriorations in any of the six factors listed earlier. In that case the income schedule $J(H, q)$ would experience a slight vertical drop. H_2 would move slightly to the right, meaning that some people who were not facing a poverty trap previously would now do so. Such people are said to be vulnerable to shocks in q. Suppose instead that q were to increase. The income schedule $J(H, q)$ would rise vertically (as in the broken curve), leading H_2 to move to H_2'. Fewer people would now be prey to the poverty trap. Moreover, if q were to rise sufficiently high, $J(H, q)$ would not intersect $R(H)$. In that case H_3 would become the unique stationary point of the system. Interpretations (2)–(6) for q come into play now. They identify the various pathways by which poverty traps can be, and in some countries have been, eliminated.

Box 8.3 The village commons and household size

That increases in population put additional pressure on the local natural resource base is, no doubt, a banality; instead consider the reverse influence: the effect of a deterioration of the local natural resource base on desired household size. Villagers free-riding on the commons can impoverish households in such a way as to create an additional need for household labor. This in turn translates into demand for more surviving children, if having more children is the cheapest means of obtaining that additional labor. Of course, this is only one possibility. Another is that the recession of the commons impoverishes households in such a way that at the margin, children become too costly, with the result that the number of surviving children declines. This box offers a formal account of both possibilities. The model enables us to identify parametric conditions under which the various outcomes would be expected to occur. The noncooperative village (that is, one in which villagers free-ride on one another) is then compared with a cooperative one (that is, one in which they collectively find ways to avoid free-riding). The model is timeless. Adjustments over time can then be analyzed in terms of comparative statics.

The Single Household

Consider an agriculture-based village economy consisting of N identical households. N is taken to be sufficiently large that the representative household's size does not affect the economy. The model is deterministic. Household size is assumed to be a continuous variable, which is a way of acknowledging that realized household size is not a deterministic function of the size the household sets for itself as a target. Let n be the size of a household. Members contribute to production, but they also consume from household earnings. Inputs and outputs are aggregated, and it is assumed that household production possibilities are such that *net income* per household member, $y(n)$, has the quadratic form

$$y(n) = -a + bn - cn^2, \tag{8}$$

where $a, b, c > 0$ and $b^2 > 4ac$. The quadratic form enables certain crucial features of a subsistence economy to be captured in a simple way, thereby permitting conclusions to be easily drawn. For example, equation (8) presumes that there are fixed costs in running a household, which is altogether realistic: in order to survive, a household must complete so many chores on a daily basis (cleaning, farming, animal care, fetching water, collecting fuelwood, cooking raw ingredients, and so forth) that single-member households are not feasible. Equation (8) also presumes that when the household is large, the costs of adding numbers begin to overtake the additional income that is generated. This too is clearly correct. It follows from equation (8) that $y(n) = 0$ at

$$n^* = [b - (b^2 - 4ac)^{1/2}]/2c, \text{ and} \tag{9a}$$

$$n^{**} = [b + (b^2 - 4ac)^{1/2}]/2c. \tag{9b}$$

Note that n^* is the *fixed cost* of maintaining a household, while n^{**} is the environment's *carrying capacity.* It is assumed that the household chooses its size so as to maximize net income per head. Let n denote the value of n at which $y(n)$ attains its maximum, and let y denote the maximum. Then

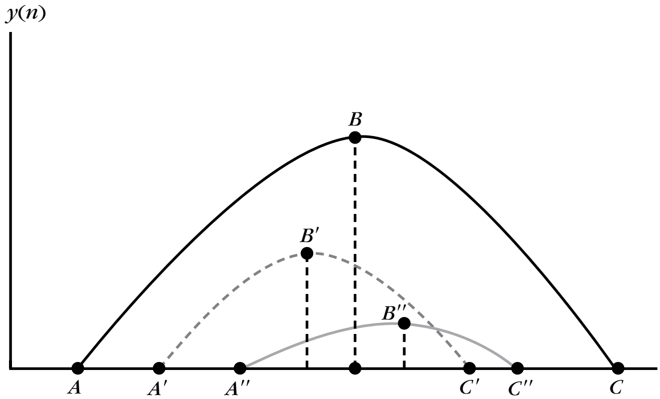
$$n = b/2c \text{ and} \tag{10a}$$

$$y = -a + b^2/4c. \tag{10b}$$

In Figure 8.2, $y(n)$ is depicted as the curve *ABC,* where *B* is the point $(b/2c, -a + b^2/4c)$. Imagine now that the household faces an increase in resource scarcity, which can be interpreted in terms of receding forests and vanishing water holes. The index of resource scarcity could then be the average distance from the village to the resource base. So an increase in resource scarcity would mean, among other things, an increase in n^*. But it would typically mean more. For example, equations (9a) and (9b) tell us that the household would face an increase in resource scarcity if a, c, and a/c were to increase and b were to decline in such a way that n^{**} declines. Note too that in this case, both n and y would decline in equations (10a) and (10b). The resulting $y(n)$ is depicted as the curve $A'B'C'$ in Figure 8.2. The increase in resource scarcity shifts the curve *ABC* to $A'B'C'$.

Consider instead the case in which a, b, and c each increase but in such a way that n^* and $\underline{n}$ increase while n^{**} and $\underline{y}$ decline. This is the kind of situation in which a household finds that its best strategy against local resource degradation is to increase its size, even though that will make it poorer. The resulting $y(n)$ is depicted as the curve $A''B''C''$ in Figure 8.2. In short, the increase in resource scarcity shifts the curve *ABC* to $A''B''C''$.

Figure 8.2 Household income per head as function of household size



Source: Devised by the author.

Social Equilibrium

Now to construct an equilibrium of the village economy. The state of the local natural resource base is taken to be a function of the village population, written as M, and a, b, and c in equation (8) are assumed to be functions of M: a = $a(M)$, $b = b(M)$, and $c = c(M)$. A symmetrical equilibrium of the village economy is characterized by $M = N\underline{n}$. That is, n and y are the solutions of

$$n = b(N\underline{n})/2c(N\underline{n}) \text{ and} \tag{11a}$$

$$y = -a(N\underline{n}) + [b(N\underline{n})]^2/4c(N\underline{n}). \tag{11b}$$

It is assumed that a solution exists and that $n > 1$.

The Optimum Village

Consider next an optimizing village community. It would choose n so as to maximize

$$y(n) = -a(Nn) + b(Nn)n - c(Nn)n^2. \tag{12}$$

(It is assumed, without justification, that the optimum is symmetric in households.) Let n^{***} be the optimum household size. Then n^{***} is the solution of

$$[b(Nn) - 2nc(Nn)] - N[a'(Nn) - nb'(Nn) + n^2c'(Nn)] = 0. \tag{13}$$

A comparison of equations (11a) and (13) tells us that $n^{***} < \underline{n}$ if

$$- a'(N\underline{n}) + n[b'(N\underline{n}) - \underline{n}c(N\underline{n})] < 0. \tag{14}$$

That is, if (14) holds, the village is overpopulated in social equilibrium. An alternative way of thinking about the matter would be to say that an institutional reform that reduces the "freedom of access" to the commons would lower fertility. Now (14) certainly holds if

$$a', c' > 0 \text{ and } b' < 0 \text{ at } n = \underline{n}. \tag{15}$$

But (14) also holds if a', b', $c' > 0$, and

$$[-a' + (bb'/2c) - (b^2c'/4c^2)] < 0 \text{ at } n = \underline{n}. \tag{16}$$

The Effect of Increased Resource Scarcity

Let us study the implications for equilibrium household size and the standard of living consequent upon small exogenous shifts in the functions $a(M)$, $b(M)$, and $c(M)$. It is assumed that prior to the shifts, inequality (14) holds. The perturbations are taken to be sufficiently small so that (14) continues to hold in the new equilibrium. Consider first the case in which the perturbation consists of small upward shifts in $a(M)$ and $c(M)$ and a small downward shift in $b(M)$. Notice that if (15) holds, both $\underline{n}$ and $\underline{y}$ would be marginally smaller as a consequence of the perturbation. Intuitively this is what one would expect: a small increase in resource scarcity results in poorer, but smaller, households. Now consider the case in which (16) holds. Suppose the perturbation consists of small upward shifts in each of the functions $a(M)$, $b(M)$, and $c(M)$. The relative magnitudes of the shifts can be set so that the small increase in resource scarcity results in poorer, but larger, households; that is, $\underline{y}$ declines marginally, but $\underline{n}$ increases marginally. This is the timeless counterpart of the positive feedback mechanism among population size, poverty, and degradation of the natural resource base. Such a feedback, although by no means an inevitable fact of rural life, is a possibility. The experiences of Sub-Saharan Africa and the northern Indian subcontinent in recent decades are not inconsistent with it.

A second category of processes, operating at a spatially localized level, is site specific. It involves a combination of ecological and socioeconomic pathways, giving rise to reproductive and environmental externalities. In contrast to modern macroeconomic growth models, these processes are influenced by the local ecology. The theory based on them acknowledges that the economic options open to a poor community in, say, the African savanna are different from those available to people in the Gangetic Plain of India. Although policies and institutions shape the forces people face, the local ecology shapes them too. Among ecological and socioeconomic pathways, some involve positive feedback among poverty, population growth, and degradation of the local natural resource base. However, neither poverty nor population growth nor environmental degradation is the prior cause of the others: over time each influences, and is in turn influenced by, the others. The two broad categories of positive feedback are able to coexist in a society because nutritional status does not much affect fecundity, or so it has been found, except under conditions of extreme nutritional stress. (During the 1974 famine in Bangladesh, deaths in excess of those that would have occurred under previous nutritional conditions numbered about 1.5 million. The stock of new children was replenished within a year. Of course, undernourishment can still affect sexual reproduction through its implications for the frequency of stillbirths, age at menarche, failure to ovulate, maternal and infant mortality, and the frequency of sexual intercourse.) The interface of poverty, fertility, and the local natural resource base is accounted for in the section headed "Household Labor Needs and the Local Commons: The Population–Poverty–Resource Nexus" and in Box 8.3.

In speaking of an economy, we are casting a wide net. The economy could be a person, or it could be a household, a village, a district, a province, a nation, or even the whole world. Note, however, that a village could be in the grip of a poverty trap even if the country is not. It is frequently argued that in such a situation, outside aid is needed if the villagers are to lift themselves out of the mire. (Of course, what form that aid should take is something that can be identified only when the positive feedback mechanism is well understood. *Description* alone does not tell us what should be done.) But the context matters. It could be that what is needed more than aid is the creation of (rational) trust among people and (rational) confidence in the external world to honor agreements.

Those who are caught in poverty traps do not necessarily spiral down further. For most, there is little room below to fall into; many are already undernourished and susceptible to diseases. Modern nutrition science has shown that relatively low mortality rates can coexist with a high incidence of undernutrition and morbidity. To be sure, many die owing to causes directly traceable to their poverty. But large numbers continue to live under nutritional and environmental stresses. Moreover, people tend not to accept adverse circumstances lying down. So it is reasonable to assume that they try their best to improve their lot. There are, to be sure, situations in which human responses to stress lead to successful outcomes. However, because this chapter is about poverty traps, the idea is to identify conditions under which the coping mechanisms people adopt are not enough to lift them out of the mire. For example, one study shows that in the face of population pressure in Bangladesh, small landholders have periodically adopted new ways of doing things so as to intensify agricultural production. This, however, has resulted in only an imperceptible improvement in the standard of living and a worsening of the ownership of land, probably due to the prevalence of distress sales of land. Other researchers have observed that location per se, and not merely the local ecology, can matter. They note, for example, that being landlocked and surrounded by poor neighbors reduces a country's economic options that much more.

The externalities associated with people's coping strategies can amount to significant differences between private and social returns to various economic activities. Thus, where reproductive behavior is "pro-natalist," the private returns to having large numbers of children are high, in contrast to the social returns. Similarly, where communities degrade their natural resource base, the collective endeavors to maintain the base are unable to withstand the pressure of private malfeasance. And so on.

Nutrition, Health, and Human Productivity

The energy required to maintain each human life is substantial: 60–75 percent of the energy intake of someone in nutritional balance goes toward maintenance, while the remaining 40–25 percent is spent on "discretionary" activities (work and leisure activities). Maintenance requirements are like fixed costs. They lead to positive feedback and reflect a nonlinearity inherent in human metabolic pathways. The fixed costs can also be a reason for unequal food distribution within poor households. To illustrate, suppose that in order to balance nutrition, a person requires on average 2,500 kcal of energy intake each day. A poor household of four, with access to, say, 5,500 kcal per day, would be at serious risk of extinction if food were distributed equally among members. Of course, an unequal distribution would place those receiving well below 2,500 kcal at a terrible risk, but it would offer the household a chance to survive. A rich household, in contrast, has no such dilemma: it can practice equality with impunity. This is an example of how the presence of fixed costs can make poverty a source of inequality.

Why can we not rely on the market mechanism to eliminate undernutrition? The reason is the large energy maintenance requirement for human functioning. It places the undernourished at a severe disadvantage in their ability to obtain food: the quality of work they are able to offer is inadequate for obtaining the food they require if they are to improve their nutritional status. Notice the circularity in the argument, which is a telling sign that the causation is mutual. Over time undernourishment can be both a cause and a consequence of someone's falling into a poverty trap. Because undernourishment displays hysteresis (that is, the scars cannot be wiped out), such poverty can be dynastic: once a household falls into a poverty trap, it can prove especially hard for descendants to emerge from it. It can be shown that assetless people are especially at risk of falling into a poverty trap if the economy is not especially rich and if the distribution of assets is highly unequal. If the distribution of nonhuman assets were made less unequal in the economy, the market for labor would function better. Of course, the key issue is access to nutrition and health care, not so much the distribution of assets. If safety nets are in place, they provide that access when all else fails.

Much international attention has been given to saving lives in times of crises in poor countries. This is as it should be. International agencies have also paid attention to keeping children alive in normal times through public health measures, such as family planning counseling, immunization, and oral rehydration. This too is as it should be. That many poor countries fail to do either is not evidence that these problems are especially hard to solve. In fact, they are among the easier social problems: they can be fielded even if no major modification is made to the prevailing economic system. Much the harder problem, in terms of intellectual design, political commitment, and administration, is to ensure that those who remain alive are healthy. It is also a problem whose solution brings no easily visible benefit. But the persistence of large-scale undernourishment, caused by inadequate diet and lack of sanitation and potable water, is a sure sign of economic backwardness. For example, the stunting of both cognitive and motor capacity is a prime hidden cost of energy deficiency and anemia among children and, at one step removed, among mothers. It affects learning and skill formation and thereby future productivity. The price is paid in later years, but it is paid.

Household Labor Needs and the Local Commons: The Population–Poverty–Resource Nexus

Among poor households in rural communities, much labor is needed even for simple tasks. Moreover, many households lack access to the sources of domestic energy available to households in advanced industrial countries. Nor do they have water on tap. In semiarid and arid regions, water supply is often not even close at hand, nor is fuelwood nearby when the forests recede. This means that the relative prices of alternative sources of energy and water faced by rural households in poor countries are quite different from those faced by households elsewhere. In addition to cultivating crops, caring for livestock, cooking food, and producing simple marketable products, household members may have to spend several hours a day fetching water and collecting fodder and wood. These complementary activities have to be undertaken on a daily basis if households are to survive. They imply that poor people face large fixed costs in running their households—though econometricians studying rural households rarely model fixed costs (see Box 8.3). Labor productivity is low because manufactured capital and environmental resources are both scarce. From an early age (as early as 6 years), children in poor households in the poorest countries mind their siblings and domestic animals, fetch water, and collect fuelwood, dung (on the Indian subcontinent), and fodder. Mostly they do not go to school. Not only are educational facilities in the typical rural school woefully inadequate, but parents need their children's labor. Children aged 10–15 years have routinely been observed to work at least as many hours as adult males.

The need for many hands can in principle lead to a destructive situation in which parents do not have to pay the full price of rearing their children but share such costs with their community. Since time immemorial, rural assets such as village ponds and water holes, threshing grounds, grazing fields, swidden fallows, and local forests and woodlands have typically been owned communally. As a proportion of total assets, the presence of such assets ranges widely across ecological zones. In India the local commons are most prevalent in arid regions, mountainous regions, and unirrigated areas; they are least prevalent in humid regions and river valleys. The rationale for this is the human desire to reduce risks. Community ownership and control enable households in semiarid regions to pool their risks. An almost immediate empirical corollary is that income inequalities are less where common-property resources are more prominent. Aggregate income is a different matter though, and the arid and mountainous regions and unirrigated areas are the poorest. As would be expected, dependence on common-property resources even within dry regions would appear to decline with increasing wealth across households.

In recent years, social norms that once regulated local resources have changed. The very process of economic development, as exemplified by urbanization and mobility, can erode traditional methods of control. Social norms are endangered also by civil strife and by the usurpation of resources by landowners or the state. For example, resource allocation rules practiced at the local level have frequently been overturned by central fiat. A number of states in the Sahel imposed rules that in effect destroyed community management practices in the forests. Villages ceased to have authority to enforce sanctions against those who violated locally instituted rules of use. State authority turned the local commons into free-access resources. As social norms degrade, whatever the cause, parents pass some of the costs of children on to the community by overexploiting the commons. This is an instance of a demographic free-rider problem.

The perception of an increase in the net benefits of having children induces households to have too many. This tendency is predicted by the standard theory of the imperfectly managed commons. It is also true that when households are further impoverished owing to the erosion of the commons, the net cost of children increases (of course, household size continues to remain above what is desirable from the collective viewpoint). A study in Nepal, for example, found that increasing environmental scarcity lowered the demand for children, implying that the households in question perceived resource scarcity as increasing the cost of raising children. Apparently, increasing firewood and water scarcity in the villages in the sample did not have a strong enough effect on the relative productivity of child labor to induce higher demand for children, given the effects that work in the opposite direction. Environmental scarcity there acted as a check on population growth.

However, theoretical considerations suggest that in certain circumstances, increased resource scarcity induces further population growth. This statement is qualified because the theory has often been misunderstood to be saying that the negative link between (local) resource availability and fertility is unconditional. Bearing and raising children involve costs, but in some circumstances those costs are outweighed by the benefits of further procreation.

As a community's natural resources are depleted, households find themselves needing more "hands." No doubt additional hands could be obtained if the adults worked even harder, but in many cultures it would not do for the men to gather fuelwood and fetch water for household use. No doubt, too, additional hands could be obtained if children at school were withdrawn and put to work. But, as we have seen, the children mostly do not go to school anyway. In short, when all other sources of additional labor become too costly, more children are produced, thus further damaging the local resource base and, in turn, providing the household with an incentive to enlarge even more. This does not necessarily mean that the fertility rate will increase. If the infant mortality rate were to decline, there would be no need for more births in order for a household to acquire more hands. However, along this pathway, poverty, household size, and environmental degradation could reinforce one another. By the time some countervailing set of factors diminishes the benefits of having further children, many lives may have experienced a worsening of poverty (see Box 8.3). A statistical analysis of evidence from villages in South Africa has found a positive link between fertility increase and environmental degradation, while a weak positive link has been found in the Sindh region in Pakistan. Over time the feedback would be expected to have political effects, as manifested, for example, by battles for scarce resources among competing ethnic groups. The latter connection deserves greater investigation than it has elicited so far.

To be sure, families with greater access to resources would be in a position to limit their size and propel themselves into still higher income levels. Admittedly, too, people from the poorest of backgrounds have been known to improve their circumstances. Nevertheless, positive feedbacks are at work that pull households away from one another. Such forces enable extreme poverty to persist despite growth in the well-being of the rest of society. (For a formal account of the process by means of a timeless model, see Box 8.2.)

Morals

Poverty traps are a reality. They are symptomatic of essential nonlinearities in metabolic, environmental, and socioeconomic processes. Although poverty traps have no single source, they possess a common structure. A lack of discussion of the pathways leading to poverty traps has been a factor behind many policy failures. Because the purpose here is to stimulate discussion, not to draw policy conclusions, the following observations about poverty alleviation are purposely broad:

1. *Poverty alleviation policies should be site specific.* It is easy enough to say, "One size does not fit all"; it is a lot harder to pin down how the "sizes" should be designed. In some contexts, preventing local institutions from collapsing may be the right object of policy design; in others, the provision of classrooms allied to school meals may be the right immediate investment.

2. *Complementarities matter.* Offering hungry children classrooms (even teachers!) does not help much in creating human capital.

3. *Be aware of mutual causation.* The common belief that unequal distribution of assets is a source of poverty among the unfortunate should be augmented by the recognition that poverty itself can be a cause of inequality.

4. *Be aware of unintended consequences.* Improving market conditions in the neighborhood of villages (surely a good thing) can lead to deterioration of village institutions, which in turn can lead to deterioration in the circumstances of the poorest.

5. *The local natural resource base matters.* National accounts do not include an economy's natural resource base. Policies built on economic models that do not include natural capital are particularly dangerous because they can harm precisely those who are the objects of concern.

For Further Reading

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Part 2

Fostering Inclusive "Growth+" for the Poorest

This part of the book focuses on economic growth, in particular on policies that create an environment that enables income growth for the poorest—that is, "growth+." The ultra poor face new challenges—including economic recession and volatility—that affect strategies to enhance their assets and income. Global macroeconomic trends affect poor countries' ability to facilitate pro-poor growth and even growth in general. Furthermore, poor countries, which are for the most part agricultural societies, face the additional constraint that agricultural growth takes place in the context of increasingly globalized agricultural value chains. Nevertheless, there is much that national governments can do to promote pro-poor growth. To that end, when they consider how to engender this type of growth, countries need to account for the potential trade-offs between economic growth and increasing inequality, particularly in the short to medium run.

The chapters and the essay in this part of the book address these issues in more detail. The first two chapters look at some of the exogenous factors that affect the growth and development strategies available to developing countries, and the next five look more closely at what is meant by pro-poor growth and at the inherent trade-offs that policymakers must consider in their strategies. The final five chapters focus on specific policies—aspects of labor markets, fiscal policies, and a framework for property rights—that are important components of creating an environment that facilitates income growth for the poorest.

Global Factors Affecting Growth

In Chapter 9 Eugenio Díaz-Bonilla underscores the importance of the international economic environment for growth in developing countries. By exploring the global cycles of growth and downturns since the 1960s, the author demonstrates how many global variables—such as growth rates in developed countries, levels and terms of global trade, global trends in inflation, interest rates, exchange rates, capital flows, export subsidies in developed countries, and commodity prices—affect growth rates and thus the opportunities available to the poorest in developing countries. In so doing, Díaz-Bonilla stresses the need for developing-country governments to design policies that smooth the global business cycle.

Given that agriculture plays such a central role in many developing countries and in the livelihoods of the very poorest (a point discussed further later in this introduction), policymakers must think about how in-country agricultural growth interacts with the global economic environment. In Chapter 10, Joachim von Braun and Tewodaj Mengistu argue that globalization in the agricultural food system has altered the appropriate strategy set available to developing-country governments. They point out that globalization offers opportunities for growth and opportunities for poor people through direct or indirect access to previously unavailable assets and markets, but with these new opportunities come new risks that need to be mitigated and managed. The authors then outline some policy suggestions that would allow countries to take advantage of the opportunities presented by increased globalization while minimizing the associated risks.

Pro-Poor Growth and Inherent Trade-offs

A fundamental debate is taking place about whether all growth should be fostered because all growth will be good for the poor (Dollar and Kraay 2002) or whether countries should try to encourage growth that reduces inequality by preferentially increasing the incomes of the poor (Besley and Burgess 2003; Bourguignon 2003). In other words, do countries need to worry about inequality when facilitating poverty-reducing growth? Martin Ravallion discusses this issue in Chapter 11 by examining the relationship among inequality, growth, and poverty. He argues that although growth is pro-poor on average (Dollar and Kraay 2002), distributional issues are nonetheless important in determining how economic growth affects poor people. Inequality is of concern because growth tends to be less pro-poor in more unequal countries. Poverty also tends to be less responsive to growth in very poor countries, and the combination of high levels of both poverty and inequality greatly reduces the responsiveness of poverty to growth. In fact, countries with high levels of inequality and poverty will require twice the rate of growth to secure the same amount of poverty reduction as countries with average levels of inequality and poverty.

When inequality in a society is inherited rather than the result of the differential impact of skills and asset acquisition, inequality is much more likely to limit the effects of growth in the long run. Ravallion refers to these inherited inequalities as “bad inequalities.” They could include limited property rights for land acquisition or identity-based exclusion from education and markets. Some researchers have observed that income inequality is anti-growth in developing countries but pro-growth in developed countries and have argued that this outcome occurs because asset inequality causes a larger share of income inequality in developing countries (Lipton and Ravallion 1995; Barro 2000). The importance of land reform and property rights is addressed later in this part of the book. Exclusion on the basis of identity is considered in Part 4.

Ravallion also argues that the impact of growth on poverty depends on whether inequality is increasing at the same time as growth, and this factor in turn depends on whether regional and sectoral growth occurs in those sectors where the poor are located.

In looking at the experience of Latin America in the 1980s and 1990s, Alberto Valdés and William Foster (Chapter 12) argue that all growth helps alleviate poverty—even if it is growth that is not particularly pro-poor. They note, however, that growth would ideally also reduce inequality. They then tackle the difficult question of the trade-off between policies that affect distributional measures and poverty in the short term and policies that foster growth and poverty alleviation in the long term. They identify some policies that may facilitate growth but not particularly growth for the poor—financial deepening, trade liberalization (although see Chapter 28 for a counterexample), and limitations on the size of government. They point to other policy actions that facilitate growth that is good for the poor—that is, policies that facilitate both growth and improvements in the income distribution. These policy actions include investments in infrastructure, conditional cash transfers that improve the health and education of poor households, and reductions in anti-export biases that increase demand for unskilled labor. Valdés and Foster underline that improving the productivity of unskilled labor is nearly always an essential part of a growth strategy that particularly benefits the poorest. Even more generally, a growth strategy that benefits the poorest is one that increases the returns to their assets, namely unskilled labor and, in Africa, land.

Stephan Klasen further delineates the policies that promote pro-poor growth in Chapter 13. In the past few years much analysis has been devoted to how to encourage growth that benefits the poor. Two edited volumes bring together different countries' experiences in fostering pro-poor growth (Besley and Cord 2007; Grimm, Klasen, and McKay 2007). These books and the report by the Commission on Growth and Development (2008) provide some cross-country lessons on how to foster growth in the regions and sectors where the poorest are located (or to which they are likely to move). Klasen discusses some of the insights of this research in his chapter and notes the importance of productivity improvements in the food crop sector through better seeds and inputs; improved rural infrastructure and improved access to credit; greater growth in lagging regions through means such as infrastructure, investment, and fiscal policies that target these regions; increased education and better land access programs to improve the asset base of the poor; and investments in education and employment for women and disadvantaged groups.

Klasen's chapter provides a thorough review of growth that benefits the poor, but the focus is not explicitly on growth that benefits the poorest. Many growth-related policies, however, are immediately transferable to those who have few assets and are located in marginal and remote regions. In particular, of immediate relevance are policies that focus on improving the poorest people's access to land (land reform will be discussed further later), improving the returns to marginal land (through investing in seed technologies for marginal lands and infrastructure for remote areas), and encouraging employment for women and disadvantaged groups. The development community also needs to undertake additional research to better understand what policies reduce the severity of poverty, not just the number of people counted as poor.

In many countries the poorest are located in rural areas and have livelihoods based in the agricultural sector. Therefore, identifying policies that promote agricultural and rural development can be important in creating an environment in which the poorest can realize growth in their incomes (Mellor 1995; Fan and Zhang 2008). In Chapter 14 Jikun Huang, Qi Zhang, and Scott Rozelle illustrate how China, the country that has made the greatest strides in both growth and poverty reduction in the past three decades, has gone about achieving sustained economic growth accompanied by substantial poverty reduction. They argue convincingly that this success is due to the focus on agricultural growth. The lesson for other countries is that growth in the agricultural sector can be important in meeting the needs of the poorest. The role that agricultural growth will play, however, is not constant across countries. It will vary with the characteristics of a country's labor and land markets and the degree to which a country can import and export agricultural commodities (Dercon 2009). Additionally, the nature of agricultural growth will determine whether it results in sustained improvement in the well-being of the poorest. Agricultural growth that arises as a result of technological advances that raise the productivity of labor and that is complemented by growth in demand for unskilled labor will benefit the poorest the most (Lipton 2005).

Although Chapters 11–14 emphasize the need for policies that encourage income growth among the poorest, in Essay 1 Nancy Birdsall provides a point of contrast to the emphasis of this book on the poorest. She argues that fostering growth for the middle class—what she terms "inclusive growth"—rather than the poorest should be the priority. She writes that such growth is important because it both proves sustainable in the long run (given that it benefits a large part of the population) and usually reflects growth that is based on employment creation and improved returns to assets. She thus suggests that taking these long-term considerations into account, governments should pursue not necessarily sectoral growth where the poorest are located but rather growth in sectors where the majority of the population is located. Although the other chapters in this section would agree that focusing on employment creation and the long-term quality of growth is important, ideally this approach should be combined with a focus on growth in assets and incomes for the poorest. As argued in Chapter 1, Chapter 11, and many of the other chapters in this volume, asset inequality that leaves the poorest without land and education retards growth.

Specific Policies to Promote Pro-Poor Growth

The final five chapters in this part of the book focus on specific national policies required to create an environment in which the ultra poor can realize welfare improvements. Developing labor markets that facilitate the movement of unskilled labor between sectors is an important part of ensuring that the poorest realize the highest possible returns to this asset. Chapter 15 considers one aspect of policy that can help in this regard by examining policies that facilitate migration. Chapters 16 and 17 consider policies for a national framework for land rights, another asset important to the poorest. Chapters 18 and 19 focus on the fiscal framework required for reducing ultra poverty.

In many countries inclusive growth means growth that includes poor households living in regions of the country that are lagging behind others (Kanbur and Venables 2005). Given that many of the ultra poor live in rural areas and areas that are far from active markets and effective public services, one key question for policymakers is whether it is better to encourage growth in those areas or to enable people in those areas to migrate elsewhere if they choose. Some empirical evidence shows that investments in some lagging regions can bring higher returns—in terms of both reduced poverty and greater gross domestic product—than elsewhere (Fan, Hazell, and Thorat 2000). In these cases investments in lagging regions would be the appropriate policy response. In other cases, fostering internal migration may be part of the solution for poverty reduction.

In Chapter 15 Alan de Brauw focuses on international migration but also discusses how migration of any type, including rural–urban migration, can directly and indirectly benefit the poorest. He argues that although increased emigration from developing countries, particularly in the form of loss of skilled labor, has known drawbacks, it can also offer real benefits to poor and vulnerable households. International migration is not really a possibility for the poorest, but they may benefit from it through increased remittance receipts that improve their incomes and living standards, as well as through new labor market opportunities and increases in wages for those who stay behind. Furthermore, de Brauw considers what types of policies would foster positive outcomes from increased international migration, which are also transferable to the context of internal migration. He suggests policies that reduce the costs of moving, searching for a new job, and sending money to family members left behind and policies to allow safety net benefits to be transferred to other family members.

As highlighted in Chapter 1, ensuring stability by ending and preventing conflicts is a fundamental prerequisite to any strategy aiming to achieve pro-poor growth. Although the causes of conflict are multiple and require action on many fronts (see, for example, Collier 2007), in Chapter 16 Gunnar Sørbø and Arne Strand emphasize the importance of land disputes in driving and sustaining protracted conflict and poverty, using examples from two of the world's poorest and most conflict-ridden countries, Afghanistan and Sudan. They underscore the need to address issues of land ownership, agricultural production, and rural employment in building sustained peace in Afghanistan and the importance of a framework to deal with the alienation of land that has driven the marginalization of certain groups.

The relationship between limited land rights and ultra poverty is also present in more peaceful societies. Chapter 6 showed that landlessness is a characteristic of the ultra poor (particularly in South Asia), and a number of studies have highlighted the causal relationship between lack of productive land and poverty (for example, Deininger 1999 and World Bank 2003). Providing a national framework for access to and ownership and transfer of land is thus often an important part of addressing ultra poverty. Ruth Meinzen-Dick, Patricia Kameri-Mbote, and Helen Markelova take up this issue in Chapter 17. This chapter describes challenges involved in strengthening the property rights of the poorest people and identifies potential policies for overcoming these challenges. The chapter notes that although redistributive land policies have enabled millions of people to gain access to land, the poorest have not always benefited. For redistribution of land to benefit the poorest, it is important to include local participation in identifying the poorest, to allow women to be included on land titles, and to carefully examine prior land uses to ensure that redistribution does not take land away from existing uses on which the poorest depend.

Chapters 18 and 19 particularly focus on the fiscal and management aspects of targeted and more general poverty reduction programs. Transfer programs can have a large impact on poverty reduction, as can the tax structures that support them. A regressive tax system based on indirect taxes will rely proportionately much more on the poor by increasing the cost of basic food items, basic services, and the like—items on which the poor spend a larger share of their income than do others. In Chapter 18 Ehtisham Ahmad considers fiscal policy instruments to generate revenue for such programs, as well as resource allocation strategies. He contrasts the more centralized approach of Mexico with the more decentralized approach used in China and notes that both countries have had successful programs but that the strategies of each have pros and cons. A program that mixes both elements may be more effective. Chapter 29 in Part 3 details Brazil's experience with a cash transfer program, Bolsa Família, and provides an example of how local knowledge can be effective in targeting the poorest. Although Bolsa Família is centralized at the federal level, it relies on local governments for targeting and thus applies local involvement exactly in the way suggested by Ahmad's chapter.

In Chapter 19, Chu Liming, Wen Qiuliang, Lin Zechang, and Fang Yaming provide more details on the mechanisms and policies for fiscal poverty alleviation used in China (policies that were also referred to in Chapters 14 and 18). They outline four types of instruments—poverty alleviation funds targeted to poor people, direct financial transfers to poverty-stricken areas, preferential policies and tax relief for economic development in poverty-stricken areas, and interest subsidies for poverty alleviation and development loans. For each of these instruments they highlight some of the specific challenges experienced by policymakers in its implementation. The authors then suggest future directions for such programs in China.

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Chapter 9

Global Macroeconomic Developments: The Implications for Poverty

Eugenio Díaz-Bonilla

This chapter presents an overview of global macroeconomic developments over time and some of their implications for poverty trends in developing countries. It concludes with comments on possible macroeconomic policies to create a global environment for sustainable poverty reduction in developing countries.

Growth, Prices, and Capital Flows

Growth

A high level of stable growth is important for poverty alleviation. In general, analyses of the links between growth and poverty have focused on the implications of domestic growth, not world growth. However, there is an important amount of co-movement between world growth, led by industrialized countries (which still represent about 75 percent of world gross domestic product at market rates), and the economic performance of developing countries. Therefore, it is important to understand the trends and cycles in the world economy when discussing the evolution of poverty in developing countries.

Although world economic growth declined during every decade from the 1960s through the 1990s, it picked up somewhat in the 2000s until 2007. During this most recent period, annual growth in world gross domestic product (GDP) per

A more detailed discussion of these topics can be found in E. Díaz-Bonilla, *Global macroeconomic developments and poverty,* IFPRI Discussion Paper 00766, Washington, DC: International Food Policy Research Institute, 2008, <http://www.ifpri.org/pubs/dp/ifpridp00766.pdf>.

capita increased above its levels of the 1980s and 1990s, mainly because population growth declined. The performance of per capita GDP in developing countries strengthened, reaching its highest average annual rate (3.9 percent) in the past half century (Table 9.1).

Growth stability is also central to improving poverty trends. Overall, the global economy has gone through four cycles of strong deceleration in growth: 1974–75, 1980–83, 1991–93, and 2001–02. As of this writing in the late 2000s, the world has entered a fifth period of economic decline, which looks to be worse than the previous four cycles (Figure 9.1).

In each of the previous four global downturns, the number of developing countries in recession increased significantly; in some cases more than 50 percent

Table 9.1 World macroeconomic indicators, 1960s–2000s

Indicator	1960s	1970s	1980s	1990s	2000s
World					
GDP growth (% per year)	5.4	4.0	3.0	2.7	3.0
Per capita GDP growth (% per year)	3.4	2.1	1.3	1.2	1.7
Trade growth (% per year)	7.6	6.4	4.7	6.2	6.7
Trade as a share of GDP (%)	24.5	32.2	37.6	41.3	48.6
Developing countries					
Total growth (% per year)	4.9	5.3	3.4	3.4	5.2
Per capita growth (% per year)	2.7	3.1	1.4	1.8	3.9
Share in recession (%)	28.5	29.0	40.6	35.8	18.9
Capital inflows (% GDP)	n.a.	1.25	1.06	1.44	1.11
Consumption volatility	0.91	0.78	1.03	0.80	0.64
Inflation (% per year)[a]					
Industrialized countries[b]	4.9	8.7	6.2	2.8	2.0
Developing countries	4.9	16.2	36.7	36.1	5.8
Interest rates (%)					
Nominal[c]	6.0	8.4	10.6	5.5	3.2
Real[d]	1.0	–0.3	4.1	2.7	1.1

Sources: World Bank, *World development indicators* (Washington, DC: World Bank, various years); International Monetary Fund, *International financial statistics* (Washington, DC: International Monetary Fund, various years).

Notes: Growth is aggregated at market exchange rates. Consumption volatility data represent the median of a five-year rolling average of standard deviation / average growth for developing countries. For the 1960s, the data cover various years. For the 2000s, the data on GDP, trade growth, interest rates, and inflation are for 2000–06. n.a., not available.

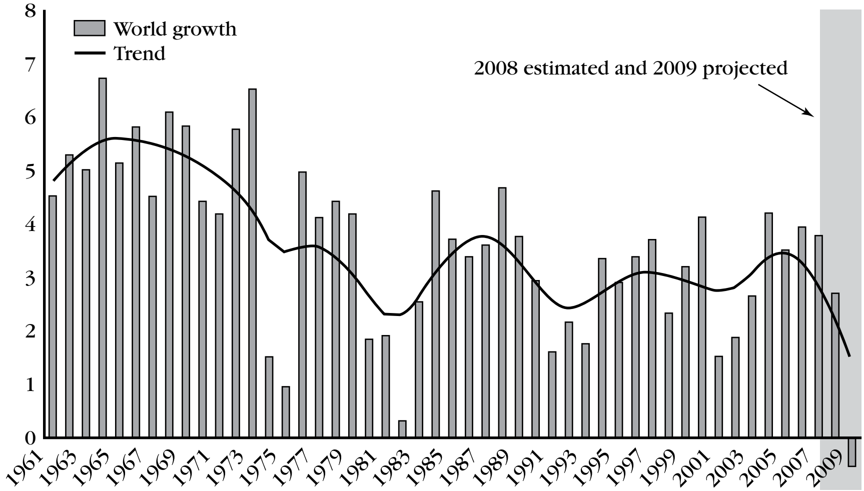
[a]Consumption index.

[b]Industrialized countries or advanced economies are a total of 33 countries, including the United States, the Euro area, Japan, the United Kingdom, and Canada; developing economies / countries include the 139 countries that are not classified as advanced economies. International Monetary Fund, *World economic outlook 2009* (Washington, DC: International Monetary Fund, 2009).

[c]London Interbank offered rate for dollar deposits for six months.

[d]Uses industrialized-country inflation rates.

Figure 9.1 World growth and trend, 1960–2009



Sources: World Bank, *World development indicators* (Washington, DC: World Bank, 1960–2009); International Monetary Fund, World economic outlook database, World Bank, Washington, DC, 2009.

of developing countries were affected—55 percent in 1982 and 53 percent in 1992 (influenced by the breakdown of the Soviet Union). Average annual declines during the recession were –6.7 percent in the first year and –8.6 percent in the second. Based on the averages for each decade, volatility and the number of countries in recession increased during the 1980s and declined in the following decades, reaching their lowest values in the early to mid-2000s (see Table 9.1). In general, the numbers show that in the current decade and until recently, developing countries have enjoyed relatively high rates of growth with low volatility, which helped with poverty alleviation efforts. The current global economic crisis, however, will negatively affect both growth and poverty in developing countries.

Inflation and Interest Rates

Interest rates and inflation have important implications for growth and poverty alleviation. For instance, episodes of hyperinflation, such as those that occurred in several countries of Latin America and the Caribbean in the 1980s and 1990s, were accompanied by sharp increases in poverty. On the other hand, lower inflation, other things being equal, tends to alleviate poverty because the poor have nominal incomes that adjust slowly to change, and they do not have access to financial instruments that protect them from price increases. In recent decades, the world economy has gone through cycles of rising and falling inflation, with parallel up and down cycles of nominal and real interest rates. The trend toward lower inflation and interest rates that started in the mid-1980s should have contributed to alleviating poverty until the mid-2000s.

During the early 2000s, U.S. monetary policy was still strongly expansionary (leading to negative short-term rates during that period), but that policy stance was reversed in 2004: then real short-term interest rates increased again to about 2 percent in real terms, and the real U.S. prime rate jumped to about 4 percent. This tightening of monetary policy and monetary conditions affected the housing sector in the United States and started the financial crisis that is still at the heart of the current U.S. and global recession. Clear signs of financial distress in mid-2007 led the U.S. Federal Reserve to again sharply reverse monetary policy and move toward a strongly expansionary stance. This monetary easing has influenced the large increases in commodity prices since the second half of 2007.

Commodity Prices

Many of the poorest developing countries and several of the middle-income ones depend on exports of a relatively small number of commodities. In particular, prices for commodities such as food and fuel have important implications for inflation and the value of the consumption basket that defines the poverty line. Therefore, price developments in these products tend to have a large impact on production, incomes, employment, fiscal accounts, and poverty in those countries. World commodity prices have experienced important changes in real terms over recent decades (Table 9.2).

During the 1960s and 1970s, the prices of many commodities (particularly food, beverages, and metals) were high in real terms. Oil prices jumped significantly during the mid- to late 1970s. In the early 1980s, the world macroeconomic environment changed markedly, leading to a sharp decline in world growth. Nominal and real prices of commodities declined, and during the 1990s real prices of most primary products were about half the levels reached in previous peaks. Real prices of most commodities (except agricultural raw materials) remained on a lower plateau for much of the 1990s.

After the deceleration of the early 2000s ended, the world resumed growth and commodity prices recovered from their previous lows. In the case of agricultural products, besides the resumption of world growth and greater demand from developing countries in the first half of the 2000s, rising prices have also been influenced by competition with crops oriented to energy use (which are subsidized in the main industrial countries) and adverse weather patterns.

The largest price increases took place for metals and oil, which in the second half of the 2000s surpassed the peaks achieved in the 1970s (in real terms). For agricultural goods, however, the story has been different. Although nominal prices

Table 9.2 Indexes of real commodity prices, 1960s–2008 (2000 = 100)

Commodity	1960s	1970s	1980s	1990s	2000–04	2005–08
Food	196.0	208.2	146.9	106.5	102.5	113.0
Agricultural raw materials	89.7	89.6	84.1	94.2	95.3	83.9
Beverages	246.6	293.9	207.9	119.0	100.5	120.0
Oil	23.3	60.0	102.6	57.2	98.2	189.1
Metals	178.3	173.1	110.6	89.6	96.9	182.2

Sources: World Bank, *World development indicators* (Washington, DC: World Bank, various years); International Monetary Fund, *International financial statistics* (Washington, DC: International Monetary Fund, various years).
Note: Values are deflated by the export unit value of advanced economies. The IMF recently updated the weights of the indexes; therefore, the numbers for some of the series have changed from previous versions.

increased until mid-2007 from the very low levels of the early 2000s, real agricultural prices stayed well below the levels of the 1960s and 1970s. In late 2007 and early 2008, the U.S. dollar prices of several agricultural commodities increased still further. Nonetheless, most real prices have remained below the levels of the 1970s (with perhaps the exception of rice, which briefly achieved a new peak). As of this writing, the deepening global economic crisis in the late 2000s is bringing down the nominal prices of most commodities, although adverse weather in some key agricultural producing countries is still supporting agricultural prices.

Capital Flows and Debt

Capital flows to developing countries have gone through two cycles. The first cycle peaked in the early 1980s, when capital flows reached more than 2 percent of the combined GDP for developing countries; it then declined during the debt crisis of the 1980s to a low of 0.6 percent of GDP in 1986. The second cycle began in the early 1990s. Capital flows peaked in 1995 at about 2 percent of GDP and dropped again during the series of developing-country crises of the late 1990s and early 2000s. They reached a low of 0.8 percent of GDP in 2002. In the early 2000s, private capital flows to developing countries began to increase again until about 2007 (although at the same time official capital from several developing countries flowed to the United States and other industrialized countries, where monetary authorities of some developing countries invested their reserves).

The behavior of capital flows has several implications for the economy, for tradable sectors (like agriculture), and for the poor. Capital inflows usually promote growth and investment, but overvaluation of the domestic currency can hurt tradable sectors. Capital flows can experience sudden reversals, which may lead to depreciation of the domestic currency, to banking and fiscal crises (when domestic private and public debt in dollars is widespread), and to sharp declines in growth.

Therefore, ebbs and flows of capital to developing countries have been associated with booms and busts in those countries.

During an upswing in capital inflows, the impact on the poor will depend on their position in the economy and the nature of the growth process generated by the capital inflows. In principle, the urban poor and those working in nontradable sectors would benefit more than the rural poor during periods of growth associated with continued inflows of capital. If growth is sustained, however, benefits accrue to all the poor, albeit to different degrees. When changes in financial markets lead to sudden outflows of capital and growth collapses, the welfare of the urban poor and those working in nontradable sectors tends to suffer the most.

The global financial crisis that started in the second half of 2007 has led to significant declines in capital flows to developing countries, raising the specter of a new bout of financial crises in those countries.

Implications for Poverty in Developing Countries

The previous section described separate basic macroeconomic developments at the global level. This section presents a brief chronological discussion of those trends and their impacts on poverty.

The 1960s and 1970s

As mentioned, the 1960s and 1970s were years of high growth, moderate inflation, low (and even negative) real interest rates, accelerated expansion of trade, and high real commodity prices. The economic buoyancy of those years was based on expansionary macroeconomic policies in many countries and stable exchange rates, coupled with the expansion and liberalization of international trade. This world macroeconomic configuration helped the relatively resource-abundant primary exporters of Africa and Latin America, which also received much of the capital flows. Latin America and the Caribbean and Sub-Saharan Africa were the two fastest-growing regions during the 1960s, and they continued to grow strongly during the 1970s, although East Asia's growth began to overtake that of all developing regions in that decade. North Africa and the Middle East also benefited from higher oil prices in the 1970s. Rents from natural resources financed both the development of the industrial sector and the expansion of the welfare state to different degrees in many developing countries. The World Bank, in its 1990 *World Development Report,* said that from the 1960s to the early 1980s there was "considerable progress in reducing the incidence of poverty, a more modest reduction in the number of poor, and achievement of somewhat better living standards for those who remained in poverty" (40).

The 1980s

The breakdown of the Bretton Woods system of fixed but adjustable exchange rates and the oil shocks of the second half of the 1970s changed world macroeconomic conditions. After the second oil crisis at the end of the 1970s, inflation jumped to double digits, and industrialized countries shifted their priorities from sustaining growth to fighting inflation: the expansionary policies of the previous decades were reversed. Real interest rates skyrocketed, and growth dropped sharply. By the mid-1980s, real commodity prices had collapsed, and they continued declining in the 1990s. Countries that borrowed against expectations of high commodity prices, mainly in Africa and in Latin America and the Caribbean, entered a period of debt distress and economic crises that increased poverty. Although some of the development strategies followed by those countries precluded easy adaptation to the new circumstances, the impact of the 1980s shocks made a painful process of adjustment inevitable.

Depressed world prices of food and agricultural products during the 1980s and 1990s—in part also related to agricultural protectionism and subsidies in industrialized countries—appear to have discouraged investments in the rural sectors of many developing countries, with negative consequences for the poor, who mostly reside there. The lack of rural dynamism also contributed to rural migration to the cities and to premature or excessive urbanization in many developing countries. The World Bank and other development banks cut loans to agricultural and rural development projects, partially influenced by low world agricultural prices that reduced the returns of projects in that sector. Low food prices also seem to have pushed several developing countries, particularly in Sub-Saharan Africa, into a more extreme specialization in tropical products, increasing their external vulnerability and transforming many of them into net food importers that came to depend on subsidized food from abroad. At the same time, however, low prices, other things being equal, should have helped net consumers of food, particularly the urban poor. The net impact on poverty of those developments differs by country depending on the particular constellation of price, investment, employment, and external vulnerability conditions.

Asian countries in general adjusted earlier and more efficiently to the economic shocks of the 1980s than did countries in Africa and Latin America. They also began with lower levels of indebtedness, partly because they were, with some exceptions, not resource-abundant, commodity-exporting countries and therefore could not borrow much in international markets during the time of high commodity prices. Also, the relatively more resource-constrained countries of Asia were increasingly importing primary goods and gradually specializing in exporting manufactured goods. As a consequence, they were less affected by the decline in commodity prices and eventually benefited from it.

The heterogeneous performances of Asia on one hand and Africa and Latin America and the Caribbean on the other were then in part related to the different policy reactions. But the decline in world export shares of Africa and Latin America also reflected the fact that these regions were more dependent than Asia on industrial countries' demand for agricultural products and that agricultural and trade policies in rich countries were changing in ways that undermined agricultural and agroindustrial production and exports from Africa and Latin America. Another important development was the relocation of cold war confrontation from Asia in the 1950s and 1960s to Africa (and Central America) in the 1980s. Africa thus suffered a triple shock in the 1980s: a macroeconomic and debt crisis, a commodity crisis, and a geopolitical crisis, with devastating effects that are still felt in the region.

Regional poverty trends during the 1980s followed overall economic and political performance in the regions: the share of people living in poverty dropped significantly in East Asia and South Asia (where growth rates exceeded those in other developing regions) but increased in Latin America and the Caribbean and Sub-Saharan Africa.[1] At a poverty line of US$1.00 a day, the poverty headcount went from about 67 percent in East Asia and 42 percent in South Asia in 1981 to 39 percent and 34 percent, respectively, by 1990. In Latin America poverty increased from about 7.7 percent in 1981 to 9.2 percent in 1984 and was still at 8.9 percent in 1987. In Sub-Saharan Africa poverty moved from 42.6 percent in the early 1980s to more than 45 percent in the mid-1980s and 47.5 percent in 1990. Similar trends are observable at poverty lines of US$1.25, US$2.00, and US$2.50 dollars a day.[2]

The 1990s

During the second part of the 1980s, the United States continued easing its monetary policy, particularly after the 1987 stock market crash. This expansionary monetary policy eventually led to the boom and bust associated with the housing market and the crisis of the U.S. system of mortgage banks in the late 1980s. The oil price spike associated with the first Gulf War also contributed to the downturn at the beginning of the 1990s.

The American recession, coupled with low real interest rates in industrialized countries, sent capital flowing back to developing countries, particularly in Asia, in the first half of the 1990s. U.S. monetary authorities initiated a period of tightening in the second half of the 1990s amid concerns about increasing inflationary pressures. Capital flows to developing countries stopped and reversed once interest rates and the value of the U.S. dollar began to increase in the second half of the 1990s. A second wave of developing-country debt crises erupted, first in Mexico in 1995, then in several countries of East Asia in 1997, Russia in 1998, Brazil in 1999, and Argentina in 2001.

The sudden emergence of financial crises and the subsequent disruption of the economies of many Asian and South American countries affected the poor. World Bank data show that in general, the percentage of poor people increased in Latin America and the Caribbean (from about 6 percent in 1993 to almost 7.4 percent in 1999, using US$1.00 a day as the poverty line) and stayed the same or declined very slowly in Asia and Sub-Saharan Africa during the second half of the 1990s.[3] These figures are regional aggregates, however, and only some (mostly middle-income) countries were affected by financial crises. In the countries affected, the financial crises had clear negative impacts on poverty: the median value of the percentage of poor people living on less than US$1.00 a day increased from 5.2 percent before the crisis to 7.3 percent afterward; the median value of the percentage of people living on less than US$2.00 a day jumped from 23 percent to almost 28 percent.[4]

The 2000s

In the late 1990s, the United States went through a new wave of overinvestment, particularly in technology-related industries, that eventually led to a slowdown in the early 2000s.

Several global developments, which began to emerge in the mid-1990s and hit with full force once the world slowdown of the early 2000s was over, began to impart an increasingly expansionary tilt to macroeconomic policies worldwide. The millions of workers incorporated into the global economy because of the policy changes in China and the end of the cold war put downward pressure on salaries and prices of manufactured goods, helping reduce inflationary trends. This situation, in turn, allowed central banks in industrialized countries to maintain more expansionary monetary policies than would otherwise have been possible. In the case of the United States, the easing of monetary conditions started with concerns about the impact of the year 2000 on computer networks and was reinforced after the "dot-com" collapse and the terrorist attacks of September 11, 2001. Until 2004, nominal rates were kept at very low levels not seen since the 1950s and were held low much longer than in the 1950s.[5] This exaggerated monetary policy eventually led to the economic acceleration that the United States and the world experienced in the 2000s until recently.

This expansionary monetary policy was reinforced by significant increases in private leverage (that is, the amount of credit and debt for a given level of income and capital) that were based on a perception of lower risk, fostered by three factors. First, since the mid-1990s the world had experienced relatively high levels of growth and low volatility, which some have dubbed the "Great Moderation." Second, technological innovations in credit instruments seemed to reduce risk (in the case of credit default swaps) or disperse it in a more manageable way (in the case of securitization and tranching of asset-backed instruments). And third, new institutional arrangements emerged, such as the parallel banking and financial structure (which some have called "the shadow banking system") that has engaged in short-term borrowing and long-term lending, using securitized financial vehicles on both ends.[6]

As a consequence of the decline in the *individual* perception of risk by economic agents, the *system* as a whole took on much more risk than previously understood. Increases in leverage led to two bubbles in the 2000s: in housing and the stock market (the latter of which was a somewhat milder repeat of the late 1990s stock market bubble).

Monetary policies were also expansionary in developing countries. China maintained a semi-fixed exchange rate regime with the U.S. dollar, which generated current account surpluses and an accumulation of reserves, expanding its own domestic money supply and accelerating growth. The Chinese reserves were invested in dollar-denominated instruments, mostly U.S. public bonds, contributing to the reduction of long-term interest rates. Similar mechanisms operated in Asian and Latin American countries: to avoid the disruptions caused by the financial crises of the 1990s, they accumulated reserves in their central banks, expanding their money supply, and invested those reserves outside their countries, in most cases in dollar-denominated assets, also putting downward pressure on global interest rates. Oil producers (and to a lesser extent other commodity producers), benefiting from the increase in the prices of their products, also accumulated reserves, with similar internal and external monetary consequences.

Developing and emerging countries became net exporters of capital, which, along with traditional surpluses from Japan, went mostly to the United States. The U.S. current account, which had briefly gone back into equilibrium during the recession of the early 1990s, began showing steadily increasing deficits starting in the mid-1990s, until it reached a record of more than 6 percent of U.S. GDP. The continuous expansion of the U.S. trade deficit (reflected in the widening current account deficit) and low interest rates supported global growth. This growth, in turn, began to push up nominal and real prices of several commodities, particularly metals and energy. The devaluation of the U.S. dollar beginning in the early 2000s also added pressure to the prices of commodities.

These capital flows contributed to keeping longer-term interest rates low, and at the same time the U.S. Federal Reserve maintained a policy of very low short-term rates for too long. These factors created the conditions necessary for the rise of the housing bubble and its subsequent breakdown when monetary policy had to be tightened because of inflationary pressures. The accommodative U.S. monetary policy began to be reversed by mid-2004, putting in motion the events that led to the housing and related credit crises of 2007 in several industrialized countries: the housing market peaked in early 2006 and then started to decline sharply, while the stock market peaked in late 2007 and then turned down.

Clear signs of financial distress in mid-2007 led the U.S. Federal Reserve to adopt a strong change in monetary policy toward a more expansionary stance. The large increases in commodity prices in the second half of 2007 and early 2008 appear to have been influenced by this monetary easing. The shift in monetary policy had led to fears of inflation and a decline in the U.S. dollar, prompting investors to turn to commodities as hedges against inflation in a context in which alternative investments in stocks and other assets did not show good returns. Changes in the trade policies of several key countries also contributed to the run-up in prices. Still most real prices of agricultural goods, as mentioned, stayed below their 1970s levels.

By mid-2008 the initially localized financial stress was evolving into a full-blown financial crisis. The new instruments that were supposed to disperse risk made it difficult to assess where the bad credit was. Economic agents fled to the most liquid assets (cash, guaranteed deposits, and short-term U.S. Treasury bills), forcing the liquidation of other assets. The capital reserves held by the banking system shrank in value because of mark-to-market requirements, enforced by legislative changes approved after a scandal involving Enron, and banks therefore reduced their lending. The unraveling of both bubbles and the tangled and opaque network of financial instruments created around them placed the banking system under stress, generating a run on investment banks and the shadow banking system. A credit crunch ensued. As of this writing, this drama is still unfolding in the form of a global recession that threatens to be the worst in more than half a century.

The implications of these macroeconomic developments for poverty have been very different depending on the phase of the cycle. After the world recovered from the deceleration of the early 2000s, strong growth, falling inflation, and lower volatility translated into declines in poverty (as a percentage of the population) in all developing regions. In fact, World Bank data for 2005 show the lowest levels of poverty for all developing regions (measured as a headcount percentage at US$1.00, US$1.25, US$2.00, or US$2.50 a day) since comparable numbers have been compiled starting in the early 1980s. Even the absolute number of poor (measured at US$1.00 a day) declined for all regions from the levels of the late 1990s.[7]

These positive trends were interrupted, however, first by the increase in fuel and food prices of late 2007 and early 2008. In *Global Economic Prospects 2009,* the World Bank estimates that these price spikes may have thrown between 130 and 155 million people into poverty. The economic decline in 2009 is also expected to increase poverty in many developing countries, with estimates that at least an additional 46 million poor people will fall under the dollar-a-day poverty line, compared with the period previous to the crisis (and the number will be even greater if higher poverty lines are used).

Macroeconomic Policies for Poverty Reduction

As discussed, growth cycles and volatility in developing countries since the 1960s have been greatly influenced by policies in industrialized countries that determine global macroeconomic conditions, such as interest rates, capital flows, and commodity prices. Economic downturns in the developed countries have been associated with recessions, economic crises, and poverty increases in many developing countries, and the current global crisis threatens to be the most damaging in many decades. Analyzing poverty trends in developing countries without considering the state of the world business cycle overlooks one of the main determinants of the economic conditions that affect poverty outcomes. Cross-section or panel regressions that arbitrarily average variables over 3 to 5 years without properly considering the turning point of the business cycle will likely cause analysts to draw erroneous, or at least imprecise, implications about the impact of structural and policy variables on poverty.

Now the world faces a key global policy issue: what international arrangements or institutions can coordinate a cooperative solution to the current economic problems and potentially prevent the kinds of imbalances and excesses that caused the current crisis? Discussions within the International Monetary Fund (IMF) have focused on the possibility of strengthening economic policy surveillance in a way that encourages cooperation. Yet the IMF currently does not have the instruments or the governance system necessary to design and implement such an outcome. More recently the Group of Twenty (G-20), which originally included the participation of finance ministers and central bank governors and has evolved into a political body involving presidents, has been trying to articulate a global collective response to the current crisis. The measures discussed in the enhanced G-20 include, among other things, fiscal and monetary policies to restart the economies of the industrialized countries currently in recession, reform and better regulation of the banking and financial systems, and increased financing for world trade and for developing countries through strengthened international financial institutions, including the IMF, the World Bank, and regional banks.

These measures, however, do not address the global imbalances previously discussed, which are linked in part to the U.S. dollar as the main global currency for trade and investment and to the U.S. consumer as the buyer of last resort. A more profound restructuring of global financial and macroeconomic institutions is being discussed, including the replacement of the U.S. dollar with a more truly universal currency based on, and likely going beyond, the special drawings rights issued by the IMF.[8] A proper resolution of these issues, which will likely occupy politicians and economists in the next decade, is crucial for global macroeconomic developments and poverty trends.

Whatever happens at the global level, these macroeconomic uncertainties and challenges raise the question of what developing countries should do internally to try to smooth the business cycle, avoid economic crises, and thus reduce poverty and hunger. To that end, developing countries should (1) strengthen the fiscal positions of their public sectors, reducing public-sector debt ratios, using additional resources from high commodity prices countercyclically, and creating fiscal space to establish safety nets for the poor and vulnerable; (2) avoid rigid and appreciated real exchange rates that may lead to trade imbalances and excessive accumulation of external debt; and (3) maintain a reasonable level of reserves in central banks as a precaution against possible global turbulence that could lead to declines in growth and commodity prices, possibly stopping capital flows to developing countries. In general, many developing countries seem to have been following these policies more closely than in the cycles that ended in debt crises in the 1980s and 1990s.

Even if this downturn is properly managed, however, developing countries face more difficult challenges for economic development and poverty alleviation in the medium to long term. In the most likely medium-term scenario, the industrialized economies, and particularly the United States, will resume growth sometime in late 2009 or, more likely, 2010. But this growth will be at a lower rate than it was in the mid-1990s and mid-2000s, leading to an overall lower rate of world growth, at least during the first half of the next decade. There are several reasons for this scenario. First, governments will need to make fiscal adjustments after the increases in public expenditures and debt undertaken to support the financial sector and the economy. Also, they will have to reverse the expansionary monetary policies followed so far. Second, consumers, especially in the United States, who increased their debt ratios during the 1990s and 2000s, will have to save and reduce those ratios to more manageable levels. Third, the financial sector emerging from this crisis will be more regulated, use less leverage, and, it is hoped, be more prudent in its financial practices. All in all, expenditure adjustments in the public and household sectors in the United States, along with less abundant credit, will lead to lower U.S. trade deficits. The world will thus not have the consumption engine that propelled growth during the past two decades (U.S. consumption is about 32 percent of world consumption, whereas total consumption in developing countries, including China and India, is only about 20 percent).

A second medium-term scenario is also possible if countries repeat their behavior of the second half of the 1970s. The industrialized countries countered the 1974 oil shock with expansionary macroeconomic policies that led to further inflationary pressures in the late 1970s and a complete policy reversal in the 1980s, forcing a deep recession. Now, if the current expansionary fiscal and monetary policies in the United States and other industrialized countries are not promptly adjusted once the worst of the current economic crisis is over, a scenario could materialize in which inflation would move sharply higher in three to four years, forcing a drastic monetary contraction.

In the first scenario, progress in reducing poverty will be slower, and in the second, poverty levels will actually increase.

In the longer term, the main challenges appear to be linked to the interaction of energy, agriculture, the resource base, climate change, and the environment.[9] Even without accelerated growth, potential imbalances loom in world energy markets in the coming years, and the implications of energy consumption for climate change may carry significant and troubling consequences for many developing countries in the longer term. The complex issues linking energy use, economic development, poverty alleviation, and climate change are also affected by a market coordination failure of global proportions, which—like the shorter-term macroeconomic imbalances—lacks a widely accepted and truly operational international mechanism for resolution.

The welfare of the whole world, and the fate of the poor, will depend on how industrialized and developing countries resolve those two big coordination problems: first, macroeconomic imbalances in the shorter term, and second, market and institutional failures associated with energy and climate issues, which over time will become ever more relevant for poverty trends in developing countries. Building a world economy that is macroeconomically stable, based on sustainable energy, and capable of ensuring the benefits of progress for everyone requires that humankind properly address those two crucial issues of global governance.

Notes

1. S. Chen and M. Ravallion, The developing world is poorer than we thought, but no less successful in the fight against poverty, World Bank Policy Research Working Paper 4703, Development Research Group, World Bank, Washington, DC, 2008, <http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/08/26/000158349_20080826113239/Rendered/PDF/WPS4703.pdf>.

2. Ibid.

3. Ibid.

4. E. Díaz-Bonilla, *Global macroeconomic developments and poverty,* IFPRI Discussion Paper 00766, International Food Policy Research Institute, Washington, DC, 2008, <http://www.ifpri.org/pubs/dp/ifpridp00766.pdf>.

5. The effective federal funds rate was about 1.4 percent (nominal) for the period from December 2001 to December 2004, similar to the nominal rates from mid-1954 to the second half of 1955 and again during part of 1958. In the 2000s, however, rates were kept low for about three years, whereas in 1954–55 they were kept low for only about 15 months and in 1958 for just 10 months.

6. The core banking system has promoted this parallel institutional structure as a way of avoiding strict capital conditions and regulations, using the argument that by using instruments

from capital markets (instead of simply taking shorter-term deposits to make longer-term loans), they could more efficiently allocate risk. These operations were supposed to remain off the banking sector balance sheet, and they used securitized financial instruments (some of which were based on housing mortgages) instead of deposits and loans. That parallel system amplified the availability of liquidity, which was already ample because of Federal Reserve policies, providing further support to U.S. and global growth.

7. Chen and Ravallion.

8. See, for instance, United Nations, *Report of the UN Commission of Experts on Reforms of the International Monetary and Financial System, chaired by Joseph Stiglitz,* United Nations, New York, 2009, <http://www.un.org/ga/president/63/letters/recommendationExperts200309.pdf>.

9. See Díaz-Bonilla.

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Chapter 10

Poverty and the Globalization of the Food and Agriculture System

Joachim von Braun and Tewodaj Mengistu

Supporters of globalization argue that the process offers opportunities for poor people in developing countries to improve their livelihoods and grow out of poverty, whereas skeptics claim that globalization poses new risks to the well-being of poor people. The globalization of the food and agriculture system is at the center of this debate, because so many of the poor depend on agriculture as an income source and because the poor spend a large share of their resources on food. Assessments of the relationship between globalization and poverty vary dramatically, ranging from catastrophic to rosy, owing to the different scales at which assessments were made, different temporal perspectives, and different views on how well markets and other institutions (such as democracy, transparency, and participation) function for poor people.

In fact, however, as globalization occurs, poverty may or may not decline, and the two phenomena may or may not be linked. After all, many other changes have occurred simultaneous with globalization, such as improved governance in some countries, the start of new conflicts and wars and the end of old ones, the broadening of civil societies' reach and level of organization, improved infrastructure, and the transformation of domestic retail markets, and these changes may also affect poverty.

This chapter draws on J. von Braun and E. Díaz-Bonilla, *Globalization of agriculture and food: Causes, consequences, and policy implications* (New Delhi: Oxford University Press, 2008).

The Globalization of the Agrifood System

The globalization of the agrifood system can be broadly defined as the integration of the production and processing of agriculture and food items across national borders through markets, standardizations, regulations, and technologies. The globalization of the agrifood system increases when

- internationally traded foods increase as a proportion of production;
- traded agricultural inputs and transborder investments expand across countries;
- the science, knowledge, and information contents of the agrifood system cross borders;
- standardization and related regulatory institutions—corporate organizations such as multinational companies or public organizations such as the World Trade Organization—increasingly reach across borders;
- consumers' tastes and the firms and structures attending to them show growing similarities across countries and regions; and
- the health and environmental externalities of agrifood systems have transnational or global impacts.

Given the diversity of the processes involved, the globalization of the agrifood system is not easily quantifiable and cannot be aggregated into one index number. Moreover, these processes do not always occur concurrently or even lead in the same direction, making them even more difficult to quantify.

Poverty Trends during Globalization

In discussing the effects of globalization on poverty and food security, it is important to keep sight of the reality of poverty that lies behind the statistics: it is a problem that affects people of different ages, genders, and ethnic origins in different regions and in both city slums and rural areas. Furthermore, poverty is not a static phenomenon. Populations affected by poverty are in a state of flux in many countries. One portion of the population may free itself from poverty, while others are newly affected or threatened by it.

Nevertheless, a first step in understanding the effects of globalization on the poor is to look at the trends for poverty since the 1980s, the period during which globalization has accelerated. A mixed picture emerges when different sources of data and concepts are used. Indeed, in the aggregate for all developing countries, the number of people living on less than two dollars a day actually increased by about 164 million people from 1981 to 2002. The number of people living on less than a dollar a day, however, fell by approximately 467 million people during the same period.[1] These aggregate numbers also mask large regional and cross-country disparities; although the number of poor people in East Asia and the Pacific and in South Asia has declined substantially, it has increased in Sub-Saharan Africa and in Europe and Central Asia. Furthermore, China has seen large decreases in the number of poor.

Effects of the Globalization of the Agrifood System on the Poor

In general, poverty is influenced by globalization but is seldom caused mainly by it. The extent and distribution of world poverty stem from a lack of access to resources and opportunities. Also, dependencies, corruption, and other governance failures, along with poor people's lack of rights in the face of traditional local power structures, as well as the lack of education and health care, are all key factors explaining poverty and hunger. But an analysis of the links between globalization and poverty must take into account the dynamics and volatility of globalization processes. Given that the majority of the poor live in rural areas and depend on labor or earn their living as small farmers, the effects of globalization on employment and small-farm competitiveness are central to determining the impact of globalization on poverty.

One risk of globalization for poor people lies in the increased volatility of market and nonmarket institutions and the potentially reduced public and private security for individuals and groups affected by crises and unforeseen events. Although these risks are real, they must be compared with the risks in nonmarket situations, such as the substantial risks poor people face in traditional subsistence agriculture, where bad weather or crop pests pose livelihood-threatening risks, or the risks of closed economies with heavy state involvement in markets, which may result in forgone growth opportunities.

Although the phrase *globalization of the agrifood system* describes a general tendency toward integrated markets, it includes various processes that may or may not go in the same direction. Therefore, to evaluate the effects of the globalization of the agrifood system on the poor, it is necessary to trace the poverty effects of different components of the globalization process. The four major components considered here are (1) market integration through trade liberalization, (2) increased investment through capital flows (foreign direct investment), (3) increased access to information and innovation across borders, and (4) the adoption of global social policies. The latter is also part of globalism but is often overlooked in the globalization debates.

Agricultural Trade Liberalization

Cross-country estimates of the effects of agricultural trade liberalization on the poor are highly varied. One reason for the divergent results is that the studies use different experiments and data, along with models that have different behavioral parameters and theoretical features. Additionally, because these types of studies use national estimates, they mask the heterogeneity of the impact of trade liberalization on different types of households. In general, the evidence shows that trade liberalization in agriculture will allow many developing countries to exploit their comparative advantages and to actively participate in world trade. And, despite some of the divergent findings, the overall result is that the majority of poor households will gain from trade reform, although some will lose. But the evidence also shows that the effect of trade openness on poor households' income is not large and that results vary across countries and household types. This finding suggests that in addition to taking a global view, researchers should adopt a case-specific approach when considering trade liberalization.

Globalization of Investment and Capital Flows

A central feature of globalization is the expansion of transborder capital investments in the form of foreign direct investment (FDI). FDI could affect poverty levels through four channels: employment, human capital formation, knowledge spillovers, and increased government revenue. If FDI were to flow into labor-intensive sectors, it would generate employment for unskilled workers, which would increase their incomes and thus reduce poverty. If FDI were capital intensive or knowledge intensive, however, it might favor skilled labor over unskilled labor, which might translate into increased poverty or at least increased inequality. In the medium to long run, FDI inflows might induce growth in the economy through backward and forward linkages (that is, they might "crowd in" new investments) and through knowledge spillovers. Furthermore, increased FDI could translate into government revenue as the foreign firms pay corporate taxes. In the long run, if FDI were to crowd in new investments, it would lead to an increase in the tax base. The additional revenue could then be used to make pro-poor public investments (in, for instance, infrastructure and provision of public services), which would translate into poverty reduction.

The location and sectoral patterns of FDI also play a role in determining pro-poor outcomes. Does FDI go mainly to special zones or urban areas, for example? Is it directed toward food and agriculture and related processing industries? Although FDI in agriculture and food has been rather limited, FDI concentration in urban areas fosters rural–urban migration, which in turn can indirectly affect the rural poor through, for instance, an increase in the receipt of remittances. Moreover, if

FDI leads to rapid expansion of food retail industries and if market innovations reach small and poor farmers, it can have a significant wage rate effect for the rural poor, but this outcome is context specific.

The little empirical evidence that exists on the direct effects of FDI on poverty levels shows that rates of remuneration for well-trained workers are rising, but the effects of allocating FDI to low-wage locations remain inconclusive for salaries and employment levels. The consequences of globalization for poor people's employment opportunities depend on labor productivity, policies (including education policies), and legal arrangements. Policymakers can and actually do facilitate pro-poor FDI by making institutional arrangements that foster private-sector growth and by improving human capital (such as health and education) to attract FDI that offers poor people more employment opportunities and improved wages.

Globalization of Information and Innovation

Another central aspect of globalization is the rapid expansion of global information flows, springing from increased access to information and communication technologies (ICTs). Information flows relevant to poor people's productivity and well-being are important determinants of their decisions and livelihood choices. It is important for developing countries to have information systems that deliver knowledge on adaptable innovations and research findings to their national agricultural research systems and that can contribute to the formation of markets and prices.

Access to ICTs in rural areas can be a source of significant welfare gains for poor people. For instance, a study comparing welfare gains from the use of telephone calls compared with alternative means of communication (such as mail) in Bangladesh and Peru found estimated gains on the order of US$0.11 and US$1.62, respectively.

Nevertheless, ICTs are not automatically pro-poor. For the potential poverty reduction benefits of ICTs to be realized, many prerequisites need to be put in place: deregulation, effective competition among service providers, free movement and adoption of technologies, targeted and competitive subsidies to reduce the access gap, and institutional arrangements to increase the use of ICTs in the provision of public goods. Therefore, on top of investing in telecommunications infrastructure, governments should establish appropriate regulations extending ICTs into rural areas.

Global Social Policies

One problem for hungry people is time. They cannot wait for long-term solutions, such as the economic progress that globalization offers. Overcoming poverty through economic growth alone would require decades, even with a high growth rate. To bridge the time issue and to cope with emergencies, social policy is called for.

The world does not have anything that could be called a global social policy, but elements of globalization of social policy are found in the promising but slow efforts to establish social and economic rights, such as the human right to food, at a global level. Another element is global emergency aid and its coordination mechanisms, as well as the more ad hoc but coordinated responses to disasters. Moreover, initiatives against exploitative child labor policies, such as a recent initiative on child labor in agriculture, are also relevant here. One study shows that by far the largest proportion of child labor in the poorest countries in Africa is found in economic areas that have been the least touched by globalization, such as agricultural subsistence production and domestic service. Global health policy initiatives, such as the program Disease Control Priorities in Developing Countries and the Global Fund to Fight AIDS, TB, and Malaria, are also significant innovations with the aim of fighting disease at a global scale.

More relevant than top-down global social policy is the influence of globalization in the spread of national social policy innovations across countries. The spread of Mexico's former Programa de Educación, Salud, y Alimentación (PROGRESA, now Oportunidades), with its focus on building human capital in poor households through conditional cash transfers, is an important example. Other countries have adapted this program for their own use.

In sum, considerable innovations in social policy have sprung up over the past two decades along with economic globalization and have made contributions to balance risks for the poor; in recent years these policies have started to reach into rural areas. Although they may have helped to reduce the relative proportions of poor and hungry, they did not substantially reduce the absolute numbers of these population groups in many countries.

Conclusions

Poverty and hunger have not decreased to an extent that could be considered satisfactory given the increased resources generated by the growth effects of globalization. Globalization offers opportunities for growth, but that growth alone is not a guarantee that poverty reduction will occur. And hunger—a central aspect of absolute poverty—has been reduced very little at best during the recent decades of globalization.

Still, globalization offers opportunities for poor people by giving them direct or indirect access to previously unavailable markets, capital, and the resulting employment, knowledge, and social protection and transfers. Yet national policy in response to the opportunities and risks of globalization has been of mixed effectiveness. Many countries have not shown a capacity to transform globalization opportunities into poverty reduction. To improve their chances of exploiting the opportunities of globalization for poor people, developing countries should be working toward improving their terms of trade, overcoming domestic institutional constraints, improving their governance, and valuing the growth opportunities in rural areas by investing in infrastructure, rural education, and agricultural innovation.

There is no global consensus on how to take advantage of the increased economic opportunities that globalization offers in order to achieve the goal of reduced poverty and hunger. Such a consensus cannot be obtained from a top-down process. It must be pursued through broad and often conflict-laden discourses that increasingly include the political influence of poor and food-insecure people themselves.

Note

1. The numbers of people living on two dollars a day and a dollar a day are measured using poverty lines defined, respectively, at US$2.15 and US$1.08 at 1993 purchasing power parity.

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Chapter 11

Economic Growth and Poverty Reduction: Do Poor Countries Need to Worry about Inequality?

Martin Ravallion

There is a seemingly widespread view that inequality should not be a concern in countries striving to fight absolute poverty. Although inequality may well be high or rising in some developing countries, this increase is seen as the unavoidable by-product of the economic growth needed to reduce poverty. The message for policy is that poor countries—including their poor—need not worry too much about inequality.

Does the evidence from countries' experience support this view? This chapter first looks at the relationship between economic growth on the one hand and poverty and inequality on the other. It then examines how inequality influences the relationship between growth and poverty and distinguishes between different types of inequality. Finally, some thoughts are offered on appropriate policies.

Growth Is Not Necessarily Inequitable in Poor Countries

The classic argument for believing that inequality will rise, more or less inevitably, as poor economies grow is the Kuznets hypothesis (KH), based on pioneering

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This chapter draws in part on M. Ravallion, Inequality is bad for the poor, in *Inequality and poverty re-examined,* ed. J. Micklewright and S. Jenkins (Oxford: Oxford University Press, 2007). Parts of the discussion draw on S. Chaudhuri and M. Ravallion, Partially awakened giants: Uneven growth in China and India, in *Dancing with giants: China, India, and the global economy,* ed. L. A. Winters and S. Yusuf (Washington, DC: World Bank, 2007).

research by Simon Kuznets in the 1950s. This hypothesis states that inequality increases during the early stages of growth in a developing country but begins to fall after some point.

Writing in the 1950s, Kuznets had very little survey data for developing countries to draw on. Since then, there has been a huge expansion in the collection of nationally representative household surveys for developing countries. The resulting data suggest that most growing developing countries have not seen the trend increase in inequality predicted by the KH. Indeed, very few developing economies have seen a trend increase (or decrease) in overall inequality. Granted, many countries have experienced periods of rising inequality, but they have generally been followed by periods of falling inequality and have only rarely been sustained. (Box 11.1 examines one exception—China—although even there the reality is more complicated than implied by the KH.)

To reexamine the relationship between growth and changes in inequality, this chapter relies on 290 observations of the change between two successive household surveys for a given country, with more than one observation for most countries (data are drawn from the World Bank's PovcalNet and *World Development Indicators*). About 80 countries are represented, spanning the period from about 1980 to the early 2000s.

Taking this period as a whole, there is little or no correlation between changes in inequality and rates of economic growth. Comparing the changes in a measure of inequality, the Gini index, with changes in average real income shows that among growing economies, inequality rose about as often as it fell. That was also true of contracting economies.

If one focuses solely on the period since the early 1990s, there are signs that a positive correlation is emerging between rising inequality and economic growth. It appears that the recent growth processes seen in many reforming economies have put upward pressure on inequality. There are exceptions, however, in that growth since the early 1990s has accompanied falling inequality in some countries. Nor is the overall positive correlation in the data after 1990 robust to corrections for measurement errors. As a generalization across country experiences, it still appears that growth tends to be roughly distribution-neutral on average.

One should be cautious about the policy interpretation of this finding. The lack of a robust correlation between changes in inequality and growth does not imply that policymakers aiming to fight poverty in any given country can safely focus on growth alone. Putting measurement problems to one side, this empirical finding merely reveals that, on average, there was little effective redistribution in favor of the poor. It does not say that redistribution rarely happens, that distribution is unimportant to the outcomes for poor people from economic growth, or that social protection policies are unnecessary.

Box 11.1 China: Concerns about rising inequality

China is often cited as an example of an aggregate growth-equity trade-off. Probably no other country has had the steep rise in both mean income *and* income inequality that China has seen since the early 1980s. The evidence shows, however, that periods of more rapid growth did not bring more rapid increases in inequality. Indeed, the periods of falling inequality (1981–85 and 1995–98) had the highest growth in average household income. And the provinces that started the reform period with relatively high levels of inequality had both lower levels of subsequent growth *and* less sharing by the poor in the gains from that growth.

Although some of the policy reforms and institutional changes in China's economic transition simultaneously increased inequality and reduced poverty (such as allowing greater returns to schooling by opening labor markets and restoring incentives to work by introducing the Household Responsibility System), other economic and political forces have been at work to generate less benign inequalities. These forces have included geographic poverty traps (whereby prospects of escaping poverty depend causally on where one lives) and emerging inequalities in opportunities for enhancing human capital, obtaining credit and insurance, protecting one's rights under the law, and influencing public affairs. These "bad inequalities"—rooted in market failures, coordination failures, and governance failures—limit people's opportunities to take action that will help them escape poverty.

It will be harder for China to maintain its past rate of progress against poverty without addressing the problem of rising inequality. If recent history is any guide to the future, the historically high levels of inequality found in many provinces today are likely to inhibit future prospects of poverty reduction. Other factors point to the same conclusion. It appears that aggregate economic growth in China is increasingly coming from sources that bring more limited gains to the poorest. The "low-lying fruit" of efficiency-enhancing pro-poor reforms may be becoming scarce. Inequality is continuing to rise, and poverty measures are becoming more responsive to rising inequality.

At the outset of China's current period of transition to a market economy, levels of poverty were so high that inequality was not an important concern. That situation has changed.

Growth Tends to Be Less Pro-Poor in Poor and Unequal Countries

Given that growth tends to be distribution-neutral on average, it is not surprising that many empirical studies have found that measures of absolute poverty tend to fall with growth. The same rate of growth, however, can bring very different rates of poverty reduction. In trying to understand why this is so, it should first be noted that the rate of poverty reduction is the growth rate times the growth elasticity of poverty reduction, or the "growth elasticity" (GE) for short—that is, the proportionate change in the measure of poverty that results from a given rate. A large negative GE reveals that even a modest growth rate can bring rapid poverty reduction. For the dollar-a-day poverty rate, the average GE is about –2, meaning that a growth rate of, say, 5 percent in mean household income per capita will reduce the share of the population living below the poverty line by 10 percent a year (in proportionate terms).[1]

High initial inequality makes poverty less responsive to growth. This is intuitive; given that growth tends to be distribution-neutral on average, the higher the initial inequality, the less the poor will share in the gains from growth. Unless there is sufficient change in distribution, people who have a larger initial share of the pie will tend to gain a larger share in the pie's expansion.

Indeed, among the countries with the highest levels of inequality, poverty incidence tends to be quite unresponsive to economic growth. Consider a country with a 2 percent rate of growth and a headcount poverty rate of 40 percent. In a low-inequality country with a Gini index of 0.30, the poverty rate will fall by about 6 percent a year and be halved in 11 years, on average. By contrast, in a high-inequality country with a Gini index of 0.60, growing at the same rate and with the same initial poverty rate, it will take about 35 years to halve the poverty rate. Because poverty responds more slowly to growth in high-inequality countries, these countries need unusually high growth rates to achieve rapid poverty reduction.

Poverty incidence also tends to be less responsive to growth in poor countries. The combined effect of high poverty *and* high inequality greatly attenuates the growth elasticity of poverty reduction. Recall that the average GE for developing countries is about –2. Among those countries with both high inequality (a Gini index over, say, 0.45) *and* high poverty (a dollar-a-day headcount index over, say, 25 percent), the median elasticity falls to about –1, implying that twice the rate of growth will be needed to achieve the same rate of poverty reduction. Contrast this finding with data for the set of developing countries fortunate to have both low inequality (a Gini index less than 0.35) and low poverty (a headcount index less than 10 percent). For this group the median elasticity is an impressive –3.4, and even modest growth can result in quite rapid poverty reduction.

How Inequality Changes over Time Also Matters

The empirical finding that growth is roughly distribution-neutral on average is consistent with the fact that during growth spells, inequality increases in roughly half the cases. Whether inequality increases or not can make a big difference to the rate of poverty reduction. Among growing economies, the median rate of decline in the dollar-a-day headcount index is only about 1 percent a year for those countries for which growth came with rising inequality. By contrast, poverty declines about 10 percent a year among countries that combine growth with falling inequality. Either way, poverty tends to fall but at very different rates.

Consider the growth process in Brazil (a high-inequality country) in the 1980s. If Brazil's growth had been distribution-neutral, it would have experienced a 4.5 percentage point decline in the headcount index of poverty. In fact, there was no change over the decade; distributional shifts working against the poor exactly offset the gains from growth. Conversely, even when initial inequality is high and the initial share held by the poor is low, their gains from growth can be sizable if that growth is accompanied by sufficient pro-poor redistribution. Falling inequality in Brazil beginning in the mid-1990s allowed a faster rate of poverty reduction than the level implied by growth alone.

What factors underlie the changes in distribution as they affect poverty? A great many country-specific factors are involved, including shocks to agricultural incomes, changes in the trade regime, shifts in relative prices, tax reforms, welfare policy reforms, and demographic changes. Generalizations across countries' experiences are never easy, but one factor that is likely to matter in many developing countries is the geographic and sectoral pattern of growth. The greater availability of nationally representative household surveys has revealed marked and persistent concentrations of poor people in specific regions and sectors, even in countries with high rates of growth. The extent to which growth favors the rural sector is often key to its impact on poverty, given that three-fourths of the poor in the developing world live in rural areas. The importance of agricultural growth to poverty reduction has been particularly striking in China, where relatively equitable access to agricultural land in rural areas has meant that poverty is very responsive to agricultural growth. Growth in aggregate farm output has had about four times greater impact on aggregate poverty in China than has growth in the manufacturing or services sectors. In other countries, however, including Brazil and India, the services sector has proved an important source of poverty-reducing growth.

There Are Both Good and Bad Inequalities

High initial inequality can also impede future growth and hence poverty reduction. Credit and risk market failures are one way this can happen. The credit-constrained poor tend to have high marginal products from investment given their low initial capital endowments, but they are unable to exploit opportunities for investment. High inequality can also foster social conflict and macroeconomic instability and impede efficiency-promoting reforms that require cooperation and trust. High inequality is thus a double blow to prospects for reducing poverty: it entails less growth, and it means that the growth is less pro-poor.

However, it is not particularly useful to talk about inequality as a homogenous concept in this context. To contribute to policy, one needs to focus on the specific dimensions of inequality that create or preserve unequal opportunities for participating in the gains from economic growth. There are both good and bad inequalities.

Good inequalities are those that reflect and reinforce the market-based incentives that are needed to foster innovation, entrepreneurship, and growth. For example, a control regime may keep inequality low by compressing the labor-market returns to schooling or the returns to other forms of investment. Reforms in such a regime can increase inequality in a way that facilitates more rapid poverty reduction by allowing poor people to take up new economic opportunities.

Bad inequalities, however, not only generate higher poverty now but also impede future growth and poverty reduction. Social exclusion, discrimination, restrictions on migration, constraints on human development, lack of access to finance and insurance, corruption, and uneven influence over public actions are all sources of inequality that limit the prospects for economic advancement among certain segments of the population, thereby perpetuating poverty in the future.

Recent research has pointed to the importance of certain geographic inequalities. Living in a well-endowed area will sometimes mean that a poor household can eventually escape poverty, whereas an otherwise identical household living in a poor area experiences stagnation or even absolute decline. Such geographic poverty traps are one reason that some poor areas have often seen lower than average growth and hence stay poor.

Bad inequality also stems from disparities in human resource development. By increasing the returns to schooling, freeing up labor markets increases the incentives for work and skill acquisition. However, people with relatively little schooling, few assets, or little access to credit are less able to respond to these incentives. The disadvantages they face in these other areas mean that they are less well positioned to take advantage of the opportunities unleashed by market-oriented reforms.

For example, although India has relatively low overall inequality of consumption, it has high inequality in human resource development and access to markets. These inequalities have interacted powerfully with the sectoral and geographic pattern of economic growth to influence India's progress against poverty, which has been disappointing in recent times, particularly given the country's relatively high aggregate growth rates.

Policies Need to Reduce Bad Inequalities While Promoting Growth

Accepting that poverty reduction is the overall goal, policies that reduce inequality at the cost of lower long-term living standards for poor people should clearly be avoided. Reducing inequality by adding further distortions to an economy will have ambiguous effects on growth and poverty reduction. It should not be presumed, however, that all redistributive policies will result in such a trade-off. The potential for win–win policies stems from the fact that there are bad inequalities, which come at a cost to overall growth *and* entail that the poor share less in the opportunities unleashed by growth.

More rapid poverty reduction requires more growth, a more pro-poor pattern of growth, and success in reducing the antecedent inequalities that limit poor people's economic opportunities. What types of policies are needed? Some examples of the types of policies that can promote poverty reduction by reducing the bad inequalities are as follows:

- *Increase agricultural productivity.* Higher agricultural productivity promotes growth in other sectors, including services, and higher farm productivity can be expected to reduce overall inequality and poverty within a typical developing economy (where food producers tend to be poor and poor consumers have large budget shares devoted to food). Achieving greater farm yields in rain-fed, drought-prone settings will require both more research on appropriate farm technologies (including technologies appropriate to labor-abundant settings) and policy reforms and public investments to help ensure successful adoption of those technologies.

- *Address geographic poverty traps.* Spatial concentrations of extreme poverty remain, even in the more rapidly growing developing economies. A recurrent issue is the need to strike the right balance between investing in poor areas and reducing the cost of out-migration from those areas. Does it make more sense to move jobs to people or people to jobs? There is fertile ground here for future research. The right sorts of investments in poor areas (such as in education and managing risks) are necessary for successful out-migration to begin. Rural infrastructure development can also play a decisive role. For example, research has revealed the importance of rural roads to achieving more pro-poor growth processes in poor lagging areas of rural China. Some research has also suggested important complementarities between human and physical infrastructure investments.

- *Make markets and governments work better for the poor.* Policies can also focus on correcting the underlying market and governmental failures that create high costs of inequality in such ways as restricting the accumulation of physical and human assets by poor people. A wide range of policies are potentially important, including policies encouraging sound public investments in rural infrastructure to support market development, better policies for delivering high-quality health and education services to poor people, and policies that allow key product and factor markets (for land, labor, and credit) to work better from the point of view of poor people. In rural economies, securing access to land through tenancy reform and titling programs will often be important. Creating better instruments for credit and insurance can also help, both in smoothing consumption and in underpinning otherwise risky growth-promoting strategies. Affirmative action policies can help open opportunities for the poor. Removing biases against the poor in taxation, spending, and regulatory policies (including policies on migration) can also play an important role in certain settings. Again taking an example from China, reducing the government's taxation of farmers through its underpriced foodgrain procurement quotas has been a powerful instrument against poverty. The right combination of interventions will naturally depend on country and regional circumstances.

The challenge for policy is to combine growth-promoting policies with the right policies to ensure that the poor can fully participate in the opportunities unleashed and so contribute to that growth. If a country gets the combination of policies right, both growth and poverty reduction will be rapid. If it gets the combination wrong, both will be stalled.

Note

1. US$1.00 is US$1.08 at 1993 purchasing power parity.

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Chapter 12

Economic Reform to Stimulate Growth and Reduce Poverty: The Latin American Experience

Alberto Valdés and William Foster

A few decades ago a dominant view in the developing world was that growth problems in developing countries could be best understood in terms of the international environment. Today no one seriously questions the influence of external conditions on growth. But most economists would also emphasize structural conditions within developing countries as key determinants of the large differences in the rates of per capita income growth among such countries. An examination of the economywide policy reforms that took place in Latin America and the Caribbean (LAC) during the 1980s and 1990s is particularly relevant to an understanding of these determinants. Though it is beyond the scope of this chapter to discuss economic growth theories and assess the successes and failures of the economic reforms in the region, the discussion will focus on some of the significant linkages among growth, policy, and poverty.

Overview of Latin American Economic Policy Reforms since the 1980s

Economic regimes in Latin America started to change during the 1980s. The results of previous import-substitution strategies bred disillusionment and a general acceptance of theoretical developments regarding the causes of inflation and macroeconomic disequilibrium. In most countries in the region, a macroeconomic framework designed for open economies began to replace the prevailing closed-economy approach. Governments introduced economywide reforms emphasizing macroeconomic stabilization, deregulation, unilateral trade liberalization, and privatization. Economists generally concur that the impetus for the reforms arose from concerns regarding economic strategies affecting all sectors, not any one sector in particular. Nonetheless, in several countries, certain import-competing subsectors did retain special status in economic policymaking.

Several countries introduced reforms amid major macroeconomic disequilibrium characterized by high rates of inflation and unsustainable fiscal and current account deficits. In many cases, the options for macroeconomic reform were quite limited; for decades, several LAC countries suffered from high rates of inflation and recurrent external crises (balance-of-payments problems, foreign debt crises). Such macroeconomic instability substantially reduced growth rates and worsened income distribution. The poor, who lacked the wherewithal to shield the value of their assets and also suffered from real wage declines, were particularly harmed. The two main causes of inflation were large fiscal deficits, frequently financed by printing more money, and the mistaken notion that economies could buy prosperity with a little more inflation.

Beyond dealing with the severe macroeconomic disequilibrium, the goal of many reformers in the mid-1980s and early 1990s was to create a better climate for productivity and private investment in all economic sectors, including one very important for many of the poor—agriculture. For the farm sector, the result would be an enhanced competitiveness of the tradable sectors in a new scenario in which agriculture would be substantially more integrated with the world economy.

Of course, the reforms most immediately affected the incentives facing producers through changes in the prices of tradable goods as the result of the liberalization of trade policy. In most Latin American countries, the major changes in trade policy were the partial or total removal of most quantitative restrictions on imports and exports, the elimination of export taxes, and a gradual reduction in the levels of import tariffs. These changes created incentives to move resources from import-competing goods toward the export-oriented and nontraded sectors. In most countries, importable goods were protected and exportable goods were taxed. A central goal of the reforms was to reduce the explicit and implicit anti-export bias that had existed previously—especially for agriculture, which had been burdened as a producer of wage goods and fiscal revenue and as a major employer of unskilled labor.

Perhaps more important for all sectors, but especially for agriculture, were the indirect effects on exchange rates and interest rates—two key prices to which the sector is particularly sensitive. By the mid-1990s, the exchange rate was recognized as the most important "price" affecting the import-competing and export-oriented economy. This relationship was not well understood at the time of the reforms, or at least it was not anticipated to be a future problem. Academicians expected that one result of trade liberalization and the reduction of the fiscal deficit would be a depreciation of the real exchange rate. What they did not anticipate was the significant appreciation of the currency associated with the opening of the capital account, the interest of foreign investors attracted to the promise of growing economies, or the significant increase in domestic real interest rates induced by macroeconomic conditions.

The depth and impact of the reform process within the LAC region has been quite diverse; it has also been the subject of various studies. But it is important to note the unilateral nature of trade liberalization in the region during the late 1980s, predating the Uruguay Round agreement of the World Trade Organization (WTO). Many LAC countries were members of the General Agreement on Tariffs and Trade, and those that were not joined the WTO at the time of the Uruguay Round negotiations. LAC emerged from the Uruguay Round without obligations to significantly reform trade policy.

Reforms—and often the lack of reforms—in the service sector also played a critical role in determining outcomes. It is important to note that deregulation and privatization had a major impact on the availability of more reliable and lower-cost services to the economy as a whole. And these reforms in the domestic sector also complemented trade-related reforms. Examples include the privatization and deregulation of port facilities in Argentina, Chile, Colombia, and Mexico. Chile also initiated reforms in telecommunications and in airline and shipping transport services that were soon adopted by most other countries. These apparently ancillary reforms were at the center of a new environment for trade-oriented producers and investors.

The Importance of Policy for Stimulating Poverty-Reducing Growth

A large body of recent economic literature focuses on the relationships between growth and poverty reduction. Dollar and Kraay's controversial study "Growth Is Good for the Poor" documented the empirical regularity of the link between growth and poverty using panel data from 92 countries over four decades and provoked wide debate by concluding that on average, the mean income of a country's poorest quintile rises and falls at the same rate as average national income. Moreover, the study found that other policy-related factors, such as public expenditures on health and education, and improvements in labor productivity in agriculture, had little marginal effect on the average income of the poorest.

The controversies sparked by these findings have raised questions regarding the role of inequality in determining the importance of growth for the poor and the impact of education on poverty. For example, simple pro-growth strategies to reduce poverty could increase the incomes of the poor but could more rapidly increase the incomes of the nonpoor, thereby exacerbating income disparities. Another study noted that although overall growth reduces the poverty rate, the degree to which the poor share in the growth varies widely across countries. It found that the ability of the poor to enjoy the benefits of growth is particularly sensitive to the initial conditions of a country's economy—especially to the degree of income inequality.

Additional research has found that improved educational outcomes should be a component of a "super pro-poor" strategy to both raise the incomes of the poor and lessen income disparities. This cross-country growth perspective is highly consistent with the literature on household survey analyses, in which broad consensus holds that education is important for raising the incomes of poor households. The analyses almost always show increasing returns to education, though the returns are, of course, influenced by education quality, parents' schooling, and other variables. Important for the rural poor, the returns to education also depend on where and how that education is applied. In Latin America, the returns to schooling are higher in urban areas than in rural areas and for nonfarm activities than for farm-related ones.

Despite the controversies surrounding the impact of growth on poverty and the importance of other variables such as education, there is no question regarding the direction of the impact of growth on poverty overall. Even in a scenario with a high level of income inequality (which is often the case in middle-income countries, of which Latin America has many), the average income of households in the poorest quintile would still increase, although at a lower rate than average national income. Where there is a lower level of inequality, the average income of the poorest would increase even more. Moreover, higher growth rates that lead to higher incomes across all households indirectly support government revenues and, in turn, allow for higher levels of spending on social programs. Hence, economic growth has a complementary role in sustaining social policies.

Research has indicated that policies affect average income growth, that average income growth affects poverty, and that income distribution affects the influence of growth on poverty. But it is not clear how policy affects income distribution and how income distribution affects growth. One difficult question is whether there is a conflict between policies that affect distributional measures and poverty in the short term and policies that foster growth and poverty alleviation in the long term. Of course, there may be policies that both reduce income disparities and spur economic growth, such as policies enabling poor households to accumulate assets, improving access to education, and undertaking measures such as safety nets to sustain households in the event of adverse income shocks. Evidence strongly indicates that sustained growth continues to be a necessary condition for reducing poverty. The lesson that emerges from the literature is that economic growth can be more pro-poor in some circumstances and less so in others and that less inequality is better than more. But by itself, growth is pro-poor. Several studies have shown that the patterns of growth matter because some industries depend more on unskilled labor than do others.

Policies that are biased against labor-intensive sectors work to the detriment of the poor. Although certain policies do contribute to growth and reduce income disparities—such as policies promoting education—other policies involve trade-offs. As documented in the growth literature generally and in studies on Latin America in particular, three broad policy-related concerns have immediate impacts on growth but not necessarily on income distribution: financial deepening, trade liberalization, and limitations on the size of government. Opening the financial system and the economy, reducing government interventions and spending (often forced by fiscal deficits), and stimulating growth could result in greater opportunities for those with more human and physical assets. Although the incomes of the poor could increase, the incomes of the skilled labor force and the returns on capital could increase much faster. Before treasuries can enjoy the longer-term benefits of economic growth, the very fiscal constraints that might have spurred reforms—coupled with institutional weaknesses—limit governments' ability to mitigate inequities via subsidies and transfers and as a result exacerbate income inequalities. Eventually, however, governments can afford to focus on equity concerns and public goods. Then the question becomes one of the effectiveness of public spending (see Box 12.1 for an overview of the composition of public expenditure in Latin America).

Box 12.1 The composition of public expenditures in Latin America

Many studies on rural development present a rich agenda for policy initiatives. The question of how to pay for the proposed strategies, however, is seldom addressed satisfactorily. This deficiency raises questions regarding the effectiveness of expenditures in producing growth, an extremely important factor in the design of strategies for development and poverty alleviation. Empirical work by Lopez provides a good example of the importance of priorities. Lopez had found that although government spending can slightly elevate agricultural gross domestic product (GDP) per rural person, a mix of spending on public goods and private subsidies is much more significant. A reallocation of 10 percentage points of total rural public expenditures (for example, from 40 to 50 percent of spending on public goods) increases agricultural GDP per rural person by 2.3 percent—without spending a dime more in total. A dollar added to total rural expenditures would be shared by both public and private goods. In contrast, an intramarginal shift of a dollar from private goods to public is claimed entirely by public goods and is lost to private subsidies. This leads to more money for public goods and less encouragement for rent seeking, less overinvestment in subsidized activities, and delays in restructuring away from subsidized investments.

Beyond these broad growth-stimulating policies, more specific policies can capitalize on synergies and, as a consequence, achieve a balance between generally enhancing growth and increasing the incomes of poor people. For example, investments in infrastructure development not only provide a boost to economic activity but also provide poorer households with greater access to educational opportunities. Conditional cash transfers are another example; they directly increase the incomes of the poor and improve the health and education of children, which has dynamic effects for future income generation. A third example is the reduction of anti-export bias, which was employed to notable effect in Chile following economic reforms; the result was increased employment demand for the unskilled and a significant reduction in poverty.

Very poor countries, with smaller income inequalities and limited fiscal resources, should emphasize pro-growth policies. For middle-income countries, where the level of income inequality is higher and fiscal resources are less constrained, pro-growth policies should be complemented with policies aimed at reducing inequality. Within middle-income countries (most in Latin America), regional disparities appear to be increasing, creating a possible trade-off between aggregate growth and geographic equity. This is a concern because poor people often lack the resources necessary to migrate.

What Is the Pathway from Poverty to Growth?

Growth is important for poverty reduction, but does poverty impede growth? In a notable publication aimed specifically at Latin America, *Poverty Reduction and Growth: Virtuous and Vicious Circles,* Perry et al. discuss several channels through which poverty does in fact influence overall economic growth:

1. The poor often do not have access to credit markets and lack land titles or other means of supplying collateral; hence, potential investments lie dormant.

2. Poverty and illness are related: improving health improves productivity.

3. The quality of schooling often varies according to income. Inferior schooling is bad enough for adults in poor households, but they often cannot afford to keep their children in school for long and thus miss out on the higher returns to education that could accrue in the next generation with each year of schooling. Lower education levels reduce the earning potential and mobility of labor. Education also affects health, child mortality, and household size.

4. Poor households often lack the financial wherewithal to absorb labor-market shocks and the human capital that provides labor mobility to respond to those shocks. Investing in human capital or in a specialized activity, like any other

investment, is a decision that balances expected returns with risks. The greater the risk, the higher the returns ought to be. Without adequate insurance and credit markets, poor households face higher risks of investment and so underinvest compared with households with more diversified income sources or access to funds to tide them over following shocks.

5. Poorer regions and countries simply have fewer people ready and able to initiate or take advantage of productivity-enhancing innovations.

6. Furthermore, without infrastructure and human capital, poor regions do not attract investments from outside. And people living in those regions face even greater obstacles to seeking opportunities elsewhere.

7. Regional income disparities, especially when they overlap with disparities related to ethnicity or race, can sometimes lead to regional political problems and to a subsequent increase in the risks associated with all types of investments.

Concluding Comments

The Latin American economic reform process offers valuable lessons. Beginning in the 1980s, the reforms were deep and wide, and they were introduced during times of major macroeconomic crises and hence government spending restrictions. Not all expectations for reforms were fulfilled, but most of the LAC countries have indeed undergone significant structural change. And despite early fluctuations, significant growth is occurring in many countries. An unanticipated outcome is that the reforms prepared Latin American economies for the now ongoing process of globalization.

The critical lesson for reducing poverty is that growth must be pro-employment —particularly the employment of unskilled labor. In the long run, the main factor for both growth and poverty reduction appears to be education. The record of educational coverage and quality in Latin America is still disappointing overall, however—certainly compared to the East Asian experience. On the positive side, several countries are now emphasizing improved education for poor people.

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Chapter 13

Determinants of Pro-Poor Growth

Stephan Klasen

With 2015 only eight years away, it is becoming clear that many countries in the developing world will not be able to meet the first Millennium Development Goal (MDG 1) of halving absolute poverty. In fact, many countries in Sub-Saharan Africa and several in Asia and Latin America are seriously off track for meeting that goal. In a large number of cases, this failure is related to poor growth performance that has made it difficult to reduce absolute poverty. In addition, the growth that most of these countries have been experiencing has had little impact on poverty. Moreover, rising inequality in many developing countries is further reducing the impact of growth on poverty. Even in countries that are projected to meet MDG 1 as a result of high levels of growth (China and India, for example), rising inequality has sharply reduced the poverty impact of that growth, so poverty is falling at unacceptably low rates. Given this situation, it is clearly insufficient to focus research and policy simply on the determinants of overall economic growth. Instead, it is critical to examine the determinants of pro-poor growth—that is, growth that has a particularly large impact on reducing poverty. This policy chapter summarizes what is currently known about the definition, measurement, and determinants of such pro-poor growth, primarily drawing on results from a recently completed multidonor research program called Operationalizing Pro-Poor Growth, which was coordinated by the World Bank.

Defining and Measuring Pro-Poor Growth

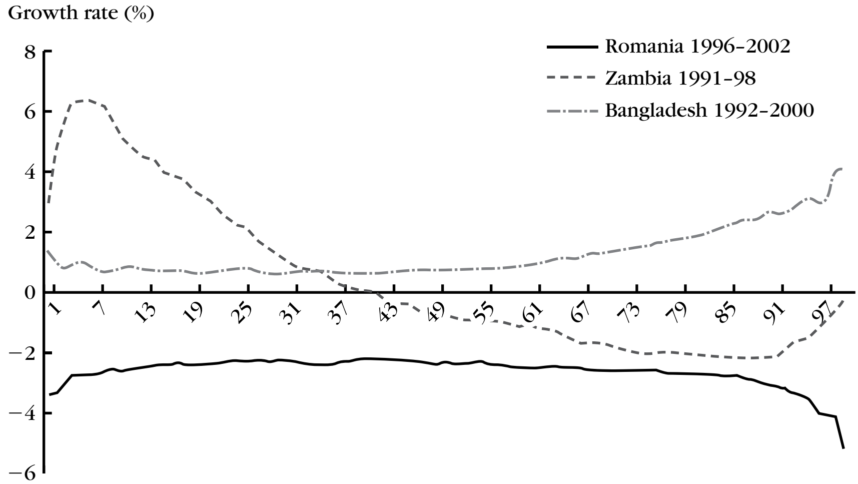
There is vibrant debate on different ways to conceptualize pro-poor growth. For some observers, growth is pro-poor if it leads to any reduction in poverty; for others, it is pro-poor only if it leads to a disproportionate increase in the incomes of the poor—that is, if it is associated with declining inequality. Although each of these views has merits, from a policy perspective it is particularly useful to define *pro-poor growth* as growth that maximizes the income gains of the poor and thus accelerates progress toward meeting MDG 1. Achieving high overall income growth can be one important way of achieving high income growth for the poor, but only if the poor are able to share in this growth. Even in such situations, however, the income growth of the poor will be greater if that growth is accompanied by pro-poor distributional change—in other words, a reduction in inequality. Such reductions in inequality immediately raise the incomes of the poor, and they have also been found to permanently increase the poverty impact of future growth and to help promote overall income growth in many circumstances. Thus, not only high levels of broad-based growth but also pro-poor distributional change can be powerful drivers of pro-poor growth.

The growth incidence curve proposed by Ravallion and Chen is a particularly useful tool for tracking progress on pro-poor growth. These researchers have plotted the growth rates of percentiles of the income distribution, which are lined up on the *x*-axis from poorest to richest. Figure 13.1 gives three examples—Bangladesh, Romania, and Zambia—from the Operationalizing Pro-Poor Growth case studies. Growth incidence curves (GICs) that are upward sloping suggest that the rich have benefited more from growth, as was the case in Bangladesh from 1992 to 2000. Downward-sloping GICs suggest that the poor have benefited disproportionately from growth, as was the case in Zambia from 1991 to 1998. In Romania (1996–2002), all groups suffered declining incomes, the rich more than the poor. One way to summarize the information contained in the GIC is the rate of pro-poor growth proposed by Ravallion and Chen, which is simply the average of the growth rates for the percentiles below the poverty line (or graphically, the area under the GIC up to the poverty line in the first period). In the three examples shown, the difference between growth and pro-poor growth becomes apparent. In Bangladesh, overall annual per capita growth was 1.8 percent, but the anti-poor nature of that growth meant that the rate of pro-poor growth was only 0.7 percent. Conversely, in Zambia, overall per capita growth was negative (–1 percent), but pro-poor distributional change meant that the rate of pro-poor growth, at 1.1 percent, was actually higher than in Bangladesh.

Determinants of Pro-Poor Growth

As the discussion so far has suggested, high rates of pro-poor growth can be achieved by generating high overall growth from which the poor benefit, by achieving pro-poor distributional change, or both. There is a large amount of literature exam-

Figure 13.1 Selected growth incidence curves



Source: M. Ravallion and S. Chen, Measuring pro-poor growth, *Economics Letters* 78, no. 1 (2003): 93–99.

ining the determinants of overall economic growth. The World Bank Growth Commission is currently distilling the most important policy messages from this literature. But this chapter focuses instead on the determinants of the distributional pattern of economic growth—that is, the difference between growth and pro-poor growth. Many of the determinants of pro-poor growth depend on country conditions, just as do the determinants for growth. Thus, it is not easy to generalize policy messages that apply to all settings. Instead, pro-poor growth analysis should be seen as a toolbox for studying the country-specific determinants of growth and distributional change and for deriving country-specific policy conclusions. One important outcome of the Operationalizing Pro-Poor Growth project has been the development and application of such an analytical toolbox.

Nonetheless, the cross-country analyses and country studies have generated some important policy messages that appear to be relevant beyond the specific-country context. At the most general level, pro-poor growth will require growth that is focused on sectors where poor people are active (or could become active) and regions where poor people live (or to which they could move) and that uses production factors that poor people possess. In most poor developing countries, meeting these requirements will typically call for growth that includes the agricultural sector, reaches rural areas and remote regions, and is labor intensive. To the extent that poor people are able to diversify into nonfarm sectors or move to more dynamic regions, and to the extent that doing so would demonstrably enhance their incomes, the development of such sectors and regions could also support pro-poor growth, although the benefits are likely to be smaller and more indirect and to occur with a time lag. Finally, pro-poor growth could be achieved through ex-post pro-poor redistribution of the benefits from growth through the tax and transfer system. Although this approach is possible in principle and is a significant factor affecting pro-poor growth in developed countries, the ability of the tax and transfer systems in developing countries to achieve such ex-post redistribution is much more limited and cannot generally be relied on to produce pro-poor outcomes. From these general principles, several more specific determinants of pro-poor growth have been derived, which are discussed next.

Improved Productivity in the Food Crop Sector

Productivity improvements in agriculture are a key determinant of pro-poor growth, particularly in countries where the poor are predominantly rural. Such productivity improvements require research and extension into better seeds and inputs, improved rural infrastructure, and improved access to credit. Although investments in cash crops can play a significant role in promoting pro-poor growth in some settings, productivity improvements in food crops are a more powerful driver of pro-poor growth, as the examples of China (particularly between 1978 and 1985) and Indonesia show. Conversely, the experience of China since the mid-1980s demonstrates that even very high growth can lead to little further poverty reduction when that growth largely bypasses the agricultural sector. Similarly, the failure to achieve sustainable pro-poor growth in many African countries is closely related to the inability to generate lasting productivity improvements in the food crop sector.

Reduced Regional Inequality

Improving the growth potential of lagging and remote regions is a second critical ingredient of a pro-poor growth agenda. Much of the observed increase in inequality in developing countries is due to rising regional inequality. Brazil, China, Ghana, India, and Vietnam are good examples in this regard. Such rising regional inequality increasingly undermines the ability of growth to have an impact on poverty. As a result, great attention must be given to promoting growth in lagging regions. Among the policies to be pursued with greater vigor are infrastructure policies favoring lagging regions, targeted public investment programs and support for private investments there, support for migration and remittances, pro-poor fiscal decentralization measures that increase local public resources in poor regions, and specific safety nets such as conditional cash transfer programs focused on lagging regions. Ensuring success in this area is going to be one of the greatest challenges for pro-poor growth policies.

An Improved Asset Base for the Poor

Improving the asset base of the poor is another critical element in promoting pro-poor growth. In many countries, the most important asset base is the human capital of the poor. Developing countries have made considerable progress in expanding educational opportunities, but the poor are still lagging behind in terms of access to high-quality schooling, particularly beyond the primary level. Improving school quality and increasing the enrollment and retention of the poor can play important roles here. The positive educational impacts of conditional cash transfer programs are particularly relevant and worth emulating as ways to improve the educational opportunities of the poor and to reduce income inequality. It is also important to monitor the distributional pattern of educational achievements and investments more carefully than has been done to date. One way to do this is to generate growth incidence curves for education to examine the distributional impact of schooling investments.

In countries where the poor in rural areas are landless or nearly landless, improving the asset base of the poor will also require greater access to land. Here speedy and effective land reform must be on the pro-poor growth agenda. Although market-based land reforms that support the poor in purchasing land on a willing buyer–willing seller basis can be part of a land reform strategy in countries such as Colombia or South Africa, this approach is usually insufficient to effect large-scale land redistribution where it is urgently required. In these cases, progressive land taxation might be an important tool to increase the land available for sale, and partly confiscatory land reform might be required, as was the case in many East Asian countries in the 1940s and 1950s.

Reduced Gender Inequality

In many countries, promoting pro-poor growth has an important gender dimension. Particularly in South Asia and Sub-Saharan Africa, pro-poor growth is undermined by high levels of gender inequality in education, access to resources at the farm level, and nonfarm employment. There is now overwhelming evidence that these inequalities not only hurt the females affected but also reduce overall economic growth and thus poverty reduction. Conversely, investing in female education and employment has enabled countries to draw on their entire pool of talent for production and growth (rather than restricting the pool to males). It has also had indirect benefits for economic growth by, for instance, lowering fertility and population growth rates and improving the health and education of the next generation. The East Asian countries, for example, invested heavily in female education in the 1950s and 1960s and are now reaping the benefits in terms of female-intensive export-oriented growth strategies and a rapid demographic transition with drastically lowered dependency rates. The examples of Bangladesh, Botswana, and Tunisia in the 1990s show that such progress is also possible in South Asian and African settings. Interestingly, the impact of improved gender equity on pro-poor growth is related more to improving overall economic growth than to achieving pro-poor distributional change.

Reduced Inequality for Disadvantaged Groups

In the contexts of some countries, promoting pro-poor growth will have to focus on other particularly disadvantaged groups. Often these groups are indigenous populations in Latin America, lower-caste and tribal groups in South Asia, and ethnic minorities in East and Southeast Asia. Many of these groups suffer from multiple disadvantages, including a poor asset base, a remote location, a history of poverty, and ongoing discrimination. A pro-poor policy agenda in these countries will require an end to discrimination in education, labor, and credit markets and targeted initiatives to promote education and access to resources for these disadvantaged groups. Here the example of Malaysia's policies of affirmative action has demonstrated the capacity to reduce historic inequalities without compromising high levels of economic growth.

Political Commitment to Pro-Poor Policies

The promotion of pro-poor policies depends to a significant extent on political economy issues. The case studies on pro-poor growth reveal that a strong commitment of the political leadership to equity and poverty reduction is critical to implementing a consistent pro-poor policy agenda. Indonesia is a good example of how strong government commitment to poverty reduction and rural development over several decades was critical for the success of the country's pro-poor growth policies. Although an open society with a tradition of public debates can do much to promote a pro-poor agenda, as has been the case in India (which recently introduced a national employment guarantee scheme, for example), the mere presence of regular elections does not necessarily ensure a pro-poor policy focus.

A Strong State

Finally, the research program on pro-poor growth showed that a strong state is needed to implement a pro-poor policy agenda. Although economic reforms and liberalization can play an important role in improving the incentives of the poor, these changes are usually insufficient in the face of market imperfections, poor infrastructure, poor endowments, and little access to productive inputs and credit. In these contexts the improved border or capital city prices will not be transmitted to the farm gate, or farmers will lack the capital and technology to react to these improved opportunities. A strong state can effectively implement proactive policies to improve the productivity of the poor and increase their access to markets and productive inputs and credit. Thus a policy agenda for pro-poor growth must consider policies that were frowned on and dropped in the reform era of the 1980s and 1990s, such as state support for exporters, input subsidies, directed credit, regional and industrial policies, price regulation of goods produced or consumed by the poor, land reform, and redistributive taxation. Many of the East and Southeast Asian countries with success stories of pro-poor growth (including early reform-era China as well as Indonesia, Korea, and Malaysia) used some or all of these measures to successfully promote growth and improve its distributional pattern. To be sure, in many other countries similar policies were poorly implemented, were fiscally unsustainable, created new distortions, or were captured by narrow interest groups. A pro-poor growth agenda suggests that it is critical to learn from the successes and failures of such past interventionist policies and redesign future policies and their institutional setups accordingly.

Concluding Remarks

Economic growth in developing countries has recently accelerated across the board. Not only have high-growth economies such as China, India, and Vietnam been able to maintain their spectacular growth performance, but also growth has picked up in many parts of Africa and Latin America and across Asia. From a perspective of pro-poor growth, these generally positive trends carry two risks. First, much of the improvement in economic performance, particularly in Africa and parts of Latin America, is closely related to a boom in commodity prices that is proving short lived; both boom and retreat may lead to distortions in the economies and political systems of these countries. If and when the current commodity boom comes to an end, these distortions threaten to undermine the long-term growth potential of these countries. Second, in many countries, the high growth of the past 10 to 15 years has been accompanied by rising inequality, which slows the poverty impact of that growth. The research on pro-poor growth has shown that this rise in inequality was not inevitable. In fact, a focus on the pro-poor policy agenda outlined here could ensure that growth is shared broadly among the population or, ideally, is accompanied by pro-poor distributional change. The experiences of Indonesia, Korea, Malaysia, and Taiwan also show that growth with equity is possible over long periods.

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NOTE

Chapter 14 (Pages 203 to 210): ***Determinants of Rural Poverty Reduction and Pro-Poor Economic Growth in China by Jikun Huang, Qi Zhang, and Scott Rozelle*** has not been included in the online version of this book since it is adapted from a journal article ***Huang, J., Q. Zhang, and S. Rozelle. 2008. Economic growth, the nature of growth and poverty reduction in rural China. China Economic Journal 1 (1): 107–122*** (http://dx.doi.org/10.1080/17538960701770547), published by Taylor & Francis Ltd. The publisher has granted us permission to include this chapter in the printed version.

Chapter 15

International Migration: Can It Improve Living Standards among Poor and Vulnerable Populations?

Alan de Brauw

The migration of labor across international boundaries has increased rapidly since 1990. More than 190 million individuals now live outside the countries of their birth, and the majority of migrants leave developing countries for countries with higher living standards than those of their home countries. Remittance flows have risen quickly over the same time frame, and in 2007 aggregate official remittance flows were double the amount of official development assistance. Participating in the growing wave of international migration is therefore a potential way for poor or vulnerable households to increase their living standards. Nevertheless, constraints against migration can prevent members of poor or vulnerable households from reaping its potential benefits. Costs are the most obvious constraint, but policies in both the home and the destination countries can also hinder migration. For example, in some countries passports cost more than 10 percent of per capita gross domestic product, making them prohibitively expensive for the poor. Similarly, migrant destinations often have policy preferences for highly skilled migrants, which can preclude migration by members of vulnerable households, who tend to be low-skilled. Developed countries also use visa quotas to avoid absorbing too many low-skilled migrants, in part because of perceptions that such migrants will strain their social welfare systems. Costs and constraints combine to drive some migration underground; for example, it is estimated that 12 million immigrants to the United States are here illegally, and there are concerns related to other migrant flows about migrants being forced into bonded labor or prostitution.

This chapter explores how policy can facilitate the use of migration to improve the living standards of poor or vulnerable households in developing countries. These policy prescriptions attempt to help the poor benefit from migration both directly and indirectly. Because migration in general can be defined in several ways, for reasons of brevity the discussion here is limited to international migration of individual household members specifically for the purpose of employment. The chapter also highlights the formal costs of migration because they can be mitigated most effectively by pro-migration policies. Given the focus on international rather than rural–urban migration, it is important to note that some of the policy prescriptions may not be appropriate for fostering rural–urban migration.

Migration, Its Benefits, and Poverty Reduction

A rich theoretical and empirical literature covers the motivations of individuals in developing countries to migrate for work. Perhaps the most obvious motivation is the difference in wage levels between countries sending and receiving migrants. For example, a 2006 study by McKenzie, Gibson, and Stillman found that when Tongan residents win a lottery giving them the right to move to New Zealand, their expected wages triple. But migrants also move for other reasons. Migration is often part of a household income generation or development strategy. From a rural perspective, when household income depends on agriculture, with its inherent risks, sending a migrant to a place where his or her income will not be affected by those risks can increase the household's income security. Migration can also help raise funds for investment in better housing or in productive activities at home. Nevertheless, migration is also conditional on household characteristics given that migrants tend to be younger family members. As a result, migration is not likely to help the elderly rural poor unless they have children who have migrated.

Migration—whether rural–urban or international—can have both direct and indirect effects on poverty. Migration can have direct effects on poverty in two ways. When migrants leave poor households, the number of people who must be supported by the household budget is reduced, directly increasing the living standards of those left behind. If the potential migrant was not working before leaving, this effect is particularly beneficial. Migrant remittances, from either domestic or international sources, are also immediately beneficial when they are used to supplement consumption. Migrants can and often do also remit cash or goods to their families when negative income shocks occur. Remittances help stabilize household income and prevent households from plunging further into poverty. Therefore, whether a poor rural household sends a migrant to an urban area or any poor household sends a migrant to an international destination, migration can have positive direct effects on the poor.

There are also three indirect channels by which migration can help poor or vulnerable households, even if they do not participate in migration themselves. First, migrants leave the local labor force, increasing the scarcity of local labor. Therefore, jobs become available that can potentially be filled by the poor, or wages may be pressured upward, also potentially benefiting the poor. Second, remittances add liquidity to local markets, potentially stimulating economic activity. Third, when migrants return from urban areas or abroad, they bring new skills and experiences with them, sometimes even starting microenterprises that create local employment. All of these potential channels can lead to greater well-being among poor households as long as migration rates are not so high that the local economy begins to disappear.

The Lack of Evidence of a Causal Relationship between International Migration and Poverty Reduction

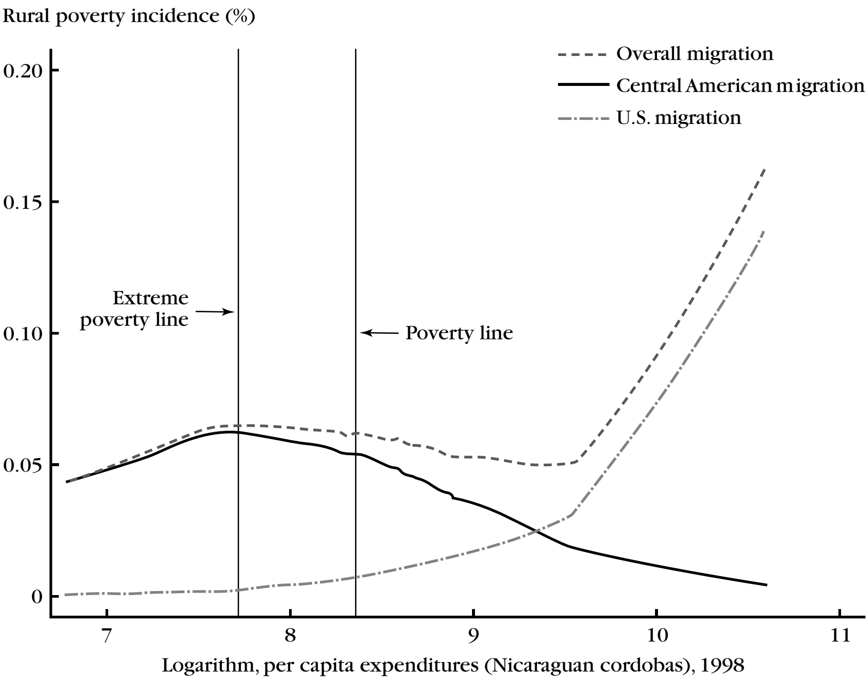
Primarily due to severe data limitations, researchers have not empirically proven that there is a causal relationship between international migration and poverty reduction. Most current sources of information on migration, such as population registers and censuses, do not include reliable information on living standards. Although cross-country data indicate that migration is associated with lower poverty rates and smaller poverty gaps, little or no research claims that migration or migrant remittances directly cause reductions in poverty rates or gaps. In most countries, data on both emigration and poverty do not exist in large enough samples to convincingly demonstrate a causal relationship. Even when such data are available, it is a challenge to confirm that migration rather than some other, unobserved factor was the cause of poverty reduction.

One reason that few datasets include information on both migration and poverty is that, on average, relatively few individuals from any given country emigrate. A study of migration, poverty, and the effects of related policy would ideally be based on a multitopic, nationally representative survey, but even in a large nationally representative survey, on average migration occurs infrequently. For example, consider a hypothetical 5,000-household survey completed in a country with an emigration rate of 3 percent of the adult population (the world average). If not specifically designed to collect information about migration, the sample would likely include only 200–300 households with an international emigrant—a number insufficient to support useful generalizations from statistical analyses. Also, migrants use family or community networks to find employment, so emigrants tend to come from specific communities. If communities with strong emigrant networks were not included in the sample framework (by chance or otherwise), the number of migrant households would likely be lower still.

Due to the scarcity of appropriate data, migration studies are typically limited to countries with significant levels of migration. For example, a nationally representative dataset collected in 2001 in Nicaragua indicates that 5 percent of households had a family member who had emigrated for work in the previous five years. The majority of emigrants went to Costa Rica or another Central American country, and about 20 percent went to the United States. Overall, households below the poverty line were less likely to have a member emigrate (Figure 15.1), and, if they did so, it was almost certainly within Central America. Only members of richer households were able to emigrate to the United States, and members of such households were less likely to emigrate within Central America.

Nicaragua's experience may be atypical; in other countries, migration may be more or less accessible to the poor. For example, in Mexico poor households in villages with small migrant networks have few emigrants, while those in villages with stronger networks have more. Other research suggests that in both Ghana and Guatemala, remittances to households from family members abroad have a positive

Figure 15.1 The relationship between the probability of migration and per capita expenditures in Nicaragua, 2001



Source: Nicaragua National Household Living Standards Survey (EMNV), 1998 and 2001.

effect on the severity, if not the absolute level, of poverty. Migrants typically leave Ghana and Guatemala for nearby countries, making the cost of migrating low. Similarly, much migration from Nepal is to India, and research shows that poorer households are more likely to receive remittances as a result. Regardless—with the exception of Mexico—these findings indicate only correlations and do not suggest that such remittances cause a decrease in poverty.

In summary, there is evidence of the relationship between migration and poverty for a few countries only, and conclusions about this relationship are highly country- and context-specific. Policies related to migration should therefore also be context-specific, taking into account the associated costs and barriers facing poor households.

Costs of and Barriers to Migration

Two types of specific costs are associated with migration: opportunity costs and direct out-of-pocket costs. A primary opportunity cost affecting rural households is the loss of the migrant's labor from household agricultural production. Because international migrants tend to be young and able-bodied, the agricultural labor input and its resulting income can decline when family members migrate. In this way migration is different from seeking local work because individuals with local off-farm jobs can easily help during busy periods on the farm, whereas migrants cannot. In all cases, when migrants leave, other household tasks—such as rearing children or looking after the elderly or infirm—are shifted to those left behind.

Many of the direct costs associated with migration are up-front costs, although they can be partially mitigated by family and community networks. International migration requires costly travel from the source community to the destination—sometimes over long distances. Once a migrant arrives at a destination, further costs are incurred in finding work. Migration is therefore inherently risky, and the risk is mitigated if a potential migrant can secure a job prior to migrating. The process is made much easier when extended family or others from the home village are located at the migrant's destination and can offer assistance with the job search, a place to stay on arrival, and help in adjusting to the culture and language of the new country.

For poor or vulnerable households, the costs of migration can act as barriers in two important ways. First, even if jobs were available at the potential destination, poorer households might be unable to finance migration because they have few assets and lack access to credit. Second, community migration networks might not extend as readily to the poor as to others, so the poor may face higher costs in finding employment at the destination. Given the travel costs and lack of information about opportunities abroad, migration may not even be an option for poor or vulnerable households.

Potential migrants face further barriers to migration. First, passports and visas are necessary for legal emigration, and although networks can facilitate their acquisition, the poor may lack the information and connections necessary to acquire them. And, as previously mentioned, the cost of obtaining a passport can be prohibitively high. Perhaps more important, destination countries often implement policies that make legal migration for employment difficult. For example, most developed countries implement migrant visa quotas to restrict migrants to those with specific skills or education levels. Such policies leave low-skilled migrants with the option of only illegal migration with its many risks, dangers, and costs, such as the exorbitant fees demanded by intermediaries to facilitate migration, the risk that bonded labor will result from debts incurred in migrating, and the lack of labor rights and bargaining power, to name a few.

Further institutional arrangements can temper the benefits of migration to communities of origin by limiting the amount of money available as remittances. Although remittance fees have declined in recent years, they remain both high and regressive, making it extremely expensive to send small amounts of money home. For example in 2009 Western Union charges a fee of US$9.99 for next-day transfers of US$300.00 or less from the United States to Mexico or Central America, and fees are often much higher in other parts of the world.

Policy Ideas to Foster the Benefits of Migration for the Poor

Increased migration by the poor or vulnerable can potentially reduce poverty and create further economic benefits in the countries of both origin and destination, and pro-migration policies in both—as well as bilateral agreements between the two—can facilitate the attainment of these benefits. However, it is worth noting that many pro-migration policy options are currently only ideas at this point, and they may not be appropriate in all circumstances.

From the perspective of the country of origin, three types of policies can promote emigration by the poor:

1. Governments can limit the direct costs of finding employment overseas. First, they can ensure that the cost of obtaining a passport represents a low income share. To limit migration costs, several Asian countries have licensed companies to recruit immigrants for low-skilled jobs, which can lower the cost of migration because recruiters can provide information on, or even negotiate, lower costs for transportation, passports, and work visas. However, such companies should always be monitored by governments to ensure that emigrants are not exploited.

2. Governments can potentially encourage financial institutions to establish rural branches in order to lower the transaction costs of receiving remittances. Some companies have begun to allow individuals to send remittances via short message service in exchange for cell phone credit. Policies that encourage the development of these markets and foster creative programs such as those promoting the exchange of cell phone credits for cash—as is occurring in the Philippines—can further the positive effects of migration on poor households.

3. Countries of origin can enter bilateral agreements with countries of destination to design incentives for migrants to return, both to bring savings and new ideas back to source communities and to minimize the disruption of families for migration.

Destination countries can also adjust their policies to ensure gains from accepting low-skilled immigrants. The countries of the Organisation for Economic Co-operation and Development (OECD) are all facing a shift in their demographics that will ensure labor shortages in specific markets that could be filled by low-skilled immigrants. However, portions of OECD populations perceive labor migration as threatening. Consequently, policies that encourage either seasonal or circular migration for low-skilled employment in developed countries are likely to be most viable. Hence, policies could be designed to allow migrants to move between their home and destination countries under a fixed work contract. Suggestions include the following:

1. Bilateral agreements between countries of origin and destination could be established to enable migrants on fixed-length contracts to move between the two countries on multiple-entry visas. There are many agreements for seasonal workers with European Union countries, but few go as far as to allow multiple entries. If governments in countries of destination were to make it easier for migrants to come and go, migrants could return home during slower work periods.

2. Governments could establish portable pensions for migrants to access in their country of origin. If migrants benefited in their countries of origin from social welfare contributions made while in their destination countries, they might be more likely to return home.

Emigration has become a more frequent phenomenon in developing countries in recent years. It offers significant potential for poor and vulnerable households, and pro-migration policies could help poor and vulnerable individuals to reap these benefits. Further studies are needed to quantify the potential contribution of migration to reducing poverty, but such studies depend on the availability of relevant data. If data on migration, its impacts, and the influence of various policy options were available, progress could be made in tapping the pro-poor potential of international migration. A final policy prescription, therefore, is that governments include migration as a specific issue in their data collection efforts.

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Chapter 16

Land Issues and Poverty Reduction: Requirements for Lasting Peace in Sudan and Afghanistan

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During the past decade, an increasing share of foreign aid has been provided to countries coming out of civil war or experiencing severe conflict. Most of these countries—such as Liberia, the Republic of Congo, Sierra Leone, Somalia, and Sudan—suffer from a combination of conflict, a state in crisis, underdevelopment, and poverty. Under most circumstances, poverty is greatly exacerbated by conflict, but it is also one of a number of factors that may contribute to violent conflict. Addressing what Frances Stewart has called "horizontal inequalities" is therefore likely to play a role in preventing the shift from grievance to violence, as well as in building and sustaining peace in postwar situations. In several countries that have suffered from protracted conflict, however, an approach focused on poverty has been slow to emerge. To a large extent, peace-building missions have become state-building missions, first, because "fragile states" are seen as a risk both to their society and to international security and, second, because it is broadly assumed that one vital condition for sustainable peace is that the state apparatus has the capacity to perform the core functions of statehood in an efficient, nonviolent, and legitimate way. In the process of state-building, however, the extent to which the poverty and marginalization of large rural populations have spurred recent wars has been underestimated. As a consequence, donors and policymakers risk rebuilding the causes of war.

This chapter uses examples from Sudan and Afghanistan to highlight the role that land issues have played both in causing poverty and in driving and sustaining protracted conflict. In both countries, a number of interconnected conflicts have global reach, as well as occurring at regional, national, and local levels. For example, conflicts over water and grazing rights in Darfur and elsewhere in Sudan have become entwined with political rivalries on a larger scale, even including neighboring countries. In a similar fashion, efforts by foreign troops to track down remnants of Al-Qaida and Taliban forces in Afghanistan have become entangled with localized conflicts. A great challenge, therefore, is to identify which particular types of interventions affect the different levels and dimensions of current conflicts.

This identification is a tall order, but it seems safe to conclude that the international community has not yet adequately responded to the challenge. In Afghanistan, postwar reconstruction efforts have been focused on establishing an effective central state that operates under the rule of law and in accordance with principles of transparency and accountability. Although the U.S.–led coalition has invested heavily in military efforts, aid strategies have created a state that depends on foreign funds and military forces for its survival. In the process, the role that rural land issues have played in driving and sustaining internal conflict has been insufficiently considered. In Sudan, the international community has been drawn into continuous crisis management because of Darfur, as well as the slow and very difficult implementation of the Comprehensive Peace Agreement (CPA) signed in 2005 between the government of Sudan and the Sudan People's Liberation Movement. As one consequence, there is less concern with the patterns of development that have been and are being pursued in Sudan and the way in which they may promote or reduce poverty. In both countries, land use is a key grievance that fuels a number of local and regional conflicts.

Sudan

Civil war has been fought in Sudan for most of the period since it gained independence in 1956, with only a brief spell of peace from 1972 to 1983. After the signing of the CPA, two other peace agreements were concluded in 2006: the Darfur Peace Agreement and the Eastern Sudan Peace Agreement. The international community has provided substantial funds for the implementation of the CPA; however, due to the continued crisis in Darfur and the continued unrest and lack of basic services in the south, the bulk of donor aid to Sudan has so far been directed to humanitarian assistance. Successive Khartoum governments have argued, as they do now for Darfur, that violence is caused by local-level ethnic conflicts mainly arising from pressure on a diminishing resource base. However, the civil strife that has spread throughout many parts of Sudan since the 1980s should be seen as part of a pattern of violence in which the Sudanese state—as a vehicle for special interest groups—has played a major role.

Historically, state resources have been concentrated in the central Nile areas in the north, reflecting the long-standing political dominance of groups from this area. A process of uneven development and economic dislocation began during the colonial period and became massive in the 1970s. The shift from subsistence agriculture to export-oriented mechanized agriculture had its greatest impact in the so-called Transition Zone between north and south—along southern Kordofan, southern Darfur, Blue Nile, and the Sudan–Ethiopia border region—resulting in the dispossession of smallholder farmers from their customary rights to land, the erosion of the land-use rights of pastoralists, and the creation of a large force of agricultural wage laborers whose numbers were increased through displacement by drought and war in the 1980s and 1990s.

This process generated important benefits for a key political constituency, mainly in Khartoum. It also created serious structural problems in the agricultural sector. The rate of increase in production has been declining, and many areas have high levels of food insecurity. A major grievance has been land use. The area of land under mechanized farming increased from around 2 million feddans at the beginning of the 1970s to some 14 million feddans by 2003 (1 feddan equals 1.038 acres). A vital factor here was the passage of laws undermining the control that local authorities and local people were able to exert over land. This process was accelerated by the National Islamic Front after it came to power in 1989. Policies have also been divisive at local and regional levels, creating growing regional subcultures of ethnic violence.

From the 1970s onward, the agricultural growth model adopted in Sudan gave little or no consideration to those who were displaced or otherwise affected, whether in Darfur, among the Nuba in southern Kordofan, or among the Beja in eastern Sudan. It is no coincidence, therefore, that aside from Khartoum—which saw major violence following the death of John Garang and occasionally suffers from confrontations between groups—most of the violence has taken place in rural (pastoral and agropastoral) areas. Populations from these areas also constitute the main source of street children, poor female-headed households, displaced persons, and refugees. They come from three broad regions: the areas struck by drought and famine during the 1970s and 1980s, the areas that saw an expansion of mechanized farming during the same period, and the former "closed districts" of the colonial period, such as south Sudan.

Changes in rights to land and its use represent fundamental transformations in Sudanese society. Their effects will not be removed by the signing of peace accords. In addition to various obstacles to improved productivity and access to markets, land issues have far-reaching consequences for rural poverty and development, as well as for local, regional, and national conflicts. Thus, in Darfur the inability of land ownership and land management systems to cope with the demand for agricultural land and pasture has been a key element of the often deadly conflicts, including those between different Arab groups. Illegal land occupation has been an integral part of the crisis. It is also a critical issue in eastern Sudan, where the loss of traditionally owned land to mechanized agricultural schemes has undermined the sustainability of the pastoralist livelihoods of the predominant group in the region, the Beja, and pushed many Beja to settle in urban slums, particularly in Port Sudan. In the south, land rights have become increasingly disputed as refugees and internationally displaced persons have started returning and oil exploration has continued in new areas.

Although Sudan is becoming wealthier because of oil exports, its rural poverty has been accentuated because spending on social services has been among the lowest in the world. The country's poor track record on development spending is paralleled by a very limited capacity to plan and manage projects at state and local levels. As a result, poverty and human deprivation have in all probability worsened over the past decade.

Afghanistan

Afghanistan shares Sudan's long history of war, displacement, and drought, with continued armed conflict since 1978. Several factors affect the continuation of conflict despite the ousting of the Taliban regime in 2001. Often overlooked is the importance of conflict arising from land issues and how these tie in with the postwar structure of the political economy.

According to the latest report from the United Nations Office on Drugs and Crime (2007), Afghanistan currently produces 90 percent of the world's heroin. Part of the explanation for both the increasing conflict level and the sharp increase in poppy production since 2002 relates to land issues. Most Afghans depend at least in part on agriculture for their livelihood, but a significant proportion either are landless or are farming plots that are too small to generate adequate income. There is a high degree of uncertainty over landownership, particularly in sharecropping and the closely related practice of land mortgaging; there is no regime to manage land rights and disputes beyond local councils dominated by local power holders; and the policy and legal framework necessary to regulate the use and transfer of substantial state landholdings is also highly inadequate.

Previous governments tried to introduce land reform, including those of a king (in the 1920s), a president (in the early 1970s), and a communist government (in the late 1970s). The most radical attempt was by the government of the Soviet-backed People's Democratic Party of Afghanistan following the coup d'état in 1978. However, such reforms led to armed revolt with strong backing from the conservative and traditionalist religious networks and landowners. Following the Soviet invasion in 1979, armed resistance was mounted primarily in rural areas, with mujahideen forces operating within the population and from their bases in Pakistan and Iran. A combination of targeted destruction and lack of maintenance following the outflow of 5 million Afghans to neighboring countries destroyed much of the underground irrigation systems—the *kareezes.* Drug production started to pick up because it required less water than traditional agriculture and was not discouraged by the international backers, either Western and Islamic, who supported the resistance with funding and arms. The commanders emerging in the resistance parties were frequently religious leaders or landowners able to command people through religious or financial bonds. When these parties assumed power in Kabul in 1992, they were neither willing nor able to address land issues. Rather, they used their military power to increase their own holdings.

The Taliban movement that emerged in southern Afghanistan in 1994 restored the rights to land and property confiscated by commanders, but the Taliban did not establish a functional government and administration, nor were they willing to address land issues. Hoping for international recognition and using religious arguments, they banned the production and processing of drugs, knowing that this would reduce the income of many farmers and seasonal workers.

Following the military defeat of the Taliban in late 2001, rapid change was on the horizon. With an elected president and parliament, national plans and international funding to promote development, and the North Atlantic Treaty Organization to provide military security, Afghans hoped that they had seen the end of both poverty and violence. Expectations were high, for the Afghans were to be rewarded for assisting in the "war on terror." However, as part of the settlement that was achieved, the former commanders returned and regained influence, lands, and properties. The Taliban, primarily drawn from the poorest rural areas in the south, were excluded from peace negotiations and the new government and opted to continue their military struggle.

Leaving security aside, land issues remain largely unaddressed in Afghanistan, and very limited efforts have been made to improve and increase agricultural production and ensure food security. According to a 2007 report by the Food and Agriculture Organization of the United Nations, 6.5 million out of an estimated population of 27 million face food insecurity. The priority has been rather to strengthen the central administration in Kabul and initiate projects with high visibility. The explanation provided by a senior adviser to the minister of agriculture was that "the outcome in the agricultural sector is not easily and quickly visible and measurable to the donors."

With 4.8 million Afghans returning from Iran and Pakistan since 2002, pressure on land and unemployment has sharply increased. These problems have been exacerbated by corruption, ethnic tension, and the arbitrary use of power by local strongmen. Large landholdings have been transferred to a few well-connected persons. Moreover, the present pattern of landownership, powerful commanders/

landowners, and the high availability of unemployed young men provide ideal conditions for drug production and warfare. When a poor sharecropper knows he has to pay as much as 50 percent of his yield to the landowner, he will select the produce that provides the highest outcome—if given a choice. When the government and the international forces threaten to eradicate the harvest, many see no option but to join the insurgency to protect their livelihood.

Policy Implications

An approach that focuses on poverty and gives due consideration to land issues and livelihood support has been slow to emerge in the postwar reconstruction of both Sudan and Afghanistan. In both countries, the lack of economic development in the rural areas negatively affects the population's perception of the international community's intervention.

In Afghanistan, it is difficult to envisage any possibilities for building sustained peace until landownership, agricultural production, and rural employment are properly addressed. Years of misdirected policy have entrenched deeply inequitable landownership relations among tribes, between agricultural and pastoral systems, and among feudally arranged classes of society. These challenges have not yet been adequately recognized among donors in Kabul despite the existence of rural programs funded by the World Bank, the U.S. Agency for International Development, and others. Growing insecurity, massive corruption, and the expanding drug economy have diverted the attention of both donors and the Afghan government and reinforced the mantras of the importance of state-building and "good governance" as priority areas for development.

In Sudan, alienation of land as part of processes of marginalization and increasing poverty has been a key determinant of conflict, but there is an absence of an overall framework to deal with the problems with the necessary urgency. True, funds have been allocated for a number of programs targeting rural populations in the areas of health and education, mainly in southern Sudan. Agricultural development has received little attention so far, and a striking feature of current aid to Sudan is the lack of priorities related to an understanding and critique of the patterns of development that have been and are being pursued. Given that the influx of revenues from oil exports may consolidate a "rentier" state that renders it less accountable to its population, the prospects for reducing poverty and inequities—and, for that matter, promoting democratic forms of development—may not be encouraging.

Despite similarities, Sudan and Afghanistan are of course different, so it is important to look at context and particular settings before identifying strategies.

Therefore, the conclusions offered here must be of a more general kind, emphasizing the following issues.

First, on a general level, a blend of approaches is essential in order to promote sustainable peace-building. On the one hand, it is important to build state capacities, and a strong, accountable state is best when it comes to alleviating persistent conflict and the chronic poverty it generates, protecting entitlements, and providing health care and education. On the other hand, peace will not be achieved unless the grievances of the marginalized and the benefits accruing from violence are addressed. Recent research clearly indicates that low levels of development adversely affect the chances of successful peace-building, whereas patterns of development that meet the needs of ordinary people may weaken the position of warlords, extremist politicians, and leaders who offer to meet these needs through more violent means.

Second, land rights management is a cornerstone of social management and poverty reduction in agrarian states like Sudan and Afghanistan. Although both countries share the need for an overall framework for land management, it must also be recognized that their problems differ and that the adoption of localized and community-based approaches is essential. As Liz Wiley suggests in *Land Rights in Crisis: Restoring Tenure Security in Afghanistan,* addressing problems only through new law or new policy cannot have much success in the often lawless conditions that operate beyond the reach of the current administration.

Finally, most international investment in peace-building has been at the state level. Despite political and other constraints, there is both scope and need for local-level peace-building and reconciliation work and for rebuilding state–society relations through bottom-up processes. Aid strategies need to be designed to support such processes. In Sudan and Afghanistan, this effort would include addressing land issues that may underpin the recovery process and also provide opportunities to bring about changes in governance through the development of systems that are fairer to the poorest and most marginalized communities. It also implies that policymakers must pay more attention to low-intensity and local conflicts. These struggles are often about access to agricultural and pastoral resources and can establish pockets of discontent, reduce food production, flare up into greater conflicts, or be linked to other, larger-scale conflicts.

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Chapter 17

Property Rights for Poverty Reduction

Ruth Meinzen-Dick, Patricia Kameri-Mbote, and Helen Markelova

Rights over land and other natural resources play a fundamental role in human society. The distribution of wealth and poverty is a reflection of underlying property rights. But reforming property rights to give poor women and men greater access to and greater control over resources is not an easy task. This chapter explains why property rights are important for poverty reduction, describes the challenges faced in attempting to strengthen the property rights of poor people, and identifies potential policies for overcoming these challenges.

Why Do Property Rights Matter for Poverty?

Property Rights Provide Assets for Livelihoods

Land is a critical asset for the rural poor. It provides a means of livelihood through the consumption and sale of crops and other products, and in many cases it can serve as collateral for credit or be exchanged for capital to start up another income-generating activity. Because the landless are excluded from these opportunities, they are often among the poorest. Data from South Asia, home to 40 percent of the world's poor, show that poverty is strongly associated with landlessness and insecure access to land. In Bangladesh, for instance, the landless and nearly landless (those who own less than 0.2 hectare) make up two-thirds of the poor. Without access to land, the landless depend on employment from other farmers or nonfarm income sources, but the growth and stability of such employment also depend on the growth of incomes (and thus spending) in local farming. Off-farm employment opportunities are often limited in rural areas with imperfect labor markets and a low stock of human capital among the landless poor.

Because access to land is often crucial for the livelihoods of the rural poor, it is also key to their food security; even if sufficient food is available overall, if people do not have access to the sources of food, they will be food insecure. For those with access to land, the strength of their rights over the land shapes their incentives for continued production. Stronger land rights will help ensure both their food security and a steady supply of products to the local market. Thus, land rights affect food security from the individual to the national level. Moreover, research suggests that land tenure increases investment in the human capital of children. Therefore, property rights are particularly important in shaping who has entitlements to food and may serve as an instrument to prevent the intergenerational transmission of poverty.

In addition to being crucial for food security and stable livelihoods, land provides a buffer to smooth consumption during shocks. When a shock affects labor and food markets, those who have access to land can turn to their farms for self-employment and food production. In cases of crop failure or other distress, landowners can sell or mortgage their land to meet basic consumption needs. Access to land alone is not enough to successfully deal with risks; its real value during a shock depends on the ability to manage it, transform it into income, and benefit from it based on the property rights regime. Those with secure rights to land also benefit when its value increases, allowing them to sell the land at a higher price or to put it to more profitable uses. For example, with urban expansion, even small farmers can make large profits by converting their land to housing, whereas land users without secure ownership rights are squeezed out. But to benefit the poor in the long run, land sales must be based on complete information about the value of the land and do more than provide for immediate needs. Poor people need alternative assets or livelihoods so that land sales do not lead to greater impoverishment.

Property Rights Include Common Property

It is not only agricultural land that matters; other resources—including water for irrigation and household use, trees, rangelands, wetlands, and water bodies—play critical roles as major or supplemental sources of livelihood. Many of these resources are owned commonly, not individually. Access to the commons is a key source of food, income, and productive resources. In fact, common property areas such as wetlands, forests, and pastures constitute more than 30 percent of the total land area in Africa. In India, community forests contribute up to 29 percent of the income of poorer households, accounting for more than US$5 billion a year. The commons not only serves as a vital source of livelihood, especially for poorer and marginalized people, but also plays an important role as a fallback option for people to tide them over in difficult times.

Property Rights Have Social, Political, and Household Implications

Rights over resources have multiple meanings and implications for poverty reduction. In many rural societies, landownership is an indication of a person's social identity and social standing. This position in turn shapes access to many government services, influence in local politics, participation in social networks, and intrahousehold relations. Extension agents focus their attention on landowners, often to the exclusion of their wives, children, or tenants.

Whole communities are too often deprived of government services because they are not recognized as landowners. For instance, the Ogiek, a hunter-gatherer community in Kenya, have over the years challenged the government's actions limiting their access to the Mau forest complex, one of the few remaining indigenous forests in Kenya and a strategic water catchment area. Globally, control over land and territories has become a major issue for ethnic minorities and indigenous communities. Membership in many water users' associations is restricted to landowners, depriving other users of a voice in managing this critical resource. In addition, secure land rights enable the poor to participate in the political process without fear of losing their source of livelihood. Therefore, securing property rights for the disadvantaged elements of a rural community can increase their participation in community life and their presence in the local political arena, which can have positive effects on their well-being.

Even the distribution of property rights within the household matters. When women depend on fathers, husbands, sons, or other men for land, their access depends on the quality of their relations with those men, and wives often lose their land when they are widowed or divorced. Women with secure rights to land are more likely to engage in independent economic activities and to have stronger bargaining power in the household and the community. This strength, in turn, contributes to the welfare of the household and enhances investment in the education and welfare of children.

Long-term security of land tenure provides an incentive to invest in production and conservation technologies that can improve crop yields and facilitate more sustainable use of land and other natural resources. People will not make such long-term investments, however, unless they have the right to plant, harvest, and benefit from those investments—factors linked with rights to the land. Even within a household, if women or young people do not have land rights, they cannot make such investments. Thus, property rights are a tool to promote environmentally sound management, which in turn can help to sustain the benefits from natural resources (Table 17.1).

Table 17.1 The multiple functions of land rights

Functions	Examples
Economic functions	Productive activities (farming, livestock rearing)
	Land sales and rentals
	Benefits from land appreciation
	Investment incentive effects
Food security	Source of food and income
	Buffer against sudden price increases
Reduced vulnerability / shock mitigation	Source of food and employment
	Collateral for credit
	Income from land sales and rentals
Social functions	Social standing / bargaining position within the household, community, and nation
	Membership in groups
	Cultural identity
	Religious functions
Conservation	Authority to make decisions, investments
	Incentives for sustainable management

Source: Compiled by the authors.

The Challenges of Strengthening Property Rights

Efforts to create policies and programs that promote tenure security confront many challenges. No universal prescription can apply, because tenure regimes need to adapt to the nature of the resource and the society in which they operate. Systems that are appropriate in irrigated areas may not work for rangelands or forests; those that are suitable in a highly individualized society may not be appropriate where traditions of collective resource management are strong, and vice versa.

Property Rights Have Complex Meanings and Sources

To create effective poverty reduction strategies based on enhancing tenure security, it is important to remember that for rural people, land is a critical asset that has multiple functions and meanings. In addition to its economic function as a source of food production and income, land has social and political value, as well as important religious and cultural meanings (as in the case of ancestral lands, for example). For many indigenous people, land has implications for the identities of individuals and communities. Therefore, policies that address only the economic value of land may be resisted, even violently.

To understand the complexity of property rights in practice, it is important to move beyond state-issued titles to land to recognize the existence of multiple sources of property rights. In any given community, access to land and related resources may depend on the following types of laws and interactions among them:

- international treaties and laws,
- state (or statutory) laws,
- religious laws and practices,
- customary (formal and informal) laws,
- project and donor rules (including project or program regulations), and
- organizational rules (such as rules made by users' groups).

Policies that consider only state law may undermine the access to and use of land on which local people depend. When government legal systems are more accessible to those with education, money, or a central location, the poor and marginalized may depend more on customary or religious bases for claiming rights to resources. But it is important not to idealize these bases: customary practices can also disadvantage women or poorer people. In such cases, government intervention can help strengthen the claims of weaker members (as in Mozambique's new family law and land law). This process is not automatic, however: a woman may not want to incur social sanctions by claiming stronger land rights from her husband, or a tenant may not want to risk losing other help from a landlord-patron. Legal reforms can provide a foundation for change, but if they are to have any effect, they must be carefully implemented to ensure that people know about the laws and have access to the relevant authorities.

What matters is not necessarily full "ownership" of land but tenure security. Many people have restricted, overlapping, or conditional rights to use and manage resources, such as rights to graze animals or harvest certain products from land officially "owned" by the state or by other people. Simplifying land rights to give complete authority to the owner of the underlying land in the name of apparent efficiency can cut off these other claims, which are important for the livelihoods, social standing, or security of others. When these claims are eliminated, the poor and marginalized often suffer most.

Land Is Scarce

Another challenge is the fact that there is only so much land. With a growing population and related needs for food, water, and other resources, the rural poor will continue to be disadvantaged in their quest for secure livelihoods. In many developing countries where other economic activities are lacking, land continues to be the main productive resource, and both the economy and people's livelihoods heavily depend on agricultural and other natural resources. But the holding of land may be skewed in favor of some groups, excluding the poor. In some cases, the poor are forcefully removed from land to make way for what are deemed to be more productive uses of the land, such as foreign investment, urban development, or new infrastructure such as dams. Dispossession from land entails loss of the resources on which people depend for their livelihoods. When poor people have been exercising rights to land without formal legal recognition and the rights granted to new users have their basis in law, poor people's rights are obliterated without compensation, so they become even poorer. In such a context, compensation must address the unjust expropriation and extinction of the rights of the poor. When common property is expropriated, whole groups may need to be compensated. Justice also demands that the terms of compensation be mutually agreed to by all concerned parties, which may include restitution of the land when possible. Because land has many continuing values besides its "sale" price, a lump-sum payment may be inadequate, especially when the money can be siphoned away to cover immediate expenses. Instead, alternative assets that provide a flow of benefits need to be identified.

The Poor Are Diverse

The third challenge is ensuring the inclusion of all the poor. Among people identified as poor and excluded from landownership and access, there are other forms of exclusion based on caste, gender, and age. Some of the poor, like the Ogiek and other indigenous communities, have customary land rights that are an important source of their identity, but their customary rights do not enjoy recognition and backing by the state. Others, like many dalits in India, are fully landless. For them, acquiring even a small plot of land can be an important source of dignity. Women may be excluded from ownership of family land by state or customary law, or gender norms may keep them from asserting rights over inheritance. Social exclusion, whether deriving from ethnicity, lack of education or knowledge of the dominant language, or gender-based restrictions, can prevent many of the poor from taking advantage of programs. To meet the needs of different groups, programs must recognize these differences instead of targeting the poor as monolithic communities. Otherwise, programs for the poor may result in greater marginalization for some segments of the rural population.

What Can Be Done?

Policies are needed to ensure that the poor have secure access to land and other vital resources. Law remains a useful policy instrument in allocating property rights. It can be used creatively to change property rights holdings and to ensure that the poor have access to the land they need for survival. But because property rights must be tailored to the physical, social, and economic context, there are no universal prescriptions. Policies must consider not only economic productivity but also issues of equity and less tangible considerations such as the social or religious significance attached to land.

Ensure Access by the Poor

Redistributive land reforms have enabled millions of people to gain access to land. Experience has shown that such land is not always given to the very poor or to women. It is therefore critical to ensure the provision of information and transparency in the land redistribution process, including through local participation in identifying the poorest who need land, and the inclusion of women in the titles or certificates that are issued. Where there is strong objection to women's having independent land rights, granting rights to a group of women can be more socially acceptable. Acquiring land to redistribute, however, is difficult in many countries. As private landowners protest or seek to circumvent redistribution, land that is formally state owned may be redistributed instead. In such cases, careful examination of the prior land uses and beneficiaries is needed to ensure that this assignment of rights does not take land away from existing uses on which the poor depend. Land markets, including rental markets, offer another way of expanding landless people's access to land and its benefits and allowing those with underutilized land to gain income from it. But care is needed to ensure that land markets work in favor of the poor and are not exploitative. For example, safeguards against distress sales are needed, and poor people need better information about rising land values. Other types of land tenure reforms, including stronger recognition of customary tenure and rights to common property, can play a key role in ensuring secure access of the poor to the resources on which they depend.

Once a country establishes normative provisions on inclusion in any type of land tenure reform, it must ensure that the poor have access to these provisions. It is useful to consider the impact of policies from the standpoint of a poor rural woman. For such a woman to have secure tenure that enables her to invest in and benefit from land, her community must have rights over resources, her household within the community must have rights to the land, and she must have secure rights within her household. If these conditions are not met, different policies are needed to address problems at each level. These could include policies for stronger recognition of community rights to common property, provision of credit or rental markets to help make land available to landless households, and changes to family and inheritance laws to give women stronger rights over land. Even if changes are made, a woman will not benefit from a land policy unless she knows about it and has access to the implementing agencies. Meeting this condition may require legal literacy campaigns to inform the public as well as the authorities. In many cases, improvements in supporting institutions—such as credit facilities, labor markets, institutions related to water or other resource use, and extension services—are also needed so that the poor can use the land effectively.

Build on Customary Arrangements

Effective land policies must take into account that in many rural areas, especially in Sub-Saharan Africa, government land administration systems are very different from the customary arrangements. Land titling policies that ignore traditional tenure regimes might take a long time to implement (given the absence of supporting infrastructure) and lead to greater impoverishment and inequality in landownership, especially when those with better education or connections have better access to titling processes. In addition, interventions that promote individualized land rights and disregard existing or potentially beneficial common property provisions can worsen the distribution of land within the community. Therefore, statutory land titling policies must be carefully selected and harmonized with existing arrangements, which may demand the creation of innovative dual property rights regimes, looking for features of each system that safeguard the interests of the poor and disadvantaged.

Acknowledge the Many Values of Land

Political discourse on property rights should be framed in a way that recognizes the multiple values of land—as an economic resource that should be managed productively, a significant resource to which members of society should have equitable access, a finite resource that should be utilized sustainably, and a cultural heritage that should be conserved for future generations. This approach ensures the inclusion of diverse interests, values, and persons in property relations and enhances the visibility of less obvious vulnerabilities. It can thus facilitate the formulation of policies that target various categories of people and ensure sustainable use of resources.

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Chapter 18

The Political Economy of Designing Programs to Reach the Poorest

Ehtisham Ahmad

Reaching the poorest and hungry groups of the population, including those who might be left out of the Millennium Development Goals, involves input from policymakers at the central and local levels of government. Although there has been considerable focus on appropriate targeting mechanisms to reach the poor, attention as to which level of government should be involved, as well as the interactions among levels of government in reaching the poor, is more recent. From a policy perspective, it is important to examine the instruments available at each level of government in order to meet the needs of the poorest. If the responsibility for these groups is seen primarily as that of the central government, direct federal or central government programs—effectively targeted but building on local information—come into focus. If the primary responsibility is local, the policy focus shifts to own-source revenues for financing the expenditures and for greater local accountability, together with a modicum of equalization transfers to ensure that all local governments will have similar capacities to provide for the poorest.

For a more extensive version of this chapter see E. Ahmad and G. Brosio, eds., *Does decentralization enhance service delivery and poverty reduction?* (Cheltenham, England: Edward Elgar, 2009). Helpful discussions with Giorgio Brosio, Mercedes García-Escribano, Stuti Khemani, Jean-Phillipe Platteau, Ugo Panizza, and Joachim von Braun are acknowledged. Note that this chapter does not provide a treatise on decentralization per se. For a review of the more recent literature in this area, readers may consult E. Ahmad and G. Brosio, eds., *Handbook of fiscal federalism* (Cheltenham, England: Edward Elgar, 2006). The chapter does not attempt a survey of targeted programs either but uses selective illustrations to examine differing approaches to meeting the needs of the poorest groups in society.

Designing central programs to reach the poorest may be difficult without local information. This is because the central government, particularly in large countries such as China and Mexico, lacks the ability to precisely define marginal groups or households that may not benefit from more general growth and prosperity. Yet local officials may not share the central government's objectives, and they may prefer to divert central funds to meet objectives of higher value to them. This policy dilemma illustrates difficulties with overlapping responsibilities between different levels of government and in designing effective special-purpose programs, financed centrally but implemented by local governments.

The constraints of designing effective, centrally determined, special-purpose programs in developing countries are legendary. To some extent these are similar to the problems of designing foreign assistance strategies that effectively reach the poorest target groups in the recipient countries: countries' elites may not share the altruistic objectives of donors. The issue is to design policies that build on local information yet minimize local incentives to divert resources from the target groups. Similar issues arise in the context of foreign assistance designed to reach the poorest groups of the population.

Local governments with the most limited resources and tax bases may also have the greatest requirements for supporting the poorest groups and individuals. Thus, providing for these groups in the poorer localities may require the central government's assistance, even though the central government may also have concerns for poorer groups living in the relatively well-to-do localities. Urban poverty, even in the richer areas, is becoming an increasing problem in addition to more traditional rural poverty. Reaching these groups may not be easy and could generate moral hazard difficulties as local officials attempt to minimize their financing of such activities and shift the burden to the central government. A continuation of pockets of extreme poverty in richer localities tends to reflect the divergent preferences of officials in the central and local governments. Local politicians and officials may not be particularly interested in such groups, and indigent people frequently do not have a significant political voice.

Relatively incomplete information is available to central governments either on poor and hungry people lacking family support or on subnational budgetary operations. This lack of information generates incentives for subnational governments to divert central funds allocated for the poorest.

This policy chapter examines the fiscal instruments available to different levels of government and how they interact to enhance the effectiveness of public policies for the poorest and hungry groups. Addressing the leakages associated with central funding and local implementation requires that programs be designed to incorporate competition for resources—both across jurisdictions and over time. This requirement also involves increasing the results orientation of budget processes and improving mechanisms for intertemporal feedback in the future allocation of resources.

Insights from Successful Programs to Reach the Poorest: Examples from China and Mexico

Depending on the circumstances, either centralized or decentralized approaches may be adopted to address the needs of the poorest. The options are highlighted by the experiences of two large countries—China and Mexico. Mexico has a successful central government program to reach the poorest, whereas China has relied on effective local programs. Despite the successes of both types of programs, challenges and difficulties continue in both cases. There may well be a convergence of solutions in the future, with a more significant role for the central government in China and for state and local governments in Mexico.

Mexico, which is a federal state, has effectively built a safety net on the basis of a centralized conditional cash transfer program, Oportunidades (formerly Programa de Educación, Salud, y Alimentación, or PROGRESA, created in 1997). The program's targeting has worked effectively; however, the model has been difficult to replicate, even in smaller countries, because administrative overheads are substantive. Also in Mexico, success has been somewhat of a handicap, and successive governments have added new objectives and responsibilities that make the program unwieldy and distortionary. The question is whether the program, with its increased mandate, can maintain effective targeting in Mexico and be replicated elsewhere in Latin America. In China, a unitary state, programs such as Wu Bao (discussed later) were used in the past to provide support for the poorest groups in rural areas. Such programs were predicated on locally generated information and management. With increasing inequality in China since the economic reforms of the 1990s and dispersion of local government revenues, the issue now is whether local governments have the incentives and resources to continue to effectively provide support to the poorest groups. Each type of program faces challenges and difficulties as described below.

Centralized Provision

As mentioned, a central government might want to carry out the social assistance program itself, with or without local identification of recipients. Given the success of Oportunidades, Mexican administrations have tried to use it as a compensation mechanism for different adjustment policies over time, and the mandate and coverage of the program has increased significantly. At the end of 2005, Oportunidades benefited 24 million individuals (5 million households)—roughly a quarter of the total population or 70 percent of the rural population. In contrast, the Chinese programs were more tightly targeted, with the number of people receiving social relief in the early 1990s, including recipients of both the Wu Bao and the more extensive Pinkun Hu programs (in terms of poor household support), at around 6 percent of the rural population.

Another federal program in Mexico, Seguro Popular, has also been designed to provide direct support for health care for the uninsured population. It has been criticized on the grounds that, together with Oportunidades, it encourages expansion of the informal sector and poses a constraint to the orderly development of formal sector activity. This has a disincentive effect on labor markets and also limits the growth of tax revenues. Thus, these programs may perversely perpetuate the problems that safety nets should solve.

The issue of overlapping responsibilities also creates difficulties in Mexican intergovernmental finances. Whereas Oportunidades has been effective in meeting its initial objectives, it is seen as encroaching on a typical area of local responsibility. Indeed, given the presence of significant federal transfers earmarked for basic education and health care, states and local governments have effectively begun to treat these areas as the responsibility of the federal government—despite a decade-long effort to decentralize.

As previously mentioned, it has proved difficult to replicate Oportunidades elsewhere in Latin America. Attempts were made—for instance, in the Red Solidaridad in El Salvador and Tekoporã in Paraguay—but these are small and homogeneous countries relative to Mexico. The centrally designed programs in these countries have involved significant administrative costs in establishing effective management and the eligibility of beneficiaries. Attempts to involve local governments in the programs have not been particularly successful because the political benefits are thought to accrue to the central governments, whereas the political costs are expected to be borne locally.

In general, direct provision by the central government could be achieved via relatively broad targeting—albeit at a fiscal cost in terms of leakages to the less poor. It may be more efficient to design mechanisms that better utilize the information available to local governments (including at the community level) but with the central government equalizing the capacity of the relevant levels of governments to undertake the projects. But would the local governments have the appropriate incentives to do so?

Local Provision

A good example of local identification of and provision for the poorest comes from rural China. Since the establishment of the People's Republic, a key element in reaching the poorest has been the mechanism known as Wu Bao, or "five guarantees." It relates to the minimum provision of food, health care, shelter, clothing, and funeral costs for all citizens—hence the term five guarantees. The program operates based on local (often village- or community-based) information to identify the poorest groups in society that are without extended household support, particularly in rural areas where the reach of formal social security instruments is at best limited. As is evident, the families and individuals served by Wu Bao are often among the poorest. Over time, the term came to denote a special category of persons—those who are unable to earn a living and lack relatives for support. These are predominantly orphans and the elderly or disabled. As is clear, the identification of the vulnerable without family support has to be based on local knowledge. Such individuals also tend not to be associated with elites or interest groups that often have an interest in "capturing" resources accruing to the localities.

The social protection mechanisms in China are undergoing significant change. While the market orientation of the past decade has brought about rapidly rising real incomes, particularly for families able to participate in the labor market, it has generated greater vulnerability for some of the poorest. The social protection system has come under strain as the resources available to lower-level local governments, particularly in the poorer regions, have been subject to greater constraints. On the one hand, there has been a recentralization of the main sources of revenue, and on the other, additional spending responsibilities have devolved to lower levels. Thus, the resources available to provide support or social assistance to the poorest, including those distributed through Wu Bao, tend to vary by locality. Moreover, with growing inequalities, "local capture" may become a problem in China, as it is in other parts of the world.

A more recent intervention, Di Bao, is a largely urban program providing conditional cash transfers to individuals below the poverty line. It started in 1999 and now provides support to around 22 million people, or 6 percent of the urban population—roughly the same number as those served by the rural anti-poverty programs (Wu Bao and Pinkun Hu). Local governments select recipients, and the central government provides co-financing. The proportion of central government financing varies by province—from zero in the rich coastal regions to 100 percent in Tibet. In principle, the program encompasses two key characteristics: local identification of need and a degree of equalization in the financing arrangements. One study by Ravallion, however, finds that despite the central equalization the richer localities can support higher income levels for program eligibility than can poorer ones.

The policy design issues in China are complicated by its multitiered administration, based on nested budgeting decisions. The central government decides how much to allocate each province; then a series of further transfers is carried out from the provinces to the prefectures, from the prefectures to the counties, and finally from the counties to the townships. Allowing the localities to determine eligibility criteria gives them the responsibility but at the possible cost of excluding some of the deserving poorest. Tighter central government determination of eligibility would move Di Bao closer to the Oportunidades model although still relying on local identification and administration. This change could also make the central government's costs open-ended and would not preclude diversion of centrally provided funds.

The Policy Options

An ideal system of transfers would involve the provision of clearly identified criteria by the central government to local governments to assist them in looking after the poorest. But for overall budgetary constraints and efficiency of spending, this requires that local governments accurately disclose information on the extent of need and also that they not divert central funds to other uses. It is not clear that local governments have the incentives to disclose this information; on the contrary, the localities may distort the information in order to maximize transfers from higher levels.

Thus, central governments face a dilemma. Reaching some of the poorest requires local information for effective identification and targeting. This information cannot be obtained without the cooperation of local governments. Direct central provision is possible but requires administrative capabilities and resources and may generate negative effects, such as incentives to remain in the informal sector. Local governments may have the information, but the poorer ones lack both the financing to carry out the functions and the incentives to use central transfers as intended.

Financing Instruments for Social Programs

The interaction of instruments matters, as does the budgeting framework—especially the use of contracts, together with new multiyear budgeting techniques that focus on the results or outcomes of specific programs. These mechanisms build on regional and intertemporal competition, even if there are overlapping responsibilities. Each issue is discussed sequentially below.

Tax Instruments

A key element in accountable self-governance at the subnational level is access to own-source revenues at the margin so that a jurisdiction is able to raise the additional funds needed for its key local spending. This is also a fundamental precondition for the establishment of hard-budget constraints at the subnational level, without which no-bailout conditions are barely credible. However, whether a local jurisdiction has incentives to use its own tax instruments is heavily influenced by transfer design; if a local government could rely on transfers rather than own-source revenues, it probably would, with resulting erosion in accountability. This has been the recent experience in Mexico.

Another drawback to primary reliance on local tax bases is that these tend to vary considerably, especially in large countries. For instance, in Mexico, the Federal District accounts for roughly half of all property tax collections, which are in any case low even by Latin American standards. Thus, with considerable local variation in revenue bases and limited or no control over rate structures, the responsibility for providing a modicum of social services, especially in the poorer regions, generally passes to the higher levels of government (Table 18.1).

There is a tendency to administer broad-based taxes—such as a value-added tax (VAT) and corporate income tax—centrally, as in Mexico in the late 1980s, where a number of state-level taxes were abolished on efficiency grounds to make fiscal space for a centrally administered VAT. The states effectively ceded their tax bases to the central government for guaranteed transfers. Also, in China in 1994 the establishment of a VAT to be administered by a central State Administration of Taxation was a critical element of the fiscal reforms. More recently, in Australia a range of state taxes were replaced by a VAT, which is administered centrally, although all revenues collected are redistributed to the states through the Commonwealth Grants Commission.

In all cases, transfers have been established to compensate for the loss of subnational revenues (particularly state or provincial sales taxes, among others) eliminated as a result of the establishment of the VAT. In China, the equalization transfer introduced in 1994 has gradually increased in importance as additional funds have been made available. Mexico had a complex system of untied and earmarked transfers but did not have an equalization framework. The weak own-source revenues of the lower tiers of government, together with limited accountability and an opaque

Table 18.1 Local government sources of tax revenues in selected countries, 2001 (% of total revenue)

Country	Income tax and tax on profits	Payroll tax	Property tax	General consumption tax	Taxes on specific goods and services	User charges	Other taxes
Australia	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Austria	37.7	19.1	10.0	22.7	3.8	1.7	5.0
Belgium	85.8	0.0	0.0	1.4	7.9	4.6	0.3
Canada	0.0	0.0	91.6	0.2	0.0	1.6	6.5
Germany	77.1	0.0	16.6	5.2	0.5	0.4	0.2
Mexico	0.0	0.1	88.5	0.0	1.9	0.9	8.6
Switzerland	83.1	0.0	16.6	0.0	0.2	0.1	0.0
United States	6.2	0.0	71.5	12.4	5.1	4.8	0.0

Source: F. Ambrosiano and M. Bordignon, Normative versus positive theories of revenue assignments, in *Handbook of fiscal federalism,* ed. E. Ahmad and G. Brosio (Cheltenham, England: Edward Elgar, 2006).

and complex transfer design, probably explains why a central program in Mexico has been its most successful poverty reduction instrument. Lower levels of government lack the incentives or financing to effectively replicate Oportunidades at the subnational level.

Transfer Design

The central government may try to equalize fiscal capacities, as has been the case in many countries of the Organisation Economic Co-operation and Development, so that each local government has the capability of providing similar levels of services at similar levels of fiscal effort. This is the basis for equalization transfers in countries such as Australia.

The principles of the Australian system—focusing on spending needs and revenue capacities—have been adopted in China, and resources available for equalization purposes are gradually being increased. Information flows and the political process are important in ensuring that local officials are held accountable for the use of untied funds. Thus, in less developed countries, where information flows are problematic and incomplete, there may not be adequate moral suasion to ensure that the basic services are actually provided at the subnational level with sole reliance on "equalization transfers."

Alternatively, the center may choose to provide such services directly or through special-purpose transfers designed to finance local provision of public services, say education or health care. This is the typical case, but it does not guarantee that the poorest will be reached because execution is typically undertaken by subnational governments. The difficulty is that any earmarked transfer from the central government imposes a constraint on the local government. Matching arrangements have been used extensively in some advanced countries, especially the United States, in order to obtain some "buy-in" from the local governments. However, in developing countries, need is likely to be greater in the poorer localities with weaker sources of own revenues. Hence, establishing matching criteria might actually exclude some of the poorest localities and therefore deserving recipients.

The linkages between transfer design and accountability, as well as incentives to raise own revenues and manage spending efficiently, are complex but very important. Typically, a range of transfers is used for different purposes. If the central government were to include "gap-filling" deficit financing among the set of transfers, it could vitiate any of the other "incentives" to ensure the accountability of local officials.

How to Make Special-Purpose Transfers Work

Can adequately targeted expenditure programs that are financed by the central government but implemented by local governments be designed to minimize the incentives of local governments to divert central transfers for their own objectives?

This has been a perennial problem in China in cases such as ensuring minimum standards in education (for example, the number of years of schooling). Can communities determine priorities and monitor implementation? At the one extreme, there is a danger that funds could be diverted, and at the other, that unfunded mandates might be created; in both cases it is possible that services would not be provided effectively. Moreover, the priorities may not reflect the interests of the poorest, particularly the most vulnerable members of society without sources of family support; the benefits from the transfers might accrue largely to powerful interest groups or officials.

The central government's (or donors') challenge is to design appropriate special-purpose or targeted transfer programs that meet the needs of the poorest but are executed by recipient agencies or subnational governments. (The challenge is similar when an international agency or donor country provides financing for special purposes to be implemented in a recipient country.) The objectives of the center and the recipient governments are often likely to be different: the recipients may have less concern with providing for the poorest because the responsibility for these groups may effectively lie with the central government. In any case, in the absence of full information, the recipient local governments receiving funds could use them for other purposes without significant penalty in the traditional single-period budgeting framework.

A study by Ahmad, Tandberg, and Zhang models a three-tier hierarchical structure of government that may be relevant for large countries such as China or Mexico; in this structure the central government is at the top level of the hierarchy, several provincial (state) governments constitute the middle layer, and a few local or county-level governments within the administrative area of each of the provinces form the lowest tier. The interest of leaders of provincial and local governments is to maximize perquisites and their overall budgets.

The central government sets aside a certain amount of financing for specific programs to be carried out by the localities (assuming that the central government cannot contract directly with the localities either due to high transaction costs or for political reasons). The interaction between the provincial and local governments is nested in the central selection process. Prior to the submission of its bid, the provincial government arranges a bidding process among its localities. Each county within the province offers a bid proposal. The provincial government selects one and formulates the provincial proposal based on the selected local proposals. If the province wins the program in the central selection, it will receive the amount equal to its budget bid. Next the provincial government decides the proportion of the budget to be allocated to the locality to carry out the program. Then the local government determines the amount of effort it will exert to implement the program. This decision subsumes "local capture" or other diversion of funds and is not directly observable by the higher levels of government.

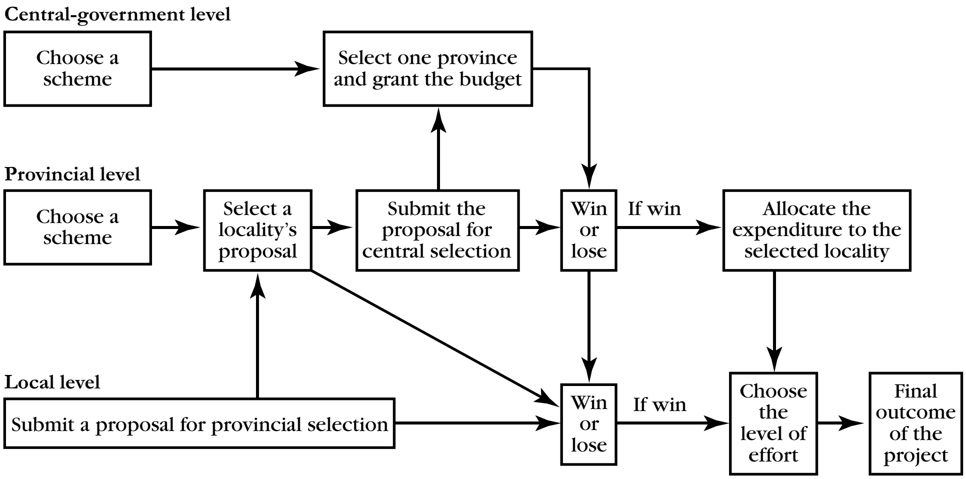
Figure 18.1 presents a simplified decision diagram of the three levels of governments. The analysis required is similar to that used in the classical "prisoner's dilemma." It is generally not possible to obtain an efficient solution in a one-period game of this type. Unless the game is repeated or constricted in some other way, officials in transfer-receiving jurisdictions will make decisions that are individually rational but lead to suboptimal solutions and may not meet the objectives of the donor governments. There must be multiperiod interactions among the different levels of government. If the game is of only one period, local governments will bid as low as possible to obtain the transfer and may not implement the scheme effectively. In a multiperiod game in which the governments care for their reputation in the future, it may be possible to identify low-cost agents and to limit the possibility of a diversion of funds or inefficient implementation.

In order to mitigate against problems of asymmetric information, there must be some element of competition between different governments at the same level. There should be more than one province bidding for the program in the central selection and more than one locality in the provincial selection. To avoid moral hazard, the transfer scheme must include elements of punishment and reward from the higher administration to the lower levels of government based on the evaluation results of the final outcome. The punishment or reward serves as either a carrot or a stick in terms of its impact on the agents' probability of winning future programs. The scheme also provides a "learning mechanism" whereby the outcomes in one period have an impact on the central government's assessment of the abilities of lower levels of government to meet their objectives in subsequent periods. Indeed, in one set of observable programs "reputation" might be used as a proxy for likely effectiveness in program implementation in general—although there may be more incentive for local governments to implement investment projects rather than provide support to the indigent.

In order to be able to select the program bids through a competitive process, the central government must be able to specify elements of programs very precisely and to monitor the degree of compliance against these specifications. The objectives of the program should be measurable, be standardized across the localities, and involve as little subjective judgment as possible. After implementation, it should be possible to evaluate whether these objectives have been achieved with minimal ambiguity. Unless these conditions are met, agents may be able to influence the central government's selection of program sites by providing substandard services in areas that are insufficiently defined in the program specifications.

Key elements of the scheme (consistent with what is observed in reality) are that the central government is able to set the policy agenda and also that it is able, in principle, to cut off funds for noncompliance with agreed conditions. However, threats to cut off funds for the poorest groups may not be credible, especially given

Figure 18.1 Decision diagram for three tiers of government



Source: Adapted from E. Ahmad, E. Tandberg, and P. Zhang, On national or supranational objectives: Improving the effectiveness of targeted expenditure programs, IMF Working Paper 02/209, International Monetary Fund, Washington, DC, 2002.

the overlapping responsibilities found in China or Mexico, but cross-conditionality involving threats to cut off investment funding strongly desired by local officials may be effectively utilized.

The design of policy to provide support to the poorest groups would involve cross-conditionality, whereby outcomes for provision for the poor could be built into the agreement or contract to provide investment funds for the localities. Thus, by virtue of setting the agenda, the central government could ensure that resources were adequately used for the poorest by threatening to withhold funds for projects or investments that were evidently preferred by the localities.

A central result of such policy design is for future transfers to be made conditional on policy reforms or on past performance. In practice, however, funds distributed by the central government are often independent of the past success of the program, given the typical single-year budgeting framework with little feedback based on outcomes. In many cases, there is an incentive for a donor government to continue to give transfers for the program, not just because of incomplete information but because funds that are not distributed might lapse. This places the emphasis on clearly identifying "outcomes" of policy actions that could be monitored and on ensuring that future budgets are linked to the achievement of the outcomes—a repeated-game perspective. In more advanced cases, this means of operating has led to the development of "contract federalism." The findings of the model echo those from the foreign aid literature, suggesting that the donor government's ineffectiveness in providing incentives to improve the performance of targeted expenditure programs may be the consequence of a time-consistency problem.

A policy option is to increase the effectiveness of targeted expenditure programs by introducing competition among local governments in different districts and across time. This formulation echoes the recent developments in the fiscal federalism literature that base efficient outcomes on enhanced competition. This allows the central government to distribute all the available transfers and is shown to solve the time-consistency problem just described. The funds that local governments receive depend implicitly on the central government's confidence in their ability to use them effectively. Therefore, even without explicit contracts, a local government may be induced to consider the central government's interests when deciding on its own actions. This increases the local government's likelihood of receiving more transfers in the future. In a one-period game approximating an annual budget process, recipient governments have incentives to cheat. Horizontal competition helps but is not sufficient to eliminate incentives to cheat.

A combination of both horizontal and intertemporal competition eliminates incentives to divert resources from the objectives of the central government. The competition elements have implications for the information flows and budget models that might be relevant to ensure that funds for programs to reach the poorest are not diverted to other uses.

Budget Processes and Transparency: Ensuring Accountability

The flow of standardized information is critical in providing a basis for evaluating how monies are used within and across jurisdictions. This involves the establishment of a common structure for budget classification, such as the International Monetary Fund's standard for economic classification—the *Government Finance Statistics Manual 2001*—or the United Nations' classification of the functions of government. This structure needs to be harmonized across all jurisdictions. In addition, most advanced countries use systems of treasury single accounts to manage and track the government's cash. In multilevel countries it is also critical to set up standards for disclosure and reporting by subnational governments.

Efforts to establish all of these requirements for information flows are under way in China but are only beginning in Mexico. In both countries, the immediate issue remains to formulate policies and implementation plans in the context of incomplete information on the use of funds. To some extent, the use of multiyear budgets and competition for the use of funds across local governments and over time should be feasible in the relatively short term, even if the main public financial management reforms are likely to take time to implement fully.

Without adequate systems to track and account for financial flows, attempts by central governments to introduce performance budgeting at all levels of government are unlikely to be successful. Indeed, experience has shown that these attempts may even delay the formation of the basic information building blocks that will be needed in the longer term. Without standardized information that can be used by households to compare performance across jurisdictions and to discipline local officials, it is not clear that reliance on citizens' action groups and communities to self-police spending will be sufficient to prevent misuse or divergence of funds, except perhaps in egregious cases.

The longer-term goal must remain to establish standards for information flows and reporting that lead to transparency across and within governments. These are critical in achieving accountable operations at all levels of government. However, an immediate measure that can be implemented in most cases is to begin to use feedback mechanisms in the budget process that take into account the effects and outcomes of programs in meeting the needs of the poor.

Policy Implications

Direct central provision of programs to support the poorest may be feasible in some countries but may pose significant administrative difficulties in most countries. Local design and implementation have the advantage of using local information, but in large countries the variance in resource levels across localities may make it essential that there be some central transfers for the poorest. The difficulty is that with centrally earmarked transfers, recipient governments have incentives to divert resources.

The typical one-period budget process encourages inefficient use of central transfers even if diversion is not intended. The central government would generally like to make transfers conditional on policy reforms or past performance. One of the key policy implications is that a multiyear budget framework, including multiyear appropriations, would greatly facilitate the achievement of central government objectives because it would open up the possibility of intertemporal competition across lower-level jurisdictions. Within-year and intertemporal competition across lower-level governments is important in mitigating the problems of asymmetric information. This also helps in controlling costs and ensuring efficiency in spending.

Cross-conditionality in the design of transfers is important to address political economy issues. Threatening to withhold funds for the poorest groups of society might not be credible. However, it is feasible to withhold investment funds if the poverty reduction objectives are not met. This cross-conditionality affects elements that are generally important in addressing the preferences of local officials and politicians.

The central government must precisely set the specifications of programs and the conditions to be met; it must also monitor the degree of compliance against these specifications. Although it might take time to establish proper financial information management systems at all levels of government—which applies to both China and Mexico—both outputs and outcomes should be carefully defined to prevent misuse or misallocation of resources.

It would also be helpful to be able to draw up actionable contracts between the central and local governments. Given that the allocation of inputs is not easily observable, as far as possible the contracts should be able to specify identifiable outputs (even if the outcomes may not be simple to specify or monitor in many developing countries).

In more advanced countries, it might be possible to move toward performance budgeting at all levels of government, although the preconditions for this are quite demanding. But, in the short run, there is considerable promise in clarifying responsibilities, defining outcomes, and using targeted transfers within a multiyear budgetary context.

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Chapter 19

China's Poverty Alleviation Policy and Management

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Since the early 1980s, mechanisms and policies for fiscal poverty alleviation have become an integral component of China's poverty alleviation programs. These fiscal policies have been implemented at all levels of government, from the Party Central Committee and the State Council to the local party committees and local governments. Financial authorities at all levels of government are the implementing agencies and have been actively involved in providing a series of innovative inputs and strengthening the capacity of fund management and monitoring. Hence, they have played a positive role in poverty alleviation and development in China.

The Framework of China's Fiscal Poverty Alleviation Policy

The Chinese government has invested heavily in infrastructure, education, and other public goods in areas where poverty is concentrated and has created targeted policies to help the most vulnerable people nationwide. According to preliminary statistics, 25 different preferential policies and almost 50 specific investment projects had been implemented in poverty-stricken areas by 2006. All of these policies and projects required financial support, which totaled more than 200 billion yuan in 2006, excluding preferential tax cuts.

There are four main types of fiscal poverty alleviation policies and corresponding public spending:

1. *Poverty alleviation funds targeted to poor people.* Since 1980, China's central government has established fiscal poverty alleviation funds through its financial authorities. The amount of these funds increased from 500 million yuan in the early 1980s to 14.4 billion yuan in 2007. Poverty alleviation funds totaled about 160 billion yuan between 1980 and 2007. Local governments, including provincial and other lower-level governments, have also increased their allocation of poverty alleviation and development funds during the same period.

2. *Direct financial transfers to poverty-stricken areas.* Although financial transfers to lagging regions have been implemented for a long time, the central government has gradually shifted the focus of such transfers from production only to overall social and economic development. Transfer payments have also gradually increased, and projects have covered rural education, health, environmental reconstruction, social security, disaster relief, and other types of social development in the rural areas. In addition, special attention has been given to poverty-stricken rural areas, especially in the ethnic minority regions.

3. *Preferential policies and tax relief for economic development in poverty-stricken areas.* The government implemented full or partial tax "holidays" for the first three years for newly established enterprises in poverty-stricken areas. The agricultural tax was first eliminated in poverty-stricken areas, together with other reforms of rural taxes and administrative charges, in 2000 and was abolished nationwide in 2006.

4. *Interest subsidies for poverty alleviation and development loans.* Between 1986 and 2007, the central government, through its financial authorities, provided more than 70 billion yuan in interest subsidies to poverty alleviation and development loans. Through these subsidies the government has encouraged commercial financial institutions to increase their lending for poverty alleviation and development, and such lending totaled nearly 200 billion yuan by 2007.

The Provision of Special Funds for Poverty Alleviation

The allocation of poverty alleviation funds in China has been guided by a series of plans for meeting poverty alleviation targets set by the government. The Outline for Poverty Alleviation and Development in China's Rural Areas for 2001–10, provided by the central government in 2000, is a general guide for fund allocation for both the central government and provincial governments. Financial authorities at both the central and provincial levels have also gradually increased the funds allocated to poverty alleviation, taking into account region-specific conditions, including their financial situations. Between 1980 and 2006, the poverty alleviation funds allocated by the central government (through different ministries) grew at a rate of 14 percent annually, totaling 147 billion yuan. Of this amount, 71 billion yuan came directly from the central budget—that is, they were allocated directly through the Ministry of Finance. The central budget funds allocated to poverty alleviation grew by 6 percent annually in this period. Allocations through the central budget increased significantly, however, in the 2000s. The total poverty alleviation funds allocated from the central budget from 2001 to 2006 were equivalent to the total amount allocated from 1990 to 2000. In 2007, the allocations reached 14 billion yuan in one year. Between 2001 and 2006, the poverty alleviation funds allocated through provincial budgets also increased significantly, totaling about 18 billion yuan, with an average annual increase of 12 percent.

The Management of Poverty Alleviation Funds

Diversified Fund Management Channels

Poverty alleviation funds include funds allocated by the central government and by local governments at multiple levels, under different categories, and through various government agencies. Poverty alleviation funds from the central government include funds in the following five categories: (1) development funds, (2) food-for-work funds, (3) development funds for ethnic minorities, (4) funds for poverty-stricken state-owned farms and forestry farms, and (5) interest subsidies for discounted loans. These funds are managed by various relevant management authorities.

Gradually Standardized Funds Allocation

Before 1997, poverty alleviation funds were allocated only through the central government. After 1997, provincial and other local governments took a greater role, and provincial governments took more overall responsibility for poverty alleviation, especially in rural areas. In 2001 the central government also changed its method of allocating funds, moving from a system based on projects to one based on a series of poverty measurement indicators. These indicators include the number of poor people, the annual per capita net income of farmers, the local financial situation, and the need for policy adjustments.

Although some provinces have started to adopt the central government's poverty indicator method, most provinces still examine and approve funds based on new and ongoing projects, taking into account the previous year's allocation. The funds are further allocated to county governments through the provincial governments. Some counties, especially those with high concentrations of poverty, and some very poor townships depend entirely on the poverty alleviation funds approved for and allocated to them.

Procedures for Disbursing Poverty Alleviation Funds

To acquire poverty alleviation funds, township governments and various county government departments submit project applications, and then, at the county level, the Leading Group of Poverty Alleviation and Development makes final submission decisions after viewing the total demand from its county. A report summarizing the application at the county level is then submitted to the relevant authorities at higher levels, all the way up to provincial authorities. The provincial authorities examine these project plans and estimated budgets and submit them to the provincial-level Leading Group of Poverty Alleviation and Development for final approval. Funds are then allocated to the approved projects. Project plans for food-for-work funds, however, must be submitted to the National Development and Reform Commission for examination and approval. The approved projects are implemented through the relevant county-level government authorities and township governments. Their financial departments are responsible for allocating or reimbursing funds.

Since 2001, the key poor villages and counties in each province, autonomous region, and municipality have started to adopt poverty alleviation plans, which have been entered into a database. Projects for applying the poverty alleviation funds submitted by the counties are usually taken from this database.

Transfer and Payment of Funds

The central government's poverty alleviation funds are allocated from the central government to the provincial governments after the Ministry of Finance announces its budget allocation plan every year. The funds transferred to the provincial governments are then allocated to lower levels of government or to special accounts for poverty alleviation funds. A system of centralized collection and payment by state treasuries at the province level will gradually be adopted.

At the same time, a reimbursement system is used to allocate poverty alleviation funds. It requires that funds and payments be linked to projects. In practice, when projects are launched, the financial departments preallocate funds to implementing organizations as initial capital; this fund preallocation is made according to the project's budget plans and actual needs. In the process of project implementation, the implementing organizations submit their applications for the rest of the project funds together with accounting vouchers.

Inspection and Supervision of Fund Use

At the national level, the National Audit Office and Resident Financial Supervision Offices of the Ministry of Finance audit and conduct special inspections on the use and management of poverty alleviation funds. At or below the provincial level, the supervision of poverty alleviation funds may be accomplished through self-checks by implementing organizations and departments, selective checks and audits by supervising administrative and audit departments, cross-checks between administrative departments, special investigations, and supervision and inspection by the Resident Financial Supervision Offices of the Ministry of Finance.

Some Problems in Poverty Alleviation Fund Use and Management

Several problems arise in using and managing poverty alleviation funds. The first problem relates to the indicator used for fund allocation. The principal indicator applied in allocating poverty alleviation funds is a headcount of the number of poor people in a region. Although this method seems to have improved the fairness of fund allocation, it reduces local governments' incentive to cut the number of poor because the more poor people a region has, the more funds it receives. Consequently, governments of some counties that were once poverty-stricken but are no longer do not want their counties removed from the list. At present, most provinces, autonomous regions, and municipalities still allocate funds to counties according to their original poverty status, and the counties acquire their funds through project applications. This practice does not allow for timely adjustment in fund allocation to reflect changes in the degree of poverty across counties and townships. At the same time, because provinces hold the power to approve projects, lower-level governments have incentives to lobby the provincial authorities to get projects within their county or township approved.

The second problem relates to the multiple objectives of poverty alleviation activities. It often happens that the main objective of lower-level governments becomes regional development instead of providing assistance to the poor population within the region. Moreover, there is a lack of coordination between different government departments at each level, resulting in the lack of an integrated plan for the overall use of poverty alleviation funds.

In addition, in China government has a dominant role in poverty alleviation, and civil society and nongovernmental organizations (NGOs) play only weak roles. This system does not empower poor people to use their voices to influence fund allocation and use. Within government, decisionmaking power is often concentrated among certain authorities at the provincial level, and the power of local governments below the provincial level is limited. Furthermore, although there are many self-checks by government departments themselves, there is little examination and supervision by civil society. Finally, the project examination and approval processes are lengthy, and funds are often not disbursed on time.

Innovative Approaches to Poverty Alleviation

In recent years, financial departments at all governmental levels have made many efforts to improve the effectiveness and efficiency of the use and management of poverty alleviation funds. Some innovative approaches have been created. First, to address the problem of red tape at the provincial level, the Ministry of Finance suggests that all provinces, autonomous regions, and municipalities arrange for selecting projects at the county level and then reporting them to the provincial level. Through this approach, the power to examine and approve projects is partially transferred to lower levels of government. Hebei, Henan, Hubei, and Jilin provinces have adopted this approach.

Second, the Ministry of Finance now allocates most of the poverty alleviation funds before the annual session of the People's Congress to ensure the timely implementation of poverty alleviation projects.

Third, the interest subsidy was reformed to make better use of subsidized loans for poverty alleviation. In the past, some interest-subsidized loans were not used for poverty alleviation, and some poverty-stricken rural households could not obtain the loans they urgently needed. Reforms were made to grant these poverty alleviation loans directly to households. At the same time, provincial and local governments and local financial institutions took more responsibility for administering these loans.

Fourth, pilot projects for incentive and interest subsidy funds were set up in four provinces and municipalities in 2005 to further address the problems of poverty-stricken rural households in obtaining loans. The objective was to set up a risk-sharing mechanism to encourage financial institutions to be more actively involved in supporting impoverished people in developing their productive capacities and to give financial institutions a role to play in achieving maximum returns on minimum investments. In 2006 the pilot projects were expanded to eight provinces.

Fifth, a performance appraisal system has been established. Poverty alleviation tasks and responsibilities were not in place when funds and more managerial power were transferred from the central government to the provincial level. To overcome this weakness, beginning in 2006 the central government established procedures for evaluating each province's performance in its use of fiscal poverty alleviation funds.

Sixth, the information system for managing and supervising poverty alleviation funds was improved. Before 2003 it was difficult to collect information on poverty alleviation fund use and follow-up. Starting in 2003, five central government ministries and commissions jointly established an information system for managing and supervising poverty alleviation funds. This system is still in its initial stage, and there is much room for further improvement.

Seventh, village development mutual aid funds were launched as pilot projects in 14 provinces. These pilot projects have received positive feedback; hence, similar projects were launched nationwide in 2007.

Fiscal Poverty Alleviation in the 21st Century

China's poverty alleviation and rural development efforts have undergone some major changes in the 21st century. Although the government's agricultural assistance policies are gradually being strengthened and the rural subsistence allowance system—which provides allowances to the poor to meet their basic needs for food and clothing—has been established nationwide, the number of poor people in China's rural areas is still large. The income gap between the poor and the nonpoor continues to widen. The ability of poor people and poor areas to effect their own development is still limited, and they depend heavily on help from outside. With the rural subsistence allowance system, it is expected that the desire for development in poverty-stricken areas will grow even stronger.

The next steps for fiscal poverty alleviation are not only to intensify financial inputs and strengthen fund management but also to work out a clear strategy, improve policies and measures, adopt innovative poverty alleviation mechanisms, and improve efficiency.

Add New Dimensions to Development-Oriented Poverty Alleviation

Although future poverty alleviation work should follow the basic principle of development-oriented poverty alleviation, new dimensions and concepts should be applied to this principle. Poverty alleviation and development policies should shift from being piecemeal to comprehensive. Special efforts should be made to promote the ability of poor people and poor areas to develop their abilities to fight poverty through their own efforts. The focus of development should shift from key locations to the entire area.

Reset the Tasks and Objectives of Poverty Alleviation and Development

Traditionally, the work of poverty alleviation and development consisted mainly of providing food and clothing to the poverty-affected population. Now, with the subsistence allowance system, the focus should shift toward helping the poor to solve food and clothing problems by themselves by promoting economic development, increasing incomes, and lifting people out of poverty permanently.

Clearly Define the Focus of Poverty Alleviation and Development

A realistic approach to poverty alleviation and development should be in accordance with local conditions. These efforts should focus on addressing the most urgent problems of poor people and areas, with different approaches for different conditions. Currently infrastructure construction, industrial development, resettlement, and labor training are key areas of poverty alleviation and development, and they should be further strengthened.

Adopt Innovative Poverty Alleviation Mechanisms

Reform and innovation are inevitable in advancing the work of poverty alleviation and making it more effective and efficient. More innovations are required, including the following: First, coordination should be strengthened between poverty alleviation and development policies on the one hand and other agricultural assistance policies on the other hand. There should be an overall management plan for the use of all funds related to poverty alleviation. Second, the project selection process should be reformed. Instead of keeping the same list of key poverty-stricken counties for years, China must set up an incentive mechanism to encourage poverty-stricken counties to shake off poverty by, for instance, linking poverty alleviation to political achievement and promotion of leaders and cadres. The central government should transfer the power to adjust the list of key counties to the provinces. Third, a results-oriented incentive mechanism for allocating poverty alleviation funds should be set up. Poverty alleviation funds should be divided into two parts: most of the funds should be allocated according to the scale and degree of poverty, and a smaller share should be allocated according to performance in alleviating poverty.

Strengthen Fund Management to Ensure Effectiveness

The central government should introduce an incentive mechanism to promote local responsibility in poverty alleviation. At the local level, provinces should adopt the indicator method of fund allocation and transfer responsibility for examining and approving poverty alleviation projects to lower levels.

The practice of making direct payments of poverty alleviation funds—first to county fiscal departments and later possibly to project implementing units and households—should be explored, and the reimbursement system for poverty alleviation funds should be improved. To improve tendering and bidding procedures, all tendering and bidding applications submitted by subordinate sections should be examined by independent government departments.

A monitoring system with clearly defined responsibilities should include the relevant government authorities at all levels. Suitable government institutions or NGOs should conduct inspections, and a system should be established for rewards and penalties based on inspection results. Finally, the information system for managing and monitoring poverty alleviation funds should be improved, and a mechanism for reporting and cooperation between departments should be created.

Essay 1

The Macroeconomic Foundations of Inclusive Middle-Class Growth

Nancy Birdsall

Growth that is shared—so-called inclusive growth—is now widely embraced as the central economic goal for developing countries. But inclusive growth can mean different things to different people. In this essay *inclusive growth* is defined as growth that builds a middle class. Macroeconomic policies can shape the environment and incentives for inclusive growth by working toward three important goals: fiscal discipline, the more rule-based the better; a "fair" fiscal policy with respect to revenues and expenditures; and a business-friendly exchange rate. Although these policies are not underlying causes of growth, they are conducive to growth. The analysis here relies heavily on the experiences of the mostly middle-income countries in Latin America.

From Pro-Poor Growth to Inclusive "Middle-Class" Growth

In the past several decades, pro-poor growth emerged as a gentle counterpoint to a singular concern with growth alone (measured in terms of increases in per capita

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income). The focus on pro-poor growth implicitly recognized that growth, if not always sufficient for poverty reduction, is almost certainly necessary. Inclusive growth includes and extends pro-poor growth on the grounds that growth that is good for the large majority of people in developing countries is more likely to be economically and politically sustainable. Sustained growth matters because many low- and middle-income countries that have had long growth episodes—of 8 to 10 years—have subsequently suffered prolonged growth collapses before achieving real gains in human development and general well-being.

Is there a meaningful distinction between macroeconomic policies conducive to pro-poor growth and those conducive to inclusive growth? Sound fiscal and monetary policies that are pro-poor are also likely to be good for the middle class, but whether that commonality extends to medium-term tax, expenditure, and transfer policies is less obvious. In the case of macroeconomic shocks, middle-class small business owners or semiskilled workers may face greater relative losses of permanent income than poor subsistence farmers.

In the end, the possible tensions or trade-offs between strictly pro-poor and more inclusive "middle-class" growth policies cannot be generalized. They must be assessed policy by policy in each country and are likely to change over time as circumstances change. Policymakers in developing countries (and their international supporters and advisers) should more systematically consider weighted welfare outcomes when selecting and fine-tuning macroeconomic policies rather than relying solely on unweighted growth outcomes or overly weighted poverty outcomes. Where there are no trade-offs, all the better. The medium-term benefits of good macroeconomic policy for building a middle class argue all the more for what are sometimes painful macroeconomic decisions in the short run.

Defining the Middle Class

Inclusive growth implies an increase in both the proportion of *people* in the middle class (implying that some people exit poverty) and the proportion of *total income* they command (implying gains at the "expense" of either the initially poor or the initially rich). The *middle class* is defined here as including people with incomes at or above the equivalent of US$10.00 a day in 2005 and at or below the 90th percentile of the income distribution in their own country. This definition implies some absolute and global threshold below which people are too poor to be middle class in any society and some relative and local threshold above which people are, at least in their own society, "rich." With this definition of *middle class,* an increase in that group's size and economic power is likely to signal that the underlying growth is based on wealth creation and productivity gains in private activities and is thus self-sustaining and transformative as opposed to being driven largely by exploitation of natural resources, remittances, or infusions of external aid.

Latin America has for decades been the region with the highest inequality in the world. Latin America also has a history—until about 1990 in most countries—of high inflation and public debt, volatile monetary policy, and, in part because of inflation, overvalued exchange rates. But in the past few years Brazil and Mexico have experienced substantial declines in poverty (using the US$2.00-a-day poverty line), notable declines in income inequality, and a doubling of the proportion of people and income in the middle class. This situation sharply contrasts with middle-class growth reversals in Argentina, Ecuador, and Venezuela. One reason may be that the latter countries have hewed less closely than have Brazil and Mexico to standard International Monetary Fund / World Bank macroeconomic policies. Ecuador and Venezuela, with their dependence on oil exports, may have been more vulnerable to currency appreciation, which tends to be unfriendly to increasing employment and small business development. Middle-class growth in Brazil and Mexico, where macroeconomic policies have markedly improved in the past decade, suggests that eventually—with a long lag—better macroeconomic policy (combined with a benign external environment and a commodity boom) can contribute to inclusive growth.

In the Background: Open Economies and Volatile Global Markets

The discussion here assumes that developing countries will continue the trend of the past two decades of maintaining or increasing their openness (though more cautiously with respect to capital) in an effort to fully exploit the potential benefits of integration into the global economy. But because more open economies are more vulnerable to global financial and other shocks and because the integration process produces losers (at least in the short run) as well as winners, maintaining good macroeconomic policy in an open economy can be politically difficult. The challenge is even more complicated where the middle class is relatively small and has little command over total income (and where it is heavily made up of households dependent on state and state-protected sectors). For example, in mature market economies it is the secure middle class that is most likely to support policies that favor openness, maintain price stability, and help ensure a competitive exchange rate. In contrast, the poor and near poor (living on less than US$10.00 a day) are at more risk of losing out with integration because they generally lack sufficient education or financial assets to exploit global good times and are vulnerable in global bad times. They also have sufficient political voice to generate self-defeating populist pressures or, in immature democracies, to support short-term patronage arrangements that betray their long-term economic interests.

The Missing Middle Class in Low-Income Countries

Countries with purchasing power parity annual income of less than US$1,500.00 or so per capita have virtually no middle class by the definition used here because their daily income per capita at the 90th percentile is below US$10.00. That is the case for India and most countries of Sub-Saharan Africa. Many such countries are highly dependent on aid, which can account for as much as 40 percent of all government spending. The discussion of macroeconomic policies in the next section does apply to them, but the trade-offs may be more difficult in some cases. Heavy aid inflows can, for example, complicate efforts to limit real exchange rate appreciation, which could undermine the expansion of small business. Donors as well as country policymakers should ensure that aid flows include adequate support for key investments in power, ports, roads, and other types of infrastructure. By reducing costs, these investments can help avoid pressure on the exchange rate, allowing for the expansion of small business and increasing competitiveness in manufacturing, agroindustry, and services for export.

Three Macroeconomic Policy Goals That Matter for Inclusive Growth

Fiscal Discipline: The More Rule-Based, the Better

Developing countries, especially those with a bad history of inflation and poor debt management, need to accumulate a credible record of good fiscal management if they are to ensure growth that is inclusive. Most emerging markets and low-income countries have dramatically improved their macroeconomic management since the early 1990s. They are accumulating "good" history. To lock in good history now requires institutionalizing a budget process that is transparent and rule-based, thereby ensuring that habits and citizens' expectations, as well as legislation and regulatory systems, support fiscal policy conducive to inclusive growth. Examples of good rules are ones promoting legal ceilings on indebtedness relative to gross domestic product (GDP); a truly independent source of published estimates of revenue and expenditure; rules to lock in additional fiscal effort during booms; and, for countries rich in natural resources, fiscal contingency funds that set aside unexpected revenue. Countries where the middle class is large and growing are more likely to have the political support for adherence to such rules in what could be a virtuous cycle of inclusive growth and good rule-based fiscal policy.

With the exception of Chile, most countries in Latin America have run fiscal deficits for years and still do. Past fiscal laxity meant that governments either printed money, fueling inflation, or issued large amounts of debt, driving interest rates to onerous levels. The resulting inflation hurt poor people because of their limited capacity to protect their earnings, for example, through indexed savings. High interest rates also undermined the growth of a middle class by limiting the expansion of creditworthy small firms (which generally have no alternative to the local market for their financing needs) and thus of private investment and of jobs for the unskilled and semiskilled.

Fiscal indiscipline is no longer the rule in Latin America. Average inflation fell from close to 600 percent in 1990 to just over 7 percent between 2000 and 2006. But high borrowing in the past means that debt service is still high. This debt must be financed, reducing the scope for new public expenditures. In 2003 Brazil was spending 10 percent of its GDP on interest on its public debt. To the extent the debt stock must be rolled over (which depends on the extent to which overall spending can be reduced to pay off debt), public borrowing will keep interest rates higher than otherwise, crowding out private investment and job creation. Real interest rates were very high in Latin America in the 1990s, reaching more than 10 percent on average for most countries, compared with 6 percent on average in Southeast Asia and about 5.6 percent in the United States. Since 2001 interest rates have fallen against a backdrop of fairly low inflation in most Latin American countries, but they remain well above those in other regions. Of course some public debt to finance small deficits is reasonable, especially when economic growth ensures that the ratio of debt to GDP does not continually rise above a safe range. But emerging market economies with a history of inflation and volatility (including some outside of Latin America such as the Philippines, Thailand, and Turkey) should probably meet a tougher standard of net public debt to GDP than that for developed countries—the IMF suggests no more than 30 percent for emerging markets.

History hurts in another way. Given the existing debt, Latin American and other developing-country governments that are determined to avoid new bouts of inflation have had to maintain tight fiscal policies in the past decade, in several cases even in the presence of primary surpluses as high as 4 and 5 percent of GDP—that is, fiscal surpluses net of interest payments. This situation has reduced the fiscal space for public investment in roads, schools, health care, police training, and so on—on which the poor rely heavily. In an unhappy combination, past high public borrowing in Latin America may be contributing to the crowding out of private investment, while high primary surpluses to finance debt service on current and past borrowing may be reducing public investment compared with that of countries in East Asia.

Another consequence of past fiscal indiscipline is the inability to implement countercyclical fiscal spending during economic downturns. During recessions in developed countries, governments increase spending on unemployment, food stamps, and other safety net programs. The resulting increases in public spending protect the poor and help insulate the middle class while helping to stimulate a sluggish economy. Such countercyclical measures, however, rely on the confidence of domestic and external market creditors in the government's willingness and ability to honor the new debt and on the local financial sector's ability to absorb new debt. Except for Chile, countries in Latin America have not been tested on this score since the 2001 debt crisis in Argentina.

In short, Latin American countries are still paying for fiscal indiscipline that mostly ended more than a decade ago. With the recent global economic boom, most have grown fast enough and kept overall fiscal deficits low enough to get ahead of the destructive debt dynamic in which the burden of past debt undermines aggregate growth. But continued progress relies heavily on more years of very tight fiscal policy (unless growth rates jump to Asian levels) and perhaps too heavily on a continuation of an unusually benign external environment, particularly for commodity producers.

Fiscal probity also helps limit the volatility that hurts the poor and the productive middle class. The poor and the middle class gain less during booms and are the first to lose jobs during busts; those who already have real and financial assets gain most. When volatility leads to financial crisis, it also results in long-lasting transfers of wealth from the poor and middle class to the upper class. Evidence from the financial crises of the late 1990s in Asia and Latin America shows that many poor and middle-income households did not recover assets they had liquidated during severe downturns.

A "Fair" Tax and Income Redistribution System

Inclusive growth requires not only keeping aggregate spending in line with aggregate revenues but also adhering to generally progressive tax systems and expenditures. The experience in Latin America is discouraging. The value-added tax, which is generally regressive, accounts for 60 percent of total revenue in Latin America, compared with 30 percent in Europe. More progressive and higher overall taxation in Europe reduces income inequality, and probably the burden on the middle class, much more than in Latin America, where loopholes and exemptions tend to reduce the tax burden on the rich and tax evasion is rampant. Finally, high payroll taxes discourage job creation, hurting the poor and middle-income groups more than the rich, whose income comes relatively more from capital. Tax revenue averages just 18 percent of GDP, well below what might be expected given average per capita income. Low revenue generation combined with admirable fiscal discipline in Latin America constrains public investments and expenditures that could otherwise be deployed to reduce inequality and induce more inclusive growth. Equally to the point, more visibly fair tax systems would not only encourage inclusive growth but also make higher ratios of taxes to GDP more politically acceptable, including to the rich, who now easily justify evasion (more efficient public spending and less corruption would also have this effect). In Argentina the effective average tax rate for the top 10 percent of households was estimated at 8 percent in the late 1990s. (In Africa the problem is heavy reliance on trade and other indirect taxes; relatively high taxes on imports raise input costs for businesses and keep consumer prices higher than otherwise.)

Greater spending—on health, education, and public infrastructure—as long as it is minimally efficient, is one key to more inclusive growth. Experience in Latin America shows that the most inefficient, noninclusive spending occurs in poorly designed and politically driven pension programs. In Latin America, the richest quintile of the population receives on average about 60 percent of net pension benefits (the full benefit amount received minus total contributions), whereas the poorest quintile receives only 3 percent.

A Business-Friendly Exchange Rate

A competitive exchange rate is helpful to inclusive growth because success in manufactured exports is almost always associated with investment in new enterprises and creation of jobs for the semi-skilled; this pattern occurred in Japan and then Korea and Taiwan in the 1950s and 1960s and more recently in China, Mauritius, and Vietnam. When Latin American countries monetized their high fiscal deficits, the results were inflation, persistently overvalued exchange rates throughout the 1970s and even in the 1980s, and excessive borrowing. Countries then attempted to protect local industries through tariffs and other barriers, reducing competitiveness. Over the past two decades, Chile, with a longer history of fiscal rectitude, has been best able to manage its exchange rate to limit appreciation.

Fiscal discipline does not guarantee a competitive exchange rate. Governments can get away with high deficits while avoiding currency appreciation if, as in India until recently, capital markets are closed, private savings to finance public debt can be captured, growth prospects are especially good, and people have confidence in the currency. But in most developing countries, maintaining a competitive exchange rate is likely to help ensure inclusive growth. The increase in the size of the middle class in urban China is the result of several factors, including the country's undervalued exchange rate. In Brazil and Mexico, the slaying of inflation in the early 1990s has made it easier to avoid overvaluation, which had hurt exports for the two prior decades.

Conclusion

In all economies, the middle class depends on a stable macroeconomic environment. Economic volatility—due to high fiscal deficits, poor monetary policy, unsustainable public borrowing, undervalued exchange rates that temporarily make imports cheap, and inflation—is bad for the incipient middle class. The experience of mature Western economies suggests that poor people benefit when an economically strong middle class insists on accountable government and pays taxes to support universal and adequate public services. That experience suggests that inclusive growth as defined here will benefit poor people both directly and indirectly by helping them escape poverty. Perhaps it is not a coincidence that Brazil and Mexico, the two countries in Latin America that have sustained cash transfer programs for the very poor, have seen the ranks and the economic weight of the middle class double. It is hard to imagine that this progress would have been possible without more than a decade of sustained, tough fiscal and other macroeconomic policies.

Part 3

Focusing on Social Policies and Insurance

Policy action on nutrition, health, education, and credit is needed to break the persistence that is often associated with extreme poverty and the types of behavior adaptation that accompany extreme deprivation (see Chapter 1). Chapter 1 noted that in many cases unexpected shocks cause households to fall into extreme poverty or limit the extent to which they can invest in high-return activities that enable a move out of poverty. This part of the book thus focuses on interventions that are particularly effective at building up the nutrition, health, education, and credit of the poorest households in a way that protects them from future vulnerability of falling into poverty.

Policy action is important not only to immediately ease poverty—a welfare argument—but also to ensure growth by enabling poor households to fully participate in growth (de Ferranti et al. 2004; Pattillo, Gupta, and Carey 2005; Ravallion 2006). Additionally, it can help ensure peace by addressing inequalities that can form the basis for violence (Stewart 2008). Although welfare arguments are most often used to justify targeted action, as noted by Harold Alderman and John Hoddinott in Chapter 20, the instrumental role of targeted social policies in bringing about growth and ensuring security also provide a powerful rationale for engaging in such activities.

Alderman and Hoddinott highlight five mechanisms through which social safety nets can promote growth. In doing so, they challenge the notion that social safety nets merely redistribute the gains from growth rather than promoting it. Social safety nets targeted to the poor and vulnerable can provide assistance to the least well-off members of society and protect households against shocks. Therefore, social safety nets not only ease poverty momentarily but also enable growth by allowing poor households to create assets, protect their assets, and allocate resources to risky but highly remunerative production activities.

Chapter 20 focuses its discussion on social safety nets that have proven effective in improving and protecting the asset base of the poorest. In reality many different types of interventions are needed to achieve this goal. Chapters 21–27 focus on specific interventions that are also needed to improve and protect the asset base of the poorest. The first three chapters consider public transfers, assessing recent experiences of conditional cash transfer (CCT) programs, school feeding programs, and social security schemes. The next four chapters focus on interventions that require the development of new markets for the poorest: markets for savings, credit, and risk management products such as health and weather insurance. These interventions have an immediate effect on easing poverty but also enable growth by allowing poor households to invest in (and protect their investments in) nutrition, education, land, and other productive goods.

The final three chapters of the part (Chapters 29–31) do not consider specific interventions but instead document the experiences of two countries in Latin America—Brazil and Chile—that have had some recent success in building and protecting the assets of the poorest. These chapters not only document successful programs but also highlight how they have been complemented by macroeconomic conditions that particularly favored returns to assets held by the poorest. These chapters also describe the importance of improving the quantity and quality of education available. In documenting these countries' experiences, these chapters provide a useful reminder that although targeted interventions to the poorest are a prerequisite for ensuring improvements in welfare, their effectiveness in improving the conditions of the poorest depends strongly on the enabling environment that determines the returns to the assets that the poorest will receive (Hoddinott 2008).

Social Security and Public Transfers

The discussion of public transfers for the poorest focuses on CCTs, food-for-education, and social security systems. In Chapter 21 Jean-Jacques Dethier examines how social security has effectively reduced the vulnerability faced by the elderly, disabled, and unemployed in developed countries (see, for example, Barr 2004) and asks what developing countries can learn from this experience. As of yet, however, there is little analysis of how social security schemes might function and their impact in a developing-country context. Dethier notes that for social security to work in low-income countries, national governments need to increase the financing for these programs from general taxation, expand social security benefits to those engaged in informal labor markets, and create new institutions to administer social security programs.

More research is needed, however, on how to design and structure social security systems so they reduce poverty and vulnerability among the poorest people in developing countries. For example, in countries with highly unequal rates of life expectancy between the poorest and the richest, universal pensions could benefit richer households on balance. Some type of targeted pension scheme may be needed to benefit the poorest. Chapter 29 notes that some of Brazil's pension expansion has in practice been regressive but that introducing noncontributory retirement and disability pensions for all agricultural workers has helped reverse this tendency. Documented lessons from countries that have moved closer to providing more complete social security programs—China, Costa Rica, Kerala State in India, South Africa, and Sri Lanka—can improve our understanding (Ahmad et al. 1991; van Ginneken 2003; Justino 2007; Mesa-Lago 2007).

Chapter 22 presents evidence on CCT programs. These programs condition transfers to households on their meeting certain requirements, such as sending children to school. The design, implementation, and impact of these programs have been documented in a number of studies (for example, see Skoufias 2005 and Levy 2006). In Chapter 22 Michelle Adato and John Hoddinott describe how CCTs have proven successful in reducing poverty in the short run (through cash transfers) and in the long run (through the improvements in nutrition and investments in education that they encourage). They also warn that these programs do not necessarily work in every country and that, alone, they are not sufficient to reduce poverty.

Food-for-education programs—which provide fortified meals to children in school or take-home rations conditioned on a child's school attendance—can effectively increase school participation and improve the nutritional status of children. These programs often benefit children from the poorest households by providing needed incentives to send children to school. The complementarities between nutrition and ability to learn allow these programs to particularly benefit children from very poor and food-insecure households, who are more likely to attend school on empty stomachs (Adelman, Gilligan, and Lehrer 2008). Sarah Adelman, Daniel Gilligan, and Kim Lehrer discussed the effectiveness of these programs and the conditions and implementation mechanisms that improve their efficiency in Chapter 23.

In addition to CCTs and conditional meal provision, a number of other interventions can improve the nutritional status of children and adults. In Chapter 24 Kathy Spahn presents examples of innovative approaches implemented by Helen Keller International to reduce micronutrient deficiencies among poor households. She discusses how fortification of foods such as oil, sugar, wheat, and flour can greatly improve the nutritional status of the very poorest households. Additionally, a study in Bangladesh suggests that intensive nutrition education for mothers improves child nutritional status significantly and sustainably even when no nutritional supplements are provided (Roy et al. 2005). This finding fits with studies showing that in some areas of the world where child malnutrition is particularly high (such as in South Asia), the practices for feeding and caring for young children are inadequate (see Smith et al. 2003).

Savings, Credit, and Insurance for the Poorest

Social safety nets provide some form of insurance to poor households. Alderman and Hoddinott argue in their chapter that for the poorest households, social safety nets allow households to recover quickly from shocks and offer a form of insurance that encourages them to adopt innovations. There are limits to the insurance that social safety nets provide, however, and in Chapter 25 Stefan Dercon argues that they should be seen as one of a number of risk management strategies available to the poor.

Four chapters consider how markets for a number of financial services—savings and credit services, weather insurance, and health insurance—can be developed for the poorest. All of these markets provide households with opportunities to invest in and protect their assets. All of these chapters argue that ultimately action by private, public, and civil society bodies is needed to ensure that these markets develop for the poorest.

The first two of these four chapters—Chapter 25 by Stefan Dercon and Chapter 26 by Jacques van der Gaag—consider how to insure the poorest, focusing on innovations in weather and health insurance. Health and weather shocks are the most likely sources of risk to a household's welfare (even for the poorest, who may be landless rural laborers, because they rely on weather-dependent demand for agricultural labor). Innovations in weather-based indexes (Cole, Tobacman, and Topalova 2007; Gine, Townsend, and Vickery 2007) and health insurance (Ekman 2004) have provided new tools that overcome many of the problems of traditional insurance schemes (Morduch 2006), but empirical analyses show that there is still a large difference between the ability of the poorest households to pay for these services and the cost at which they can be provided (actual demand is often well below households' stated willingness to pay). It is hard to imagine that this gap between demand and supply can be bridged without public intervention or collaboration with civil society organizations (perhaps in a way similar to that detailed by Sona Varma in Chapter 28). As van der Gaag notes, however, part of the challenge is designing insurance schemes that use the large amounts of money that the very poorest already invest in emergency health care and in ex ante mitigation of weather shocks.

Both chapters note a number of unresolved challenges in providing market-based forms of insurance to the poorest, but Dercon points out that, at least in some countries, traditional forms of insurance tend to include the poorest. Developing insurance markets for the poorest people may require building on such traditional insurance institutions. Doing so will involve considering how these traditional schemes can be supported to provide a wider range of insurance, in particular for relatively high-incidence events (such as common health risks) and covariate shocks such as weather failures.

Appropriate access to savings instruments and credit can play an insurance role for households, and provision of insurance can facilitate or limit access to credit (Chapter 25). Access to savings instruments and credit allows rural households to make productive investments.[1] One of the most effective means by which rural poor households have gained access to credit and increased their assets is microfinance. Although microfinance is widely used, its impact varies considerably depending on how it is provided. When it has been provided as part of a well-managed and -targeted intervention, it has been found to allow poor households to increase their assets, improve their ability to alleviate risk, and reduce their reliance on moneylenders (Pitt and Khandker 1998; Townsend 2006). It is not clear, however, that microfinance benefits the poorest in a village.

In Chapter 27 Fazle Hasan Abed, director of the Bangladeshi microfinance organization BRAC, describes that organization's recent success with microfinance and highlights that microfinance alone will not necessarily help the poorest of the poor. To reach the poorest households, BRAC first gives them grants rather than loans and then provides appropriate technical assistance along with the loans. This careful innovation has allowed a traditional development tool to be adapted to the needs of the poorest households. More analysis of the impact of this approach and of the appropriate duration and nature of grant giving in different contexts will be most useful.

In Chapter 28 Sona Varma describes the development of microfinance in India, complementing Abed's chapter. Although this chapter does not discuss the design of microfinance for the poorest, it details the type of institutional developments needed to build up microfinance markets at scale. It provides examples of how the development of microfinance intermediaries has helped bridge the gap between poor rural households and banks. It is only by filling this gap and providing microfinance at scale that the poorest can be assured of access to credit, savings, and insurance. In discussing how biometric cards are being developed for rural clients to meet the "know-your-client" regulations that now govern the provision of financial services throughout the world, Varma also provides an account of how informational assets can be developed for the poorest households.

The Role of Targeted Action in Reducing Ultra Poverty: Some Countries' Experiences

A mix of many of these approaches will be needed to ensure that the poorest households have (and can protect) health, education, savings, and credit in order to buy and invest in land and other productive activities. Each of the different interventions detailed has a role. The two essays and final three chapters in Part 3 focus on three countries—Brazil, Chile, and the Philippines—that have seen some success in undertaking targeted actions to build the assets of the poorest. Essays 2 and 3 provide insights from policymakers who have been involved in successfully implemented programs, and Chapters 29, 30, and 31 provide further discussion on programs that were implemented.

In Essay 3 Domingo Panganiban, secretary of the National Anti-Poverty Commission in the Philippines, describes how the 2001 Medium-Term Philippine Development Plan comprised policies that focused on macroeconomic stability, sector development, and "comprehensive human development and the protection of the vulnerable—to fill the need for greater social protection and accurate and effective delivery of basic services to the poor." The essay also discusses the implementation of the Accelerated Hunger Mitigation Program, one of the programs implemented under this last objective.

Essay 2 and Chapters 29 and 30 all focus on the case of Brazil, which has been particularly effective at using targeted actions to reduce ultra poverty (references to Brazil's experience also appear in Chapters 21 and 22). In Essay 2 Patrus Ananias de Souza, minister of social development and the Fight against Hunger in Brazil, describes the Bolsa Família program, a CCT program implemented by the government.

In Chapter 29 Francisco Ferreira and Philippe Leite draw on the country's experience to show that the imagined trade-off between growth and inequality (see chapters in Part 2, particularly Chapter 12, for a fuller discussion of this trade-off) does not always exist. During the 1980s Brazil experienced almost no growth and rising inequality, whereas from 1994 onward Brazil experienced both positive growth and falling inequality, leading to substantial reductions in poverty and ultra poverty (this finding is documented in the chapter by data on reductions in the poverty gap and the squared poverty gap). Ferreira and Leite show that both market determinants of income and public action contributed to Brazil's success. Although as much as one-third to one-half of Brazil's reduction in inequality was the result of state income redistribution through large increases in social security and social assistance (such as Bolsa Família), higher returns to unskilled labor and lower levels of inflation also helped. Increased investment in education improved the opportunities available to children in the poorest families. The authors note that these public investments "supported, rather than undermined, private investments," and they carefully underscore the importance of using balanced approaches.

In Chapter 30 José Graziano da Silva, in addition to presenting a deeper elaboration of the Bolsa Família program, discusses the Territories of Citizenship program, a new Brazilian government initiative that takes a geographically integrated approach to dealing with ultra poverty. This approach was suggested by some of the chapters in Part 2 (such as Chapters 12 and 14), and future evaluations of this program will reveal how successful it is in targeting ultra poverty.

In the final chapter of this part of the book, Chapter 31, Dante Contreras considers Chile's experience in building and protecting the assets of the poorest. In particular, he highlights the role that providing health care and education has played in facilitating pro-poor economic growth in Chile. He also highlights, however, the limited effectiveness of current policies in helping the poorest manage the uncertainty they face. He calls for the development of integrated policies that allow the poorest to manage uncertainty and to participate in continuing growth.

Both Chapters 29 and 31 emphasize the importance of increasing education among the poorest to improve the equality of education outcomes and income-earning potential in Brazil and Chile. This argument underlines the importance of the approaches outlined earlier in this part of the book—CCTs and food-for-education programs—that provide incentives and make it easier for very poor households to send their children to school. It also points to the importance of two other complementary interventions: increased demand for skilled labor and increased supply of high-quality education. As Adato and Hoddinott note in Chapter 22, providing the poorest households with support to attend school when few schooling facilities are present or the quality of schooling is low is not a good use of public resources. In Brazil, for example, recent evidence suggests that although primary school enrollment expanded significantly in recent decades (Chapter 29), quality (as measured by scores on standardized national tests) declined. Similar stories can be told for other countries that have increased primary school attendance (see, for example, Appleton 2001 and Banerjee et al. 2005). As in the case of other services, increasing the scale of education provided can put a strain on quality and undermine the positive effect sought in human capital formation over the long run. This volume does not adequately address the issue of how to finance and structure investments in high-quality schooling for all—particularly the poorest, often located in remote areas. More research is clearly required.

Note

1. Many studies have documented this finding. For an example on the importance of access to savings instruments, see Ashraf, Karlan, and Yin (2006). For an example on the importance of access to credit for undertaking investments, see Fafchamps and Pender (1999).

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Chapter 20

Growth-Promoting Social Safety Nets

Harold Alderman and John Hoddinott

Publicly funded noncontributory transfer programs targeted to the poor and vulnerable have a long history. Free food distribution was a feature of Egypt in the time of the pharaohs and of Rome during its imperial age. England had a succession of "Poor Laws" dating from the 16th century that provided assistance to those unable to work, and Germany inaugurated components of the modern welfare state in the late 19th century. These programs, typically referred to as social safety nets or social protection programs, are now ubiquitous in developed countries and are becoming more common in developing countries. However, they are controversial. While proponents of such programs see them as a means of ensuring that the benefits of economic growth are shared widely, critics see them as squandering scarce public resources and doing little to promote longer-term development while at the same time discouraging work and investment. Overlooked in this often polemical debate is the contribution that social safety nets can make in promoting economic growth. This instrumental dimension of social safety nets is the focus of this chapter.

Growth-Promoting Social Safety Nets

Social safety nets can take many forms: transfers of cash through welfare payments, child allowances, or pensions; in-kind transfers such as food aid or school feeding programs; subsidies on goods purchased by the poor; unemployment insurance; and public works or workfare schemes. Recent innovations in social safety nets include both the means to improve targeting, such as proxy means testing, and the means to increase the impact of transfers on capital creation—for example, through conditional cash transfer (CCT) schemes and interventions that link recipients of cash or food payments to other government services and public works programs. Social protection programs are targeted toward the poor or those individuals who may become poor as a result of adverse shocks. This targeting to the poor, together with their noncontributory dimension, distinguishes them from programs such as occupational pension schemes, which—while sharing certain similarities with social protection programs—base their eligibility and benefit levels on recipients' employment and contribution histories rather than, say, their current poverty status.

The provision of safety nets is motivated by both equity and efficiency concerns. In part, safety net programs arise from a desire to assist the least well-off members of society. Additionally, such programs seek to offset credit and insurance market failures, which leave poor households unable to make investments that would raise their future incomes or protect them from adverse events. Thus, in addition to the intrinsic value of such transfers in creating a fairer society, social protection programs have an instrumental role in promoting economic growth. These programs work through five channels:

1. they help create individual, household, and community assets;

2. they help households protect assets when shocks occur;

3. by helping households cope with risk, they permit households to use their existing resources more effectively;

4. they facilitate structural reforms to the economy; and

5. by reducing inequality, they directly raise growth rates.

Each of these channels will now be discussed in turn.

Social Safety Nets and Asset Creation

Reducing poverty requires raising the asset levels of the poor and increasing the returns to those assets. Achieving these objectives requires making investments, but doing so is hard when households have few resources of their own. In theory, such households could borrow money to finance these investments, but—as is now well understood—despite the impressive spread of microfinance institutions, many poor households lack access to credit, which would allow them to acquire assets, invest in their children's human capital, or engage in profitable activities. Social protection provides liquidity to poor households, giving them additional resources that can be used to make such investments. In Nicaragua, the CCT program Red de

Proteccion Social increased school enrollments by nearly 22 percentage points, while Mexico's former Programa de Educación, Salud, y Alimentación (PROGRESA, now Oportunidades) significantly reduced stunting. A study of Oportunidades found that beneficiaries invest just over 10 percent of their transfers and that this leads to sustained increases in per capita consumption in the following five years.

In addition to directing resources to the poor, certain forms of social protection can create assets of value to the local economy. Many developing countries have public works programs that rehabilitate roads, refurbish canal and irrigation facilities, or build structures—such as schools and health clinics—that are of value to the community and the local economy. Such investments stimulate growth in the local economy. So do the transfers themselves and the investments households make in using these transfers. In addition, local communities are increasingly involved in decisionmaking surrounding the choice of assets to be built, the management of their construction, and the oversight of the finances being used. This involvement increases the likelihood not only that the assets constructed will be of particular value to the community but also that communities will build up social capital and governance capacity.

Social Safety Nets and Asset Protection

Risk and shocks—such as floods, droughts, price shocks, market collapses, and civil strife—are pervasive in developing countries. Such shocks can directly lead to a loss of livelihoods by destroying assets, as when a flood washes away a farmer's topsoil, or by reducing current returns to existing assets, as when a drought causes harvests to fail. They may also affect livelihoods indirectly, as when the demand for service providers, such as barbers or hairdressers, falls because their customers have become impoverished. In the absence of insurance, shocks force households to reduce their consumption, deplete their savings, or both. The consequences can be far-reaching. Farmers in Ethiopia who suffered livestock and other losses in the droughts of the 1980s found it difficult to recover and experienced considerably slower income growth in the decades that followed. Studies undertaken in countries as different as Bulgaria and China found similar results.

Shocks, even if temporary, can also reduce investment in human capital, with long-lasting consequences. In Zimbabwe, children exposed to the civil war preceding independence and the droughts that occurred in the early 1980s were more likely to be stunted as preschoolers, had reduced stature by late adolescence, and completed less formal schooling. These shocks translate into a reduction in lifetime earnings on the order of 14 percent. Similarly, children in rural Mexico have higher dropout rates when a parent loses a job and, once out of school, a much lower chance of returning the next semester.

Social Safety Nets and Resource Allocation

Even if shocks do not reduce asset holdings, the threat of shocks discourages innovation and risk taking. It is true that many households have developed ways of insuring themselves against risk, but these come with high opportunity costs. Studies undertaken in south India and Tanzania show that because poor households deploy their assets more conservatively than wealthy households, their return on assets is 25–50 percent lower. Further, the threat of shocks can make households reluctant to access credit markets because they fear the consequences of an inability to repay. Others are simply unable to obtain credit because they are perceived to be at risk of default. Social safety nets, therefore, play two complementary roles in attacking the problem of risk and shocks. First, timely responses to shocks allow households to recover more quickly from these adverse events, thus reducing the likelihood that they will have permanent consequences. Second, social protection programs that are reliably delivered and transparently operated provide a form of insurance that can encourage households to adopt new innovations.

Social Safety Nets and Structural Policy Changes

There are times when governments need to make significant policy reforms that, while necessary in order to improve economic efficiency and create the conditions for sustained growth, impose significant short-term costs on some households. Social safety nets can compensate households hurt by policy shifts and make policy reforms more politically palatable. Mexico introduced El Programa de Apoyos Directos al Campo to mitigate the costs of adjusting to the North American Free Trade Agreement. The program had the added advantage of increasing production because the transfers helped relax credit and insurance constraints. Turkey introduced a similar direct income support in 2000 to facilitate reforms. So programs that address the inherent stress of agricultural transformation and the reality that few policy changes are unambiguous sources of gains for all households may improve efficiency in addition to equity.

Social Safety Nets, Resource Redistribution, and Growth

Finally, by redistributing resources within an economy, social safety nets may make economic growth more likely. While long-standing controversy surrounds the relationship between inequality and growth, the most recent evidence suggests that high levels of inequality are growth-retarding for at least two reasons. First, marked income or wealth inequalities create circumstances in which political or institutional power is more likely to be captured by elites, who then make policy choices that generate rents payable to themselves rather than policies that encourage broader-based growth. Second, high levels of inequality are often accompanied by low levels of social cohesion, which can reduce growth either because levels of trust are lower or because decreased social cohesion is often accompanied by high rates of crime.

Common Criticisms of Safety Nets

There are two common criticisms of safety nets: first, that they create disincentive effects, and second, that they are simply too costly, particularly for very poor countries. While these concerns need to be taken seriously, the preponderance of existing evidence casts serious doubt on both.

Disincentive effects arise for several reasons. Sometimes, it is argued, the receipt of public funds discourages work effort because beneficiaries favor increased amounts of leisure. Additionally, in cases in which strict means testing is used, individuals may worry that if they work too much, they will lose access to their benefits. In addition to the effect on labor incentives, public safety net programs may change incentives for private individuals to assist family and friends; thus, social safety nets might crowd out informal safety nets such as private transfers.

Most studies, however, find that public transfers have modest effects on work effort. In some cases, this is not a bad thing; for example, some evidence suggests that CCT programs reduce child labor. The evidence on the crowding out of private transfers is more mixed. Some studies suggest that the effects are substantial; for example, in South Africa it is estimated that every rand transferred via a pension scheme reduces transfers from children living away from home by 0.25–0.30 rand (based on 1998 data). However, in other countries—such as China, Indonesia, Papua New Guinea, and Vietnam—no such crowding out is found. Evaluations of CCT programs in Mexico and countries in Central America also failed to find evidence of such crowding out. While disincentive effects are worth keeping in mind—and program designers should ensure that social protection schemes do not inadvertently create disincentives—existing evidence does not suggest that these effects are pervasive or severe.

Perhaps the most potent criticism of safety nets focuses on their affordability in highly resource-constrained environments. Such concerns are often couched in terms of trade-offs between different forms of pro-poor expenditures. Some ask, How can a country afford a safety net when residents in remote rural locations lack schools? This concern, however, exaggerates the costs of many well-targeted programs; frequently, social protection programs are less than 1 percent of gross national product, an amount that can often be financed by reallocating unproductive expenditures that offer little tangible benefit for the poor. For example, Brazil is expanding its well-targeted CCT program Bolsa Família to cover the bottom quintile of the population at a cost of 0.4 percent of gross domestic product (GDP).

Although this is a considerable amount, it is small in comparison to the contribution made to federal pension programs, which receive nearly 10 times this amount, at 3.7 percent of GDP, while transferring more than half the benefits to the richest quintile! This is not an isolated example. Other countries spend considerable amounts of money on regressive energy subsidies, which tend to take the form of industry subsidies, bank bailouts, and military expenditures. That said, in very low-income countries there may be limited scope for reallocating existing expenditures or increasing domestic tax efforts. In such cases, international aid may need to play a larger role in financing social protection programs. Here care is needed in determining the form of this financing. A subset of transfer programs is financed by food aid, which under some circumstances may create local market distortions.

Caveats and Conclusions

Social safety nets are by no means sufficient to ensure pro-poor growth. Good governance, functional infrastructure, schools and health clinics, and so on are all important components of development strategies. Further, poorly designed or implemented social protection programs or those with only token funding are unlikely to meet the intrinsic or instrumental objectives described here. Much depends on correct design. All effective social safety nets have five key characteristics: (1) a clear objective, (2) a feasible means of identifying intended beneficiaries, (3) a means of transferring resources on a reliable basis, (4) ongoing monitoring of operations and rigorous evaluation of effectiveness, and (5) transparency in operation to encourage learning, minimize corruption, and ensure that beneficiaries and the wider population understand how the program functions.

Much has been learned about how to design and implement equitable and efficient safety nets with these characteristics. An important remaining challenge is the design of safety nets that address the long-term consequences of transitory shocks. This requires improving the identification of those affected by transitory shocks, devising flexible means of financing responses to these events, and developing mechanisms for scaling up and down quickly.

Safety net interventions can contribute to economic growth through their impact on asset creation, asset protection, resource allocation, structural policy change, and redistribution of resources. Social safety net interventions, when well designed and implemented, can complement pro-poor investments and thus contribute to longer-term poverty reduction in addition to their short-term direct impacts.

For Further Reading

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Chapter 21

Social Security: What Can Developing Countries Learn from Developed Countries?

Jean-Jacques Dethier

In developed countries, social security covers workers and their dependents against old age, unemployment, health, and other risks. In developing countries, formal-sector workers have access to social insurance, and the very poor have some access to social assistance and health services, but large population groups are not covered. Extending social security coverage would require delinking social security benefits from labor market status, creating new institutions to cover currently excluded groups, financing these new programs through general taxation, improving tax collection, reducing the costs of formal-sector benefits, and increasing the costs of informal-sector benefits.

Social security is defined in the European Union as social insurance and social assistance arrangements that protect the population against various economic risks. The U.K. definition, which includes cash benefits but excludes health services, and the U.S. definition, which includes only retirement benefits, are narrower. *Social insurance* denotes publicly provided or mandated *contributory* programs that cover workers and their dependents against major life risks—essentially unemployment, health risks, and old age. Beneficiaries receive income or services in exchange for

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contributions to an insurance scheme. *Social assistance* refers to *noncontributory* transfer programs that are means tested and targeted in some way to the poor or those vulnerable to poverty and shocks. Other policy instruments—in particular, progressive taxation and various regulations such as minimum wage laws and other labor market policies—help support social security. These instruments and their effectiveness should ideally be evaluated together with pension and health insurance systems and social safety net programs.

Social insurance is a substitute for market mechanisms when such mechanisms are not economically viable or tend to exclude part of the population. It cannot operate in the same way as standard private insurance (for which each participant pays a premium equal to the expected loss plus operating costs) and cannot be financed by actuarially fair contributions. Social security is thus partly financed through taxes levied on people irrespective of their exposure to the risks that are covered. It implies substantial income redistribution across individuals. It is mainly through that redistribution that the public coverage of old age and health risks is truly *social* (rather than an actuarially neutral substitute for the market mechanism).

Social security has major social benefits, but it also has costs. Benefits arise from gains in efficiency and from a more harmonious and cohesive society. Costs arise from distortions generated on both the tax and the benefit sides, with additional distortions generated by noninsurance instruments (for example, by reducing the incentive to supply labor).

Social Security in Developed Countries

In developed countries, social security grew massively after World War II, in times of prosperity. In the past 30 years, many countries have introduced reforms in unemployment benefits and social assistance to reestablish individual incentives thought to be threatened by existing policies. Social security systems are complex and large—ranging from 31 percent of gross domestic product (GDP) in Sweden to 16 percent in the United States. Institutional differences between countries result from history and from differing views on the role of the private versus the public sector in insurable risks. Despite some significant direct and indirect costs, social security has generated enormous benefits in terms of income maintenance, poverty reduction, and economic stability. Cross-country studies of income redistribution that examine the coverage of low-income risks by government programs show that social security has helped reduce poverty drastically, by at least 40 percent in Europe—in heavily insured countries such as Belgium and Sweden by more than 70 percent—and by 28 percent in the United States. Table 21.1 shows the antipoverty impact of these programs in Organisation for Economic Co-operation and Development (OECD) countries.

Table 21.1 Anti-poverty effects of government spending in selected countries, years as noted

	Share of poor people in selected OECD countries by income source				
				Percentage reduction in poverty	
Country	Market income	Social insurance (and taxes)	Social assistance	Social insurance	Overall
Austria (2000)	31.8	9.1	7.7	71.4	75.8
Belgium (2000)	34.6	8.9	8.0	74.3	76.9
Canada (2000)	21.1	12.9	11.4	38.9	46.0
Finland (2000)	17.8	11.4	5.4	36.0	69.7
Germany (2000)	28.1	10.6	8.3	62.3	70.5
Ireland (2000)	29.5	21.2	16.5	28.1	44.1
Italy (2000)	30.0	13.7	12.7	54.3	57.7
Netherlands (1999)	21.0	9.6	7.3	54.3	65.2
Sweden (2000)	28.8	11.7	6.5	59.4	77.4
United Kingdom (1999)	31.1	23.5	12.4	24.4	60.1
United States (2000)	23.1	19.3	17.0	16.5	26.4
Average (2000)	27.0	13.8	10.3	47.2	60.9

Source: T. Smeeding, Poor people in rich nations: The United States in comparative perspective, *Journal of Economic Perspectives* 20, no. 1 (2006): 69–90.

Notes: Poverty rates are for persons living in households with adjusted incomes below 50 percent of median adjusted disposable income. The market income poverty rate includes earnings, income from investments, occupational pensions, child support, and other private transfers. The social insurance (and taxes) poverty rate includes the effects of taxes and social contributions as well as social insurance for countries where market income is gross and only social insurance in countries where it is net. The social assistance poverty rate is the same as the poverty rate on disposable income. Refunds from Earned Income Tax Credits (United States) and Family Tax Credits (United Kingdom) are treated as social assistance, as are near-cash benefits, such as food stamps and housing allowances. The percentage reduction in social insurance is the market income rate minus the social insurance rate as a percentage of the market income rate. The overall percentage reduction is the market income rate minus the social assistance rate as a percentage of the market income rate.

Pension Systems

Pension systems in developed countries cover more than 90 percent of the labor force. All of these countries have a mandatory pension scheme, but the balance between voluntary and mandatory provision of pension benefits differs greatly. Voluntary private pension provision is widespread in countries such as Canada, the United Kingdom, and the United States, which have relatively small mandatory pensions. In countries where a large share of income is replaced under the mandatory system, those covered have no need to make any voluntary provision for retirement.

Various approaches are used to guarantee that all older people meet a minimum standard of living. OECD countries can be divided into several groups, depending on whether the link between pension entitlements and pre-retirement earnings is weak, strong, or nonexistent.

- In Canada, Denmark, Ireland, and New Zealand—where pension benefits are purely flat rate—there is almost no link between pension entitlements and pre-retirement earnings.

- In Australia and the United Kingdom, which have significant means-tested public schemes, as well as in Belgium and South Korea, the link between pension entitlements and pre-retirement earnings is weak. There are important minimum credits in the earnings-related pension plans of Belgium and the United Kingdom.

- Switzerland and the United States, which have progressive formulas in earnings-related schemes, and France and Japan, which have redistributive (minimum and targeted) programs, fall in between.

- In Finland, Italy, and the Netherlands, the link between pension and pre-retirement earnings is very strong, and the replacement rate is constant for much of the earnings range.

Pension systems also differ in the role that the public versus the private sector plays in pension provision. Where the link between pension and pre-retirement earnings is strong in the mandatory system, voluntary private provision will have a greater role. In some countries, primarily in Latin America, the private sector is involved in running the mandatory pension system. The private sector also plays an important part in pension provision in several OECD countries. In the Netherlands, Sweden, and Switzerland, occupational pensions are mandatory or quasi-mandatory. When the United Kingdom allowed workers to "contract out" of the public, earnings-related scheme in 1978, 50–75 percent of employees opted to substitute private for public provision. Sweden also recently introduced a mandatory defined-contribution scheme, while Denmark has a long-standing one. A defined-contribution scheme is one in which a periodic contribution is prescribed and the benefits depend on the contribution plus the investment return (as opposed to a defined-benefit scheme, in which a benefit based on a prescribed formula is guaranteed).

Health Insurance

With the exception of the United States, all developed countries now have universal health insurance. European health insurance systems offer the same services as market insurance but redistribute income by increasing participants' contributions in proportion to their income, although benefits are more or less equal. Health systems are classified as one of three types: (1) private finance plus private production/provision of services, (2) public funding plus public provision, or (3) public funding plus private provision *plus* stringent regulation of medical spending. Successful health care provision systems can be mainly public, mainly private, or mixed. There is no perfect model, and each existing system has problems as well as benefits.

- Public funding plus public provision, as in Scandinavia and the United Kingdom, has two strengths: its abilities to contain costs and promote access. Its weaknesses include limits on consumer choice and sometimes long waits for service.

- Public funding plus private provision—for example, in Canada and Germany—scores well on access, consumer choice, and the absence of waiting lists, but not on the ability of doctors, clinics, and hospitals to contain costs; hence, it is vulnerable to upward pressures on medical spending. No country should consider this model unless policymakers are confident they have both the political and the administrative capacity to make the necessary cost containment measures stick.

- The U.S. system, relying primarily on private funding plus private provision, suffers from coverage and cost problems. In the face of diverse and competing funding sources, third-party incentives have not been contained, leading to a major cost explosion.[1] Despite heavy public spending, gaps in coverage remain, and access to quality care is unequal.

The key issue related to universal health coverage is how to maintain fiscal sustainability. Because medical expenditures are increasing rapidly, considerable effort is going into devising methods to contain medical spending in the face of third-party incentives—methods such as cost sharing, preferred providers, or mechanisms such as health maintenance organizations or diagnosis-related groups. Increasing cost recovery, with some exemptions for low-income persons, is equivalent to reducing the coverage of public health insurance schemes and offering more opportunities to private insurers. How much of that evolution is inherent in public health insurance systems and how much is due to the increase in the demand produced by rapid technological progress in the field or to the pressure of service producers has been debated for a long time.

Unemployment Insurance

Unemployment benefits decline as the length of unemployment increases. The replacement rate—that is, the ratio of benefits to wages replaced by unemployment insurance—varies widely from country to country. The gross rate has fluctuated about 10–15 percent in Japan and the United States and 35 percent in France and the Scandinavian countries in the past 30 years. But the generosity of unemployment benefits has no significant impact, in the long run, on the level of GDP. Any negative effects of unemployment benefits on employment are fully offset by a net positive impact of unemployment benefits on productivity.

Many people who are looking for work are not eligible for unemployment benefits, either because they are new entrants into the labor market or because they have exhausted their entitlement. In Greece, Italy, Portugal, and Spain, fewer than 25 percent of the unemployed receive benefits. The figure is higher in Germany (about 70 percent) and the Scandinavian countries. After a time, unemployed persons can receive social assistance payments (which are means tested and independent of past earnings) as opposed to unemployment benefits (which are paid for a limited period at a level linked to the wage earned in the previously held job).

Unemployment benefits systems (as well as minimum income guarantee schemes) are predominantly financed through social insurance contributions on earnings in France and Germany and predominantly from taxes in the United Kingdom. Social assistance and other programs (for example, family allowances or housing subsidies) represent a smaller share of total social security than pensions and health care, but they generally provide highly effective coverage of families at risk, thanks to powerful targeting. However, such transfers have an efficiency cost because they reduce incentives for low-income recipients to find employment and because increasing taxes to finance income transfer programs may reduce incentives to work and save among the middle- and high-income earners who have to pay the extra taxes.

Could Developing Countries Adopt the OECD Model?

Because there is a strong demand for social security and better social protection for all workers in many emerging economies, policymakers are considering emulating the OECD model. The long-term goal is a universal system in which all citizens will have access to an adequate and affordable level of health services and enjoy a decent pension—or at least a minimum income—in old age. Moreover, the services provided must be efficient and of decent quality across the entire income distribution. But is it possible for them to follow the model of developed countries?

Developing countries differ structurally from developed countries in several respects:

- The annual per capita income level (US$1,750.00 versus US$35,000.00 on average for 2005) and the overall GDP share of social expenditures diverge greatly. For instance, developed countries spend 6.7 percent of GDP on public health programs compared with 2.8 percent in developing countries. Poverty levels are much higher and mean income levels are lower in developing countries. Labor markets are fragmented, and the informal sector is large.

- All countries, to varying degrees, devote public resources to health care, social assistance, and, for some privileged groups, pensions. But few developing countries have social insurance. Where it is available, coverage is limited to wage workers in the formal sector of the economy.

- Existing systems of social protection are fragmented. The richest population group has access to formal social insurance, and the very poor have some access to social assistance and health services. But large population groups are not covered by formal-sector social security institutions and receive no social assistance.

- Redistribution of income is limited for all of these reasons: partial coverage, the limited size of social expenditures as a proportion of GDP, the concentration of benefits in privileged sectors, and the limited progressivity of social expenditures and the tax system.

Developing countries are experiencing major difficulties in extending coverage to and increasing contributions from nonpoor, informal-sector workers for several reasons:

1. *Fiscal constraints.* Universal social insurance requires a tax base and a level of general taxation above what is currently in place in most countries. Fiscal constraints are particularly strong in low-income countries in which public spending—averaging 15 percent of GDP—is about half of what it is in developed countries.

2. *Administrative constraints.* The most important constraint is the lack of official records of income and therefore the difficulty of collecting taxes. Also, minimum income guarantees cannot be put in place if the government does not have the ability to test for means, in which case insurance against employment shocks or fluctuations in earnings must be provided through other channels. Another constraint is the potential for misuse of funds. Many programs suffer notoriously from graft, corruption, and capture of benefits by the nonpoor. Basic accountability and simplification of eligibility criteria and payment structures can help reduce fraud.

3. *Incentive constraints and increasing informality.* Social insurance produces several types of disincentives that affect the general efficiency of the economy. Though it does not increase unemployment, social insurance acts as a disincentive for people to stay in formal employment, contributing to the "informalization" of the economy. Evidence from Latin America and Eastern Europe confirms that social

insurance increases the share of workers in the informal sector. Where enrollment is voluntary or only weakly enforced (which is the norm), many workers choose an informal labor contract rather than paying a higher (though subsidized) price in the public system or taking out private insurance. Even when enrollment is compulsory, incentives to pay social insurance contributions are low (as in Argentina, where a large number of workers do not pay their pension contributions).

Minimum Pension Schemes in Developing Countries

Whereas pension systems (including minimum pension schemes in developed countries) are strongly redistributive, yielding a sizable difference between poverty rates before and after transfer, they have limited potential to prevent old-age poverty in developing countries because of their low levels of coverage. How can a basic income be provided to the elderly in developing countries? One option would be to open existing retirement systems to all, regardless of labor market status, and provide a minimum income to all persons aged 65 and older. This is consistent with a social contract in which all citizens pool old-age income risk. In addition to this risk-pooling component, the government might also want to provide incentives to working-age persons to achieve a higher old-age income through savings. This option would require that savings be voluntary rather than mandatory, particularly because the income of a large group of nonsalaried workers is not observable.

But moving to a unified, universal system would have a high fiscal cost. This option might also weaken incentives to work in the formal sector. Therefore, several governments have chosen a more efficient policy option: lump-sum transfers financed by tax receipts. These are pensions aimed at providing a replacement income to the elderly under the poverty line. They are of two types. The first provides a minimum pension unconditionally to all the elderly. Benefits are the same for everyone regardless of income, assets, or work history. Only four developing countries have such arrangements: Bolivia, Botswana, Mauritius, and Namibia. They are easy to administer and do not require information on the income or assets of the beneficiaries. Except for Mauritius, the pension they offer is not great enough to lift its beneficiaries above the poverty line. The second type of minimum pension is also universal but subject to means testing. Five Latin American countries—Argentina, Brazil, Chile, Costa Rica, and Uruguay—have noncontributory pensions. These programs have a social assistance character in that they are targeted to the poor and disabled who cannot afford to contribute. In Brazil and Costa Rica, part of the social assistance pension benefit is financed by cross-subsidies from social insurance programs. Chile, Costa Rica, and Uruguay cover the greatest share, but Brazil has the largest number of beneficiaries—more than 8 million if the recently introduced rural pension programs are included. Rural pension programs provide a pension corresponding to the minimum wage to all men over age 60 and to women over age 55 in rural areas. Some universal means-tested schemes apply to the *household* but not to the individual. The most famous example is the South African minimum pension. It is quite generous (one-third of per capita income), and it reaches 88 percent of the covered population. The pension is paid to men aged 65 and women aged 60 and over, and it is funded through general taxation.

Several studies have examined minimum pension schemes. In rural Brazil and South Africa, noncontributory pension schemes were found to reduce both the rate of poverty for elderly people and the poverty gap. In Latin America, a study using survey data found that a hypothetical universal minimum pension would reduce poverty almost by half among the elderly in countries where poverty rates were higher. Universal schemes have much to recommend them in terms of incentives, spillover effects, and administrative simplicity. However, their fiscal cost—which is a function of the dependency ratio and the fiscal capacity of the country—is far from negligible, even for small pensions. Given that the tax base is limited and tax revenue represents a small share of national income in developing countries, this policy option is probably not feasible for countries with a per capita GDP below, say, US$2,500.00 or US$3,000.00. Means testing is cheaper but less efficient in alleviating poverty. The net cost after subtracting existing transfers to the elderly—that is, means testing the minimum pension transfer—would be much smaller.

Universal Health Insurance in Developing Countries

Out-of-pocket health expenditures are often large compared with income, and this limits access to services and pushes many households into poverty when health shocks occur. The challenge for developing countries is to increase participation in risk-pooling schemes for two population groups: the poor, who will probably never be able to pay the average cost of a health benefits package, and high-risk individuals whose health costs will be higher than they can afford for much of their lives.

Many countries have recently set up schemes for the poor, financing membership in the social health insurance system out of general revenues. Most, however, typically commit substantial errors of exclusion, largely because poor households fail to apply. For instance, Colombia reformed its system in 1993, but 10 years later fewer than 50 percent of the principal target group were actually enrolled in the noncontributory scheme. In Vietnam in 2004, about 40 percent of the poor who should have received health insurance coverage (or a free health care card) actually had done so. In China and the Philippines, evidence indicates that the "worst risks" are enrolling in rural social health insurance schemes.

To extend coverage to informal and self-employed workers—because participation in contributory health insurance is voluntary—the challenge is to find incentives for participation and to eliminate disincentives. Enforcing a mandate for participation in contributory schemes is almost impossible. There are four (not mutually exclusive) options: (1) facilitate the participation of self-employed and informal workers through regulation, (2) improve the enforcement of mandatory participation and evasion control, (3) increase means testing for access to publicly subsidized health services, and (4) reduce the gap between contributions and benefits by delinking risk-pooling financing from labor market status, thereby shifting it away from payroll taxes, reducing the costs of participation in contributory risk pooling, and increasing the perceived benefits of participation. Where subsidized national health services and contributory health insurance coexist, informal-sector households have alternatives and tend to move between the two systems. Thus, if a country decides to make the nonpoor contribute to risk-pooling coverage, it is essential to use means testing to determine access to subsidized care.

General taxation is potentially the most efficient and equitable way to finance risk pooling—especially when employers and workers can evade payroll taxes. It depends, however, on the progressivity of tax collection mechanisms and on subsequent public spending. By delinking financing from labor market status and financing health coverage through general revenue—that is, through a broader tax base—health risks are effectively pooled across all taxpayers. This is the least regressive method and has the smallest transaction costs of all tax types (because society as a whole becomes a single pool). Moving to general taxation could also have a positive impact on the "formalization" of the labor market.

General tax financing has disadvantages, however. For providers of public health services, the payroll tax is a more dependent and secure revenue source because it is more insulated from political budget discussions and, in general, less cyclical than general taxation. Payroll tax financing creates a sense of entitlement, so governments may find it more difficult to cut health services or reduce the basic package of services offered. In developing countries, increasing the general tax allocation to the health sector to replace payroll tax financing will be difficult because their tax collection capacity and "fiscal space" are limited. It will certainly prove difficult without governance improvements in existing social insurance systems.

Policymakers have no financially sustainable options other than general tax financing and delinking coverage for nonpoor informal workers from the labor market. All other options have a high fiscal cost and perpetuate the deficit, meaning that contributions can never be enough to cover the cost of the benefits package. The only other alternatives are to reduce benefits (especially those that are perceived by workers as unlikely to be realized) or to introduce a voluntary premium to take into account the actuarial risk of the worker or household. From a purely risk-spreading perspective, this is the most efficient way of extending risk pooling to the nonpoor in the informal sector. It allows delinking of health coverage from labor market status and makes portability of benefits easier.

Moving toward Universal Social Security

Moving toward more universal forms of social security in developing countries would require that countries take the following steps:

- *Increase financing from general taxation.* This would decouple social security from beneficiaries' labor market status. When coverage is based on residence (or citizenship), not on labor market status, the distinction between a formal and informal worker becomes irrelevant. This option has been implemented in many OECD countries.

- *Improve the capacity for revenue collection and more effectively sanction tax avoidance.* This would expand the tax base so that the system could be financed from general taxation as much as possible. By reducing payroll taxes, this option would increase the demand for labor and would thus be potentially job creating and efficiency increasing. Of course, the transition would have to be carefully planned to provide incentives to workers to join contributory risk-pooling schemes and to incrementally foster the use of general taxation to replace these contributions over time. All these are important institutional and political challenges.

- *Create new programs and institutions to cover population groups excluded from existing social security arrangements.* The up-front costs of this approach would be lower, but it would run the risk of fragmenting the social security system, which would limit risk pooling, forgo economies of scale, be prone to pressure from interest groups to expand benefits in a fiscally irresponsible or inequitable way, face coordination problems, and hamper the portability and transferability of benefits.

Two often contradictory goals, expanding coverage and maintaining incentives for formality, have to be taken into account when designing new programs. In providing social insurance to informal workers it is important to avoid giving workers incentives to be informal. In other words, the benefits provided should hit the anti-poverty target without being more generous than formal-sector benefits. Portability of benefits across institutions is also required so that workers can move between jobs without losing coverage. A number of additional reforms would be desirable: at least for a segment of the population, increasing subsidies from general taxation, improving "value for money" and the quality of services so that more workers would be willing to pay for social protection, reducing the costs of formality imposed by rigid labor laws (because this would reduce the cost of accessing social security), and unbundling health and pension benefits to better align the system with workers' preferences. Recent reforms in several middle-income developing countries have often been based on some combination of the policies just listed, which are complementary.

Note

1. *Third party* refers to any actor beyond the patient-doctor relationship (i.e., a medical insurer).

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Chapter 22

Conditional Cash Transfer Programs: A "Magic Bullet" for Reducing Poverty?

Michelle Adato and John Hoddinott

In 1997, the government of Mexico introduced a conditional cash transfer (CCT) program called Programa de Educación, Salud, y Alimentación (PROGRESA) to provide assistance to about 300,000 extremely poor households. The essential premise of a CCT program is a cash transfer to households conditioned on their participation in health, nutrition, and education services. Ten years later, PROGRESA, now Oportunidades, covers more than 5 million households in all 31 Mexican states. Approximately 20 countries have adopted a pilot or full-scale CCT program, and another 20 countries have expressed interest in starting one. Most current programs are in Latin America, but others can be found in Asia, Africa, and the Caribbean, and interest is increasing among African countries struggling with extreme poverty and low human capital. CCT programs are increasingly perceived as being "a magic bullet in development." Are they? This chapter presents a review of the rationale for and operation of CCT programs, an assessment of their effectiveness, and a discussion of key issues facing countries considering these interventions or reforming existing programs.

How Do CCT Programs Work?

CCT programs have the following characteristics: they are targeted to poor households, and the cash transfers are usually paid to mothers. Some programs also include transfers such as nutritional supplements or school supplies for children. Cash transfers may be made as a lump sum or determined based on the number of children, with the amount varying by the children's ages and genders. In some countries, higher transfer amounts are paid for girls' school attendance and for secondary school attendance. In return for these transfers, recipients commit to undertake certain actions, such as enrolling children in school and maintaining adequate attendance levels, attending pre- and postnatal health care appointments, and seeing that preschool children receive vaccinations, growth monitoring, and regular checkups. Some programs require women to attend regular health and nutrition training workshops. Some provide resources that improve the supply and quality of the schools and health care facilities used by beneficiaries. Through these requirements CCT programs aim to reduce current poverty while also seeking to improve human capital formation and, in so doing, help prevent the intergenerational transmission of poverty.

Impacts of CCT Programs

Rigorous evaluations—often built into the programs themselves—show that many, but not all, CCT programs have been successful in improving human capital outcomes. In Mexico, PROGRESA increased enrollment in secondary school by 6 percentage points for boys and 9 percentage points for girls. For girls—who often drop out before secondary school—those making the transition to secondary school increased by 15 percentage points. Children in the program also entered school at an earlier age and repeated fewer grades. PROGRESA had relatively little impact, however, on school attendance rates, on achievement on standardized tests, or in bringing dropouts back to school. These objectives must thus be pursued through design improvements or complementary programs. CCT programs in Colombia, Mexico, and Turkey all improved secondary school enrollment but had little impact on primary school enrollment rates because these were already high. Where preprogram enrollment rates are extremely low, the effects of CCT programs can be very high: in Cambodia, for example, secondary school enrollment increased by 30 percentage points and attendance by 43 points.

In Bangladesh, where 3 million children are still not enrolled in primary school, a small CCT program targeting the hardest-to-reach children (including street children) increased primary school enrollment by 9 percentage points, though this occurred only in schools where grants were also provided to improve school quality. In Nicaragua, where primary school enrollment was also low, the CCT program increased overall enrollment by 13 percentage points, enrollment of children from the very poorest households by 25 points, and regular primary school attendance by 20 points. Two years after households stopped receiving benefits, however, enrollment had dropped by 12.5 percentage points, but this was still 8 points higher than before the program, implying some sustainability of impact. This experience points to the important but little understood question of how to maintain the effects of CCT programs after households graduate from a program or after it ends.

CCT programs have also had significant impacts on health and nutrition. In Mexico, health visits increased by 18 percent in PROGRESA localities, and illnesses among PROGRESA children 0–5 years old were reduced by 12 percent. Young children in Honduras increased their use of health services by 15–21 percentage points, though there, as in Brazil, no effects on children's illness rates were found. Some of the largest increases were found in the regular monitoring of children's growth in CCT programs in rural Colombia, Honduras, Mexico, and Nicaragua.

A number of CCT programs are also associated with increased child height, which is an important measure of long-term nutritional status. Stunting was reduced in Colombia by 7 percentage points, in Mexico by 10 points, and in Nicaragua by 5.5 points. Although the exact mechanism that triggers improvement is not known for certain, it may result from one or several program characteristics, such as the provision of higher incomes that permit increased expenditure on food, growth monitoring and information about nutrition and childcare, or nutritional supplements. In both Mexico and Nicaragua, for example, calorie intake increased, as did the consumption of fruits, vegetables, meat, and dairy products. In Honduras, no positive nutritional impacts were found because of implementation problems, while in Brazil, the program was initially associated with a slightly reduced weight gain, but this phenomenon was subsequently reversed. According to anecdotal evidence, mothers may have kept their children underweight under the mistaken belief that they would lose their benefits if the children gained too much. This misunderstanding points to the importance of well-functioning mechanisms to ensure clear and regular communication between the program and beneficiaries so that program conditionalities do not create perverse incentives. In Turkey, insufficient or incorrect information about the program also reduced impacts.

Some programs address micronutrient deficiencies. In Mexico, program beneficiaries had anemia rates substantially lower than nonparticipants, though the rates remained high. In Nicaragua, although mothers reported receiving the iron supplement offered, anemia rates were not affected, in part because they did not give the supplement to children, believing it was bad for their stomachs and teeth. Both cases point to the continuing challenge of addressing nutritional deficiencies and the need for multidimensional approaches rather than cash transfers or supplements alone.

CCT programs have a sharp gender focus. They have been successful in significantly increasing rates of school enrollment for girls, who have historically faced discrimination because educating them is not considered as important as educating boys. Research in Mexico and Nicaragua has found that CCT programs are associated with improved attitudes toward educating girls, as well as a heightened profile for women more generally. Although there has been concern and some evidence that women's program responsibilities can lead to conflicts with men, in both countries there is more evidence that the program's infusion of financial resources has reduced intrahousehold tensions. Where CCT programs organize collective activities for beneficiaries, such as meetings, committee participation, and workshops, women report increases in their knowledge, social awareness, and self-confidence. Nevertheless, not all CCT programs provide these opportunities, and those that do not overlook potential for increasing women's status. Research in eastern Turkey found that sociocultural biases against schooling for girls were more powerful than cash incentives, indicating the need for complementary approaches to overcome these constraints. Even in this region, however, the program provides opportunities for women to spend time out of their homes and to engage with institutions such as banks and government offices.

CCT programs tend to be administratively centralized because their complexity requires standardization; hence, they offer fewer avenues for community participation than do many other development interventions. Nevertheless, the programs still affect communities—positively or negatively—depending on their design and implementation. Programs in Brazil, Colombia, Honduras, and Mexico have all found ways to integrate varying types of local input, from a beneficiary feedback system in Mexico to local input into targeting in Brazil, to school-based parents' organizations and quality improvement teams for the health services in Honduras to mothers' assemblies in Colombia. Although data-based centralized targeting has generally been successful in reaching the poor and avoiding political manipulation at the local level, it has also frequently bred discontent in communities when people have not understood the targeting criteria, have perceived it as unfair, or have not had access to a functioning appeals mechanism. Exploring country-specific options for participation could lead to programs that are even more effective in achieving their primary goals while increasing collective and individual empowerment.

Development and Implementation Issues

Are CCT Programs Too Expensive?

The concern that governments in poor countries cannot afford CCT programs should be considered within the context of the large sums spent by many governments on programs directed to the nonpoor. Energy subsidies, for example, are typically highly regressive and often more costly than CCT programs: Egypt spent 8 percent of its gross domestic product (GDP) on energy subsidies in 2004, and Indonesia spent 5 percent in 2005. Bailouts of insolvent contributory pension funds are another example. The expansion of Brazil's well-targeted CCT program, Bolsa Família, to cover the bottom quintile of the population would cost about 0.4 percent of its GDP, whereas the Brazilian government now spends nearly 10 times that amount covering the deficit in the main federal pension programs, which deliver more than 50 percent of their benefits to the richest quintile. These are not isolated examples: many other countries spend considerable amounts of money on industry subsidies and military expenditures. In some very poor countries, particularly in Sub-Saharan Africa, donors and nongovernmental organizations (NGOs) have stepped in as partners with governments considering or implementing CCT programs, viewing them as potentially cost-effective approaches to increasing human capital—for example, by protecting children in households affected by AIDS.

Even if a country can afford a CCT program, it is sometimes argued that, relative to other types of social safety nets, such programs are expensive to operate. For example, in its first year of operation (1998), PROGRESA spent US$1.34 on administrative costs for every dollar spent on transfers to beneficiaries. Statistics like these shape a common perception that CCT programs are too expensive. Closer scrutiny, however, reveals a different picture. First, as with any program, fixed establishment costs, such as those of buying computers, identifying beneficiaries, and so on, are comparatively high. By PROGRESA’s third full year of operation, its administrative costs had fallen to only 5 cents for every dollar spent on transfers. Second, many administrative costs—such as identifying beneficiaries, establishing mechanisms for delivering the benefit, and monitoring and evaluating the program—are common to all social protection programs. Further, some of these costs are incurred to improve the program’s effectiveness. Reducing expenditures on targeting, for example, might reduce administrative costs, but if targeting performance is severely weakened as a result, the cost savings will prove counterproductive. An important cost issue is whether conditionality significantly increases program costs. The existing evidence is mixed, largely because the intensity of monitoring conditionalities is a choice made by program designers and implementers. In the case of the CCT program in Honduras, monitoring accounted for about 9 percent of administrative costs.

Is Conditionality Necessary?

An important question being debated as new countries consider cash transfer programs is whether to impose conditionalities. Are conditional cash transfers in fact better than unconditional ones when it comes to achieving objectives, and if so, for what objectives and under what conditions? Three broad arguments support conditionality. The first relates to the externalities associated with certain types of human capital investments. For example, when making decisions about their children’s care—say decisions about girls’ schooling—parents may not take into account the benefits that society derives from educating girls, and, as a result, they underinvest in girls’ schooling relative to optimal levels from a societal perspective. Conditionality can be an effective means of increasing these investments. Second, sociocultural biases against schooling may be imposed by more powerful groups (for example, men) on the less powerful (for example, their daughters), and conditionality provides state legitimation of social change. Third, conditionality may overcome the possible stigma associated with welfare payments if conditions are seen as part of a social contract between beneficiaries and the state. Finally, conditionality may be required for reasons of political economy. Politicians and policymakers are often evaluated by means of performance indicators, such as changes in school enrollment or use of health clinics, and the impacts of CCT programs provide a basis for sustaining public support. Conditionality has also increased the credibility of programs where, historically, the public has often been suspicious of anti-poverty efforts that were deemed ineffectual.

Conditionality also raises several concerns: first, there must be reasonable access to schools and clinics. Second, governments and NGOs must be able to handle the costs and administrative requirements or adapt them to local circumstances. These two concerns are particularly relevant for African countries establishing CCT programs; in Kenya, for example, an evaluation comparing the impacts of conditional and unconditional transfer programs is under way. Third, if poor people's preferences differ sufficiently from the conditions placed on their behavior by the government, the restrictions that conditionality imposes may actually reduce total welfare gains. Another way to look at this is to consider that conditional transfers can be perceived as demeaning, implying that the poor do not know what is good for them and need to be told by the government. Fourth, poverty, culture, social exclusion, discrimination, and other historical processes may prevent people from participating in activities regardless of the benefits, so the people in most need can actually be punished rather than helped by conditionality.

Balancing these arguments and comparing the benefits of programs against the costs associated with conditionality is important but difficult; the sparse evidence to date makes rigorous comparisons even harder. In the case of PROGRESA, monitoring conditionality represented approximately 2 percent of total program costs. Monitoring attendance had no effect on primary school enrollment but appears to have had a major impact in increasing the likelihood that students would continue school after completing their primary education, with conditionality increasing enrollment in the first grade of lower secondary school by approximately 20 percentage points.

Are CCT Programs Sufficient as a Poverty Reduction Strategy?

CCT programs as currently designed are important parts of a poverty reduction strategy that aims to improve the health, nutrition, and education of young children in the short term and their income-earning potential in the future, ultimately reducing the likelihood they will remain poor as adults. Other complementary strategies are needed, however, for people at other stages of the life cycle. Mexico's Oportunidades is partially addressing this issue by offering (1) benefits throughout high school; (2) a cash incentive for high school graduation conditioned on beneficiaries' investment in higher education, a productive activity, health insurance, housing, or continued savings; and (3) a cash transfer for beneficiaries 70 years of age or older. Of course, poverty reduction also requires other approaches to promote economic development and job creation.

Would All Developing Countries Benefit from a CCT Program?

With a proven track record, CCT programs are a powerful approach not only to reducing poverty but also to improving various educational, health-related, nutritional, and other welfare-related outcomes. That said, not all CCT programs have functioned as well as their designers had hoped. CCT programs are not for every country, and no two countries should necessarily adopt identical programs. In assessing whether a CCT program is appropriate, four main questions need to be answered:

1. What are the current levels of *specific* human capital outcomes? If the current enrollment rates of primary school children are nearly 100 percent, it makes little sense to condition transfers on primary school enrollment. However, if enrollment rates are only 70 percent, there will be greater scope for a CCT program —although the extent of this scope will be revealed only through further disaggregation of the enrollment rates. For example, are the rates uniform across rural regions or for boys and girls? If pronounced regional, gender, or ethnic differences are present, a CCT program targeted to those lagging groups would be more effective than a countrywide program.

2. Why are specific human capital outcomes currently too low? Do they reflect an income constraint, such as parents' needing the income that children bring in when not in school? Or are schools nonexistent, too far away, or considered unsafe for children to travel to or attend? Whether low school enrollment rates or poor nutrition outcomes reflect constraints at the household level or the absence of adequate service provision needs to be determined prior to initiating a program. CCT programs are ideal where the supply of supporting services is good but underutilized; they are much less effective when supporting services are limited. In such cases, improvements in the supply of schools, clinics, and so on should precede or accompany the launch of a program. In some countries CCT programs have provided a strong impetus for improving services.

3. Is there high-level political support for a CCT program? By design, CCT programs require coordination across different sectors, most notably social welfare, education, and health. This implies the need for interministerial coordination, which is difficult to achieve. An influential political champion of the program is needed to ensure that this coordination occurs. In Mexico, for example, strong support from inside the Ministry of Finance was an important factor in PROGRESA's success.

4. What administrative resources are available? Is the necessary intersectoral coordination feasible, particularly when both transfers and supply-side interventions are envisaged? The level of complexity of program design should reflect administrative capacity.

CCT programs—while not a magic bullet—are worth serious consideration as part of an integrated poverty alleviation strategy.

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Chapter 23

How Effective Are Food-for-Education Programs? A Critical Reassessment

Sarah Adelman, Daniel O. Gilligan, and Kim Lehrer

Education and child health are important tools for poverty reduction and economic development. With the recent focus on universal primary education as a Millennium Development Goal, many developing countries have made dramatic improvements in primary school enrollment rates, but the rates of primary school attendance and secondary school participation remain low. One reason is that school-age children in poor households are often needed to work on the farm or to care for younger siblings so that parents can work. Another reason is that poor health and short-term hunger cause children to miss school. Children who are hungry during school also learn less effectively.

Food-for-education (FFE) programs, which include meals served to children in school as well as take-home rations conditioned on a child's school attendance, are a popular means of improving school participation while fostering learning and supplementing the inadequate diets of school-age children. When the meals provided are well timed, they can reduce short-term hunger and help children concentrate and learn. The food is often fortified, which helps address nutritional deficiencies and may improve health and cognitive functioning.

Figure 23.1 shows the pathways through which FFE programs may affect participants' education and nutrition outcomes. FFE programs raise the benefits of school participation, increasing enrollment and attendance. This may improve learning and educational achievement, which may be bolstered by improved nutrition and cognitive function. FFE programs may improve nutrition and health

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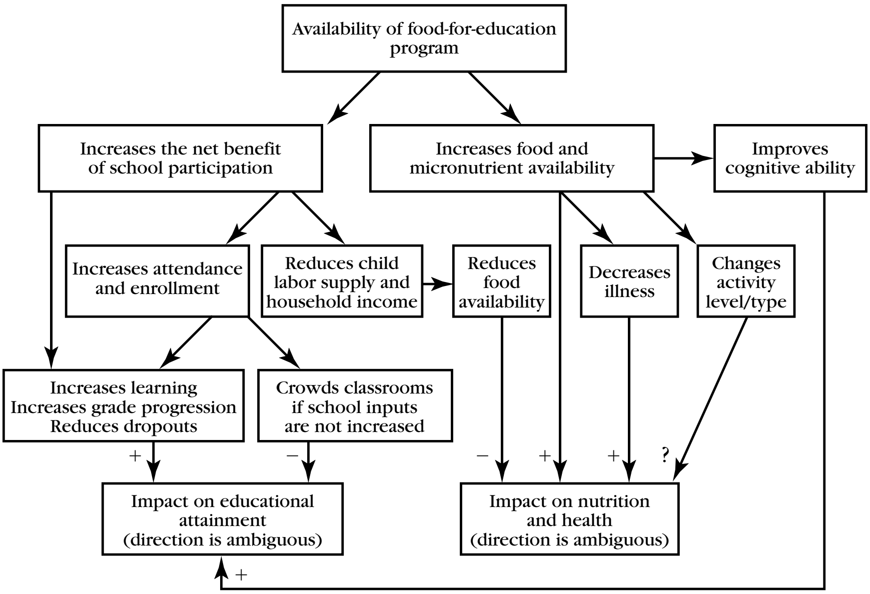
Figure 23.1 Potential benefits of food-for-education programs



Source: Devised by the authors.

by directly increasing household food availability, but the net effect on nutrition could be negative if the family loses income because the child is spending more time in school and less time in productive activities. If an FFE program is not accompanied by increased school capacity, classrooms may be crowded, negatively affecting learning. Therefore, negative effects on both education and nutrition are possible. However, the evidence suggests that the effects on education are positive for most children. One possible exception is that children who were already attending school may suffer negative peer effects—the impact of lower-ability children joining school. The impact on nutrition also appears to be positive, depending on the quantity and quality of the food provided, but the gains may be small relative to nutrition interventions in the first two years of life.

Despite these potential benefits, FFE programs have recently come under attack by some donors and policymakers, who contend that these programs are an expensive method for producing the stated education and nutrition objectives and that there are other more cost-effective mechanisms that could be used. The empirical evidence on these claims is mixed and can be misleading. One reason is that most evaluations of FFE programs fail to account for both the education and nutrition impacts of the programs and for the potential joint benefits of feeding hungry children during school. As a result, aggregate impacts can appear modest.

Also, many impact evaluations fail to consider program costs. Indeed, there have been few comprehensive and rigorous studies of the cost-effectiveness of FFE programs. Another common critique is that FFE programs often fail in implementation because of unreliable food availability or disorganized meals that disrupt learning. There are examples to support these claims, but the solution is usually one of implementation rather than program design. The remainder of this chapter describes the scope and type of FFE programs in operation today, providing a critical assessment of the evidence on their impact and cost-effectiveness and concluding with policy implications and a call for more careful collection of evidence.

The Scope and Type of Today's FFE Programs

It is difficult to know the full scope of FFE programs in developing countries, but a summary of the programs currently operated by the World Food Programme (WFP) of the United Nations (UN), likely the world's largest multicountry provider of in-school meals and take-home rations, gives a good indication of the typology and popularity of FFE programs. WFP's FFE programs reached 21.6 million children in 72 countries in 2005. In addition to in-school meals and take-home rations, WFP sometimes provides fortified biscuits for distribution at school. Nearly half of the WFP programs combine these modalities of linking food to school participation. In 24 percent of participating schools, only fortified biscuits are provided, while 22 percent of program schools offer only on-site meals, and 6 percent provide take-home rations exclusively. On average, in-school meals provide 876 kilocalories (kcal) of food energy per child per day, while biscuits provide 313 kcal of energy.

The average cost to WFP of running its FFE programs in 2005 was US$15.79 per child per year. The cost of on-site meals alone was slightly higher, while that of biscuits averaged US$9.00 per child. For take-home rations, the annual average cost was much higher, US$30.00 per child, due to transport costs and differences in food bundles. WFP also supports complementary activities to improve child health. For example, deworming is provided in 56 percent of WFP-assisted schools, micronutrient supplements in 40 percent of schools, and hand-washing facilities in half of schools. In some cases, WFP partners with nongovernmental organizations, national governments, or other UN agencies to provide complementary school facilities and services.

A Critical Review of the Evidence on Education and Nutrition Impacts

The empirical literature on the impacts of FFE programs on education and nutrition outcomes is substantial. The education outcomes considered include school participation, measured by enrollment and attendance; grades completed or dropout rates;

learning achievement; and cognitive development. Nutrition outcomes include food energy consumption, anthropometry, and micronutrient status. However, the number of studies with experimental or quasi-experimental evidence capable of providing causal impact estimates is relatively small. The nutrition literature offers many more experimental studies on nutrition outcomes than are available in the economics literature on education outcomes. However, many of the nutrition studies are controlled trials conducted in closely managed conditions, making it difficult to ascertain how these programs would fare in practice in a more typical setting. The number of experimental field studies for any outcome is small but growing. From the existing literature it is possible to draw conclusions about the likely impact of FFE programs on some outcomes, while for others the literature is inconclusive. The following summary presents the evidence for school participation, learning achievement, cognitive development, caloric intake, anthropometry, and micronutrient status, focusing on the studies with the strongest methodology for identifying causal impacts.

Both randomized trials and field experiments demonstrate a small causal impact of in-school meals on school attendance among children already enrolled in school. However, most studies do not test for the effect of in-school meals on net primary school attendance (attendance among children already enrolled and those not enrolled prior to the program) or enrollment rates for all school-age children living in the service area of a school. Thus, most impact estimates reported in the literature could greatly underestimate the full participation effects of these programs, particularly in areas where rates of pre-program enrollment were low. The best recent evidence on net attendance and enrollment comes from a nonexperimental study in Bangladesh. This study found a strong association between in-school feeding and net primary school attendance, but the estimated relationship was not causal. The only study found on the effect of take-home rations on net school attendance and enrollment, also in Bangladesh, provides some support for a moderate impact.

The evidence for learning achievement is less conclusive. While two studies detected an impact of school feeding on students' test scores, each found a significant impact in only one of three tests. One study, in Bangladesh, found a significant impact on mathematics scores but no impact on English scores, while the other, in the Philippines, found the reverse. Neither study identified whether the gains in learning attributed to in-school meals operated through improved learning efficiency or increased school participation.

FFE programs may also have an impact on cognitive development; however, empirical evidence on the effects of in-school meals is mixed and depends on the tests used, the content of the meals, and the initial nutritional status of the children. Nonetheless, a randomized trial in Kenyan primary schools found evidence that school meals improve arithmetic abilities and that meals rich in animal-source foods improve arithmetic and perceptual function in Kenyan children. Another study demonstrated the effect of breakfast on the cognitive function of nutritionally at-risk Jamaican students. However, all of the evidence collected thus far comes from highly controlled experiments, so it is difficult to determine whether the same impacts would be found in a less controlled setting.

For nutrition outcomes, most of the evidence comes from randomized, controlled, in-school feeding trials, though some recent studies in the economics literature employed quasi-experimental field evaluations to assess changes in energy consumption. In-school feeding programs appear to show greater potential to improve children's total daily macronutrient consumption when children's baseline consumption is well below age- or weight-recommended consumption levels. FFE programs may also improve the quality of children's diets, if not the quantity. Part of the same Kenyan study detected significant increases in micronutrient intake even among children whose overall food energy (calorie) consumption did not increase.[1]

FFE programs also show the potential to increase children's body size and muscle mass, though it is unclear whether the benefits are derived from increased energy intake or the provision of micronutrient-rich foods. Moreover, there is virtually no evidence on how in-school feeding affects children's activity levels, which could ultimately impact anthropometric outcomes. Given sufficient treatment duration, the evidence shows that small increases in weight or body mass index can result from school feeding. However, increases in height and body composition have been detected only when micronutrient-fortified or animal-source foods are provided. Deworming treatments can also improve the nutritional benefits of school feeding. A controlled trial in South Africa found that deworming interacts positively with iron-fortified school meals to significantly affect several measures of anthropometry depending on initial iron status. The combined treatment had larger effects than either deworming or fortified meals alone. No study was found that tested for a causal effect of take-home rations on student anthropometric status.

The evidence that FFE programs have an impact on children's micronutrient status is sparse, though the available evidence does show some potential for improvement of their status with regard to some micronutrients. Most evidence suggests that iron-fortified school meals improve children's iron status compared with unfortified meals; children with low baseline iron stores or higher iron demands may benefit more. However, improvements in iron status were not detected among Kenyan children receiving iron-rich, animal-source foods. The evidence is even less conclusive for other micronutrients. While beta-carotene and iodine fortification does improve vitamin A and iodine status in South African primary school students, the Kenyan study found no improvement in vitamin A status among students consuming foods rich in vitamin A. In fact, this study detected a positive impact only for vitamin B-12, although foods rich in vitamin A, vitamin B-12, riboflavin, and zinc were provided and a high baseline prevalence of deficiencies in these micronutrients was reported. The presence of malaria or other infections may impede detection of these benefits, particularly with respect to iron status.

Policy Implications

There is a reasonable consensus among those experienced in managing and studying FFE programs that in-school meals increase primary school participation. Where calorie intakes are low, providing meals at school has a unique ability to attract children. However, careful estimates of the size of the causal impact of in-school meals on school enrollment and attendance rates for all children living in the service area of a school are still not available, making it difficult to assess the cost-effectiveness of these programs, even for this primary objective. The evidence on secondary program objectives is mixed, but there is potential for impacts on learning achievement, cognitive development, individual food consumption, anthropometry, and micronutrient status. An important finding that deserves further study is the complementary impact on anthropometry of in-school meals coupled with deworming.

Despite this evidence on the impacts of FFE programs, there is very little rigorously produced evidence on the central policy question of cost-effectiveness: Do FFE programs yield higher impacts per dollar spent than alternative programs? No study has provided a thorough analysis of FFE program impacts across all of the outcomes considered here to obtain a complete impact measure on which to base a comprehensive estimate of program cost-effectiveness. FFE programs typically appear expensive relative to other programs targeted at fewer outcomes. For example, providing daily meals at school is certainly a more expensive way of increasing learning achievement than providing textbooks to students, but such a narrow comparison is incomplete. The difficulty in evaluating the cost-effectiveness of FFE programs is in aggregating impacts across various education and nutrition outcomes in common terms, such as gains in future income. Though difficult, such an analysis is certainly feasible.

Cost-effectiveness studies of FFE programs are also complicated by the fact that the main source of food for many such programs is food aid, which is provided free or below market cost. In the short run, a cost-effectiveness analysis could treat the food aid as free to the program, but this approach to financing the food transfers also reduces the sustainability of these programs. More accurate cost-effectiveness measures would capture the complete cost of funding and operating the programs. Because of concerns about sustainability and effects on local markets, "home-grown" school feeding programs that obtain food from local sources are now being considered in many countries. However, this approach faces other significant challenges, such as maintaining a reliable food source and developing systems to fortify the food with micronutrients as needed.

Another approach to measuring the cost-effectiveness of FFE programs is to conduct side-by-side field experiments with alternative programs. Little research of this type has been undertaken. One exception was a randomized field experiment from the Philippines that compared the education impact of in-school meals to that of programs that provided teaching materials, fostered parent–teacher communication, or both. The program that combined teaching materials with improved parent–teacher communication was most cost-effective, though this study was hampered by a small sample and only limited measures of education outcomes. To make this comparison more accurate, only part of the cost of the FFE program should have been attributed to the education outcomes in the cost-effectiveness measures, because school-based education interventions do not typically affect nutrition. Still, this type of side-by-side field experiment provides some of the best evidence of relative cost-effectiveness. Given the current level of expenditure on FFE programs and the tenor of the debate on their effectiveness, more careful evaluation studies are needed.

Note

1. For this study, vitamin B-12 concentrations significantly increased in children fed a meat or milk meal; the prevalence of severe plus moderate deficiency fell from 80.7 percent at baseline to 64.1 percent in the meat group and from 71.6 percent to 45.1 percent in the milk group. See J. H. Siekmann, L. H. Allen, N. O. Bwibo, M. W. Demment, S. P. Murphy, and C. G. Neumann, Kenyan school children have multiple micronutrient deficiencies, but increased plasma vitamin B-12 is the only detectable micronutrient response to meat or milk supplementation, *Journal of Nutrition* 133, no. 11 (2003): 3972S–80S.

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Chapter 24

How to Effectively Scale Up Interventions and Actions That Address Malnutrition: Three Cases from Helen Keller International

Kathy Spahn

Every year, close to 10 million children in developing countries die before the age of 5. Many of these child deaths could be avoided if already proven interventions could be delivered to and used by families of all the children in need. Undernutrition contributes to 60 percent of these deaths either directly or indirectly, which means that once every 6 seconds a child dies from a cause linked to malnutrition. Undernutrition itself is not necessarily killing these children; rather, proper nutrition is essential for the immune system to function, and without it children die of diseases such as pneumonia, diarrhea, and measles that would not normally be fatal if the children were well nourished.

As a result of undernutrition, close to a third of children under age 5 in Africa and Asia are stunted. Although these trends have improved over time in Asia, there has been next to no improvement in Sub-Saharan Africa. In addition to growth deficits due to undernutrition, there are widespread vitamin and mineral deficiencies that have devastating consequences for child survival and development. This chapter focuses on vitamin A deficiency (VAD), which affects an estimated 127 million preschool-aged children, putting them at increased risk of death, mainly from diarrhea, measles, and malaria. It has been shown that improving vitamin A status can reduce child mortality by 23–34 percent.

Approaches to combating VAD in children include breastfeeding; fortification of foods such as cooking oil, sugar, wheat flour, and soy sauce; biofortification of staple foods; for children aged 6–59 months, supplementation twice a year with high-dosage vitamin A capsules; and production and consumption of a diversified diet rich in vitamin A. The challenge is to effectively deliver these solutions at a large scale to the populations most in need and to ensure that the programs delivering these solutions are used. Both delivery and use are crucial; it is not enough to have supply unless it is accompanied by demand for these solutions.

This chapter describes three experiences with scaling-up interventions. In all cases, Helen Keller International (HKI) served as a catalyst to initiate sustainable large-scale programs with broad networks of development partners, including nongovernmental organizations, universities, the food industry, and ministries of health, agriculture, and education.

Broad-Scale Fortification of Cooking Oil with Vitamin A in West Africa

The goal in West Africa was to reduce maternal and child morbidity and mortality by reaching 70 percent of the population in the eight countries of the Monetary and Economic Union of West Africa (UEMOA) with vitamin A–fortified cooking oil. This goal was achieved through a private–public partnership working through the professional association of cooking oil producers to secure their commitment to fortify all cooking oil products with vitamin A. The program was rolled out according to plan and now forms the basis of a new initiative to fortify wheat flour with iron.

HKI began the program in individual countries, working with local people to identify the food vehicles that would lend themselves to fortification and have the highest consumption rates. HKI then assessed the local industries that manufactured these products, looked at the legal framework, and started slowly and on a small scale, with two different products (cooking oil and flour) in three different countries. Based on the success in those three countries, the assembly of health ministers of the West African Health Organization adopted a resolution in favor of mandatory fortification of cooking oil for the entire region. HKI convened private and public sector leaders for a formal dialogue, and these leaders called for an acceleration of mandatory fortification.

The scale-up of this program was successful owing to a number of factors, including HKI's presence at the country and regional levels, the existence of a strong technical professional association of cooking oil industries and a common monetary zone, and regional political will. In addition, a premium was placed on regular and open communication and on keeping participants focused on the message.

In addition to lack of funding, obstacles included the complexity of dealing with a large number of partners and the lack of an existing regulatory framework for fortification and quality control. With its on-the-ground field presence, HKI was able to act as a broker to bring partners together to address these complexities and challenges, including facilitating dialogue and development of the program approach and its technical aspects. The project had to develop regional quality control norms that were widely accepted for mandatory fortification, work with the industries to strengthen their capacity for quality assurance, and identify and strengthen the reference laboratories that would work with industries to ensure quality control.

Monitoring and evaluation are important aspects of this regional fortification initiative. To date, monitoring has focused on the production of fortified foods at the factory level. In addition, a system for monitoring amounts of imported cooking oil, in addition to monitoring volumes at the retail level, is being put in place. Finally, although it is still too early to fully assess the impact of this initiative, especially in terms of coverage, HKI and its partners are putting in place plans for doing so.

Studies do show, however, that cooking oil reaches the targeted population. Fortification Rapid Assessment Tool studies in several countries in West Africa have shown high levels of penetration of cooking oil among all population groups. For example, in Senegal, the percentage of children 6–59 months of age who had consumed oil in the preceding 24 hours varied from 88.1 percent in secondary cities to 55.2 percent in the rural South. A recent study in Côte d'Ivoire that sampled actual servings of food estimated that vitamin A–fortified cooking oil provides 15 percent of children's vitamin A needs.

Fortification costs less than 3 CFA francs per liter of cooking oil—less than 0.4 percent of the price of the commodity and well within the margin of seasonal fluctuations—so even if passed on to the consumer, the cost would be imperceptible. So far fortification has not resulted in increased prices, but other factors are currently having an impact on prices of oil and other staples in West Africa.

Vitamin A Supplementation in Niger

The goal of the program in Niger was to help meet the country's child survival objectives through twice-yearly vitamin A supplementation (VAS) reaching at least 80 percent of children 6–59 months of age. This goal was achieved in partnership with the Ministry of Health and the United Nations Children's Fund by building on the existing structure of National Immunization Days and then, as these were phased out, developing Africa's first-ever National Micronutrient Day. Niger has now provided the model for other countries in the region to follow.

Successful scale-up and coverage of more than 80 percent of children aged 6–59 months were facilitated by the fact that there were data showing that VAD was a serious public health problem, which translated into a powerful key message that VAD control could avert more than 25,000 child deaths a year in Niger. In addition, reduction of child mortality was a high-priority objective of the government and donor partners.

The process of scaling up also faced key challenges, including a high level of dependence on external funding. Initially a major United Nations agency was not on board with the strategy, a situation that required enhanced advocacy and the intervention of the local Ministry of Health. The Ministry of Health also had a number of mass distribution programs for immunizations, malaria, and nutrition, none of which communicated with each other, so HKI created a core group to bring these agencies together in dialogue. An essential part of the success of the VAS program in Niger, as in many countries, was the collection of postevent monitoring data that all partners could review to identify coverage levels and gaps requiring remedial action. To ensure that the monitoring data provided a reasonably accurate reflection of the coverage achieved, population-based postevent coverage surveys were also conducted.

Scaling Up Homestead Food Production in Four Asian Countries

The program in Asia aimed to improve the nutritional status of vulnerable members of low-income households in Bangladesh, Cambodia, Nepal, and the Philippines through increased small-scale production and consumption of micronutrient-rich crops and small animals. This goal was achieved by working through broad networks of more than 250 local NGOs as well as local government offices in health and agriculture. The current coverage is close to 1 million households, with studies showing positive impacts on micronutrient status, food consumption, and income.

The reliance on a broad network of NGOs to fast-track the program and reach more areas of the countries was key to its success, as was encouraging local NGO ownership through participatory decisionmaking and cost sharing. In addition to baseline and endline surveys to assess different aspects of program impact on various indicators, an ongoing monitoring system developed with the NGOs allowed for implementation problems to be identified and corrected immediately.

Challenges included obtaining adequate funding and coordinating so many different NGOs and partners. To improve coordination, HKI involved the NGOs from the start to make sure everyone was on the same page, developed a flexible project model that could easily be adapted to different NGOs' ways of working, and provided strong overall management support. Some donors were impatient to see positive outcomes, but this kind of program takes time to show results.

More work is needed to further study this intervention, particularly to identify areas in which refinement of program inputs (such as strengthening activities designed to change nutrition behavior) could further enhance outcomes, as well as to better document the program model for advocacy and fundraising purposes.

Summary

Successful scale-up of such programs depends on a range of factors both political and organizational. There must be political will on the part of local government, and supportive policies and guidelines must be in place. Adequate time and funding must be provided into the future, and partners must agree on all objectives. Chief among organizational success factors is leadership: someone or some organization must lead the charge and be responsible. Partnership is also vital, because networks of partners allow further reach, quicker roll-out, and greater leveraging of resources. Ownership is essential, and partners must be involved from day one in program design, implementation, and monitoring and evaluation. Time must be invested up front to define the partnership, clarify roles and responsibilities, and ensure harmonization of messages and goals. It is important to be opportunistic and use existing structures and programs to the extent possible. Outcome indicators must be part of the monitoring and evaluation targets of all partners, and implementers must be willing to make course corrections if outcomes are not being achieved.

Common obstacles and challenges include lack of financing and sometimes unrealistic donor expectations of quick results. Involving lots of partners, although valuable, adds complexity and may lead to competition if resources are scarce. Also, changing development trends may lead to a change of focus midway through the project.

Two misperceptions are common. The first is that once results have been achieved, nothing more remains to be done. This is not the case; support is often needed at critical points in time to maintain sustainability. For example, once food fortification initiatives are up and running, a local manufacturer may try to cut costs by using a slightly lower-grade premix ingredient. Program partners need to ensure that this does not happen. Another common misperception is that successful scale-up has been achieved once the interventions (the "supply") are available. Once again, this is not the case; there must be "demand" for the interventions. Target groups must be using them as originally planned, and social marketing must be ongoing to encourage target populations to continue to purchase and use the product or continue the new behaviors.

I close with a quote from Helen Keller, the founder of HKI: "Alone we can do so little; together we can do so much."

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Chapter 25

Designing Insurance for the Poor

Stefan Dercon

The provision of insurance for the poor, covering a variety of risks, could well be a key milestone in the fight against poverty. In richer economies, insurance achieved through broad public action and appropriately developed private mechanisms has fundamentally changed the lives of poor people. The difficulty in developing countries, however, is that insurance markets are limited, as (often) is the capacity of public agencies to provide sufficient protection. Much experimentation has been done in the provision of health insurance, and microfinance institutions have begun to take more interest in insurance, providing coverage for risks such as crop failure resulting from drought and loss of income due to illness or accident as part of their overall service delivery. The focus of this chapter is the design of insurance schemes for the poor in some of the poorest settings of the developing world, taking potential synergies and pitfalls into account.

The Nature of Risk in Developing Countries

Risk is pervasive in developing countries. The standard household risks of fire, theft, unemployment, sickness, and mortality are all more severe for poor families in developing countries, and rural households, most of which derive their livelihoods from the land, face the additional risks of droughts, floods, and pests and diseases affecting their crops and livestock. Insurance provision in developing countries is still limited, and state-provided social security or more basic social safety nets are often limited or unavailable for particular widespread disasters.

Richer families have reasonable access to insurance alternatives, such as credit and substantial savings, and although these are generally not options for poorer families, it is well known that such families do employ relatively sophisticated mechanisms to manage and cope with risk. They tend to diversify their crops and income-generating activities, often incorporating nonfarm activities into their income streams and even having family members migrate to reduce the household's overall exposure to risk. Where possible, they build up savings for precautionary purposes, often in the form of livestock or other liquid assets. Significantly, they also engage in informal mutual support networks in which assistance is provided in the event that a member experiences some form of shock. Nevertheless, given the variety and severity of risks to be dealt with, shocks inevitably have serious welfare consequences.

This is well illustrated by evidence from Ethiopia, where rural households face a considerable risk of drought. For example, about half the households interviewed in 2004 for a rural panel data survey in 15 communities across the country reported that they had faced serious hardship due to drought in the preceding 5 years, while around a quarter of the sample reported hardship resulting from illness, and a similar number reported problems related to illness. Despite a relatively widespread, foreign aid–supported safety net to cope with drought, as well as increased investment in health services, these shocks continue to cause significant welfare costs. The consumption levels of those reporting a serious drought, for example, were found to be 16 percent lower than those of families not affected, and shocks from illness appeared to have similar average impacts. Further, the costs were not just short term; in the sample it was found that those who had suffered considerably in the 1984–85 famine—the most severe famine in recent history—were still experiencing lower growth rates in consumption in the 1990s, a period of overall recovery, compared with those who were not seriously affected by the famine. These effects demonstrate that risk should be seen as a cause of persistent poverty in that shocks cause serious losses of physical and human capital assets. The presence of risk also tends to induce poorer households to become risk averse, even at the expense of potential returns; for example, they may choose to grow low-return but safe crops and to avoid committing resources to more productive capital in order to preserve the liquidity of their asset base.

The Characteristics of Insurance to Meet the Needs of the Poor

Insurance interventions designed to meet the needs of the poor would need to take into account the surrounding environment, particularly other interventions affecting risk and the way potential consumers respond to risk. The use of (micro)credit is expanding in most countries of the developing world, and in poorer settings schemes are often group based so as to provide increased incentives and possibilities for enforcement, thereby economizing on information and transaction costs.

Much effort is also being expended on developing better safety nets targeted to the poor, although usually with limited insurance provision beyond coverage for large-scale disasters. Further, in most communities in the world, people have long collaborated to provide mutual support in the event of crises, forming networks based on well-defined extended families and social groups. Such networks may well be suitable for handling idiosyncratic risks—risks that affect only a few members at a given point in time. However, there is scope to strengthen these networks via interventions to increase the risk pool as a means of guaranteeing sustainability. As it stands, these networks are not capable of handling covariate risks (risks that simultaneously affect many members of a network) or catastrophic (and, hence, very expensive) risks.

The Scope of Insurance

It should be noted that many types of risk are not easily insurable, simply because they cannot be actuarially priced—as is the case for many of the more common risks in developing countries, because even basic data on health, longevity, and climate are often largely incomplete—or because the risks are unknown, as in the case of rare natural disasters or catastrophes. Rather than insurance, risk reduction and management may be the relevant priority response for many types of risk. The obvious examples are conflict and crime, but others include water management and environmental protection in the event of drought and soil erosion in certain areas.

Insurance provision also suffers from serious informational and enforcement problems—possibly even to a greater degree than those faced by credit markets. Because it is difficult to observe the exact risk profile of each member of the population, insurance may attract those facing relatively higher risks on average, leading to adverse selection problems affecting the sustainability of a scheme. Further, people may actually start taking more risks once insured (the so-called moral hazard problem). Premium collection costs can be high, as can be the costs of verifying that certain insured risks actually occurred. These types of problems provide explanations for the limited development of insurance markets in poor communities. And because any scheme undertaken by the public sector or a nongovernmental organization (NGO) would face similar problems, there is a strong rationale for improving the design of insurance mechanisms in efforts to economize on these costs.

Another set of problems complicates matters even further: experimental evidence suggests that people's perceptions of risks tend to deviate considerably from observed distributions of risk; for example, relatively high-probability events tend to be underestimated. Furthermore, people find it hard to attach any probabilities to many possible events.

These considerations promote certain "rules of thumb" when it comes to designing mechanisms for insurance delivery. Partnerships between private-sector insurance companies, which have the much-needed expertise in the field, and NGOs and possibly even public agencies, which are in a unique position to reach the targeted poor sectors of communities, are likely to be the most fruitful.

Developing and Designing Interventions for Poor Constituents

When it comes to specific insurance interventions, it makes considerable sense to attempt to build on existing groups, especially those with developed forms of insurance provision and mutual support. In Europe, much of the provision of social security historically began with health and unemployment insurance initially developed within cooperatives or trade unions; with public intervention, these mechanisms eventually grew to become fully fledged social insurance schemes. In developing countries, there is ample evidence of functioning self-help groups (for example, in India) and cooperatives. There are also more traditional but no less sophisticated institutions, such as funeral associations, which provide cash and in-kind funeral benefits for members and their families (Box 25.1). Significantly, these institutions tend to be highly inclusive of the poorest segments of the community. Existing groups such as these could be strengthened by providing broader risk pooling as well as by offering protection for additional kinds of risk, most notably covariate risk, which they are not currently in a position to underwrite.

Working with groups has considerable advantages. First, it eliminates or at least considerably reduces the problem of adverse selection, for existing groups will have already internalized such risks. A related advantage is that dealing with groups would considerably reduce monitoring costs because the insurance agency would have to monitor only the group portfolio, leaving the association to monitor the individuals within the group. Next, provided that groups were chosen to focus on the poorer segments of society, targeting could also be devolved to the level of the group, society, or association. An additional benefit of focusing on existing groups is that mutual support systems would already be in place within the group, making it easy to build on existing informal schemes with complementary activities. If only individual members of these groups were targeted rather than the group as a whole, the newfound protection of those individuals could well induce them to withdraw their support to existing networks, possibly leaving some with even less protection than before.

Targeting insurance to groups, just as to individuals, requires the careful design of products. Different risks have different specific informational or verification problems, which should be taken into account in this process. For example,

Box 25.1 Funeral associations in Ethiopia

Most Ethiopians are members of one or more *iddirs,* which are funeral associations commonly found in both urban and rural areas. *Iddirs* traditionally offer their members insurance with benefits paid either in cash or in kind (such as in the form of funeral arrangements) in the event that a family member dies. Members usually pay a monthly premium, although there are specific mechanisms to ensure that even the poorest are included. In recent years, it has been observed that many of these groups have expanded their insurance to cover a number of different kinds of risk, including household- and fire-related damages, personal injury, and illness. These groups are typically local, so covariate risks cannot be insured. Some efforts have been made to build on these groups to increase insurance coverage. A number of urban *iddirs* in Addis Ababa have joined forces, effectively broadening the risk pool. A pilot scheme offering health insurance to *iddirs* is also under way.

health insurance schemes tend to suffer primarily from adverse selection problems, property or fire insurance are strongly affected by moral hazard problems, and insurance against crop failure suffers from moral hazard as well as loss verification problems. These risks are often also highly covariate, requiring a much larger risk pool. Life insurance has fewer of these problems and is typically observed to emerge early in new insurance markets. For example, in India the Self-Employed Women's Association has begun to offer life insurance to its members.

In recent years, a number of innovative products have been developed relevant to the developing world. For rainfall insurance, indexed products have been developed in which fixed payouts are made when local levels of rainfall fall below particular trigger levels. These products are calibrated to cover typical losses from low or high rainfall across particular geographical areas, and predetermined payouts are provided to customers without the need for specific individual losses to be verified and estimated. Such products have been piloted in India and Malawi, for example (Box 25.2). They overcome costly verification problems, as well as all standard informational problems such as moral hazard and adverse selection.

Designing products is nevertheless relatively easy compared with the task of ensuring considerable uptake of insurance. Studies investigating the hypothetical demand for insurance consistently find that demand is high, but when insurance products are piloted, such as in India and Malawi, uptake is rarely swift or of high volume. In insurance companies this phenomenon is well known; therefore, it is often said that "insurance is always sold and never bought." Explaining this is

Box 25.2 Rainfall insurance

Rainfall insurance involves products that cover typical losses from low or high rainfall across particular geographical areas based on predetermined payouts, thereby eliminating the need to estimate individual losses. Such products are highly attractive to insurers because they enable them to sidestep the problems of moral hazard, adverse selection, and verification costs, which have bedeviled crop insurance schemes across the world. In the developing world, trials of rainfall insurance products have been undertaken in various areas of Ethiopia, India, Malawi, Mongolia, Nicaragua, Peru, and the Ukraine.

BASIX has experimented with rainfall insurance in Andhra Pradesh, India, since 2003. The findings of its controlled study illustrate some of the key problems of indexed insurance products designed for the poor: despite being offered in areas with serious drought risk, only a small number of eligible households (4.6 percent) bought the insurance. All evidence indicates that those who bought the insurance were wealthier, better educated, and more able to withstand the shock of drought than the average farmer in the area. Why, then, did the poorer farmers forgo the insurance? Evidence suggests that they either did not understand the product or did not trust the product or its provider. It is worth noting, however, that on average—despite the insurer-friendly indexed design of the product—insurance premiums were around three times higher than the expected payouts. Work in Malawi has returned similar conclusions on uptake problems, but there is a clear need for further exploration of the subject.

harder, although the relatively high up-front cost of an insurance premium for some people may well explain their reluctance. It could also have to do with the fact that insurance is a difficult concept for most people to understand, and the very act of taking up an insurance product can often be seen to increase uncertainty, given its cost and its novelty.

For insurance to be successfully adopted, prospective clients need to be educated on the issue, and more research is needed to improve our understanding of why uptake is often low. These additional costs will increase the overall cost of insurance, but low uptake will reduce the benefits, viability, and ultimately the sustainability of insurance schemes, defeating their purpose. These realities may offer an additional incentive for a group approach given that established groups have established forms of mutual support, and this may lower additional educational and marketing costs.

Prospective Effects on Other Markets

Insurance may also affect the functioning of other markets. Specifically, one well-known reason that private credit markets function poorly or are poorly developed in the poorer regions of developing countries relates to enforcement problems associated with repayment. Offering insurance in such settings is rather analogous to offering bankruptcy protection. Bankruptcy laws provide a limit to enforced repayment, encouraging people to take more risk than is prudent. As a result, fewer people may be offered credit in the presence of bankruptcy laws than would be without them. Offering insurance against serious losses has a similar impact: it provides a limit to the "damage" caused by undertaking risky activities, but this increased risk-taking may in turn result in a reduction in the overall amount of credit offered. In short, insurance for broad income risks has the potential to crowd out credit.

Similarly, offering insurance to individuals as part of group-based credit schemes has the potential to undermine the credit scheme. These schemes economize on information and monitoring by creating incentives for members to ensure that they repay their loans, and a big factor in this is ensuring that they do not take on very high risks. Introducing insurance changes these incentives, running the risk of undermining the credit scheme. The implication is that in order to avoid undermining credit provision, potential gains would need to be incorporated into credit–insurance linkages—for example, by ensuring that contracts optimally internalized the different incentive, monitoring, and enforcement problems. One way to do this would be to offer credit with mandatory insurance rather than allowing some borrowers to opt out of insurance.

Going a step further, insurance could be linked to the broader social safety net agenda. Social safety nets are arguably a crude form of insurance that offer benefits at times of crisis. A key difference is that the benefits are usually not well defined or known in advance, and the recipients have limited certainty that they will receive benefits but no contractual enforcement powers. For social safety nets to operate in the same manner as insurance they would need to be credibly guaranteed. They should also be seen as an alternative in the event of the failure of credit and insurance markets and as one of a number of risk management strategies available to the poor. It is also important to recognize that they have the potential to undermine existing mutual support and credit schemes via the crowding-out problems previously discussed.

Concluding Comments

In conclusion, successfully devising insurance schemes to meet the needs of the poor requires a holistic approach that considers the risk behavior of users, the surrounding environment, and the potential side effects, such as on credit markets.

Costs and benefits need to be taken into account, along with potential trade-offs and complementarities.

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Chapter 26

Health Care for the World's Poorest: Is Voluntary (Private) Health Insurance an Option?

Jacques van der Gaag

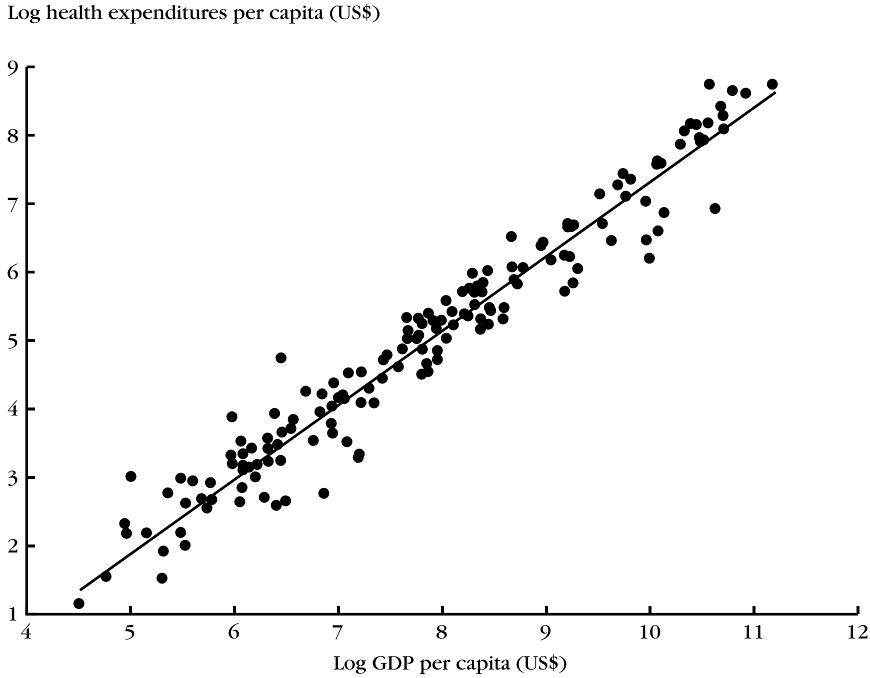
About 80 percent of the world's population currently lives in countries that are either developed or developing. The other 20 percent lives in countries that are stagnant or falling behind. As a result, by the 2015 target date for meeting the Millennium Development Goals, about 1 billion people will still live in severe poverty. Some of these people will live in countries that are stuck in one or more development traps; others will live in poor, remote, and backward areas of countries experiencing economic growth, on average. Although it will be difficult, if not impossible, to reduce income poverty under those circumstances, other aspects of poverty—particularly bad health and premature death—can be reduced.

This chapter focuses on options for increasing the chances that the billion at the bottom of the global income distribution will have access to affordable health care. The discussion draws on some long-standing regularities in health economics and new developments in the design and implementation of low-cost health insurance for low-income people in developing countries. It shows why private finance for health care will continue to play a major role, especially in poor countries, and argues that increased coverage by voluntary, private health insurance can be a suitable way of securing high-quality health care for the poor.

The First Law of Health Economics

The tight relationship between per capita health expenditures and gross domestic product (GDP) is illustrated in Figure 26.1. The cross-country regression is based

Figure 26.1 The first law of health economics



Source: World Health Organization, Statistical Information System, <http://www.who.int/whosis/en/index.html> (accessed 2004).

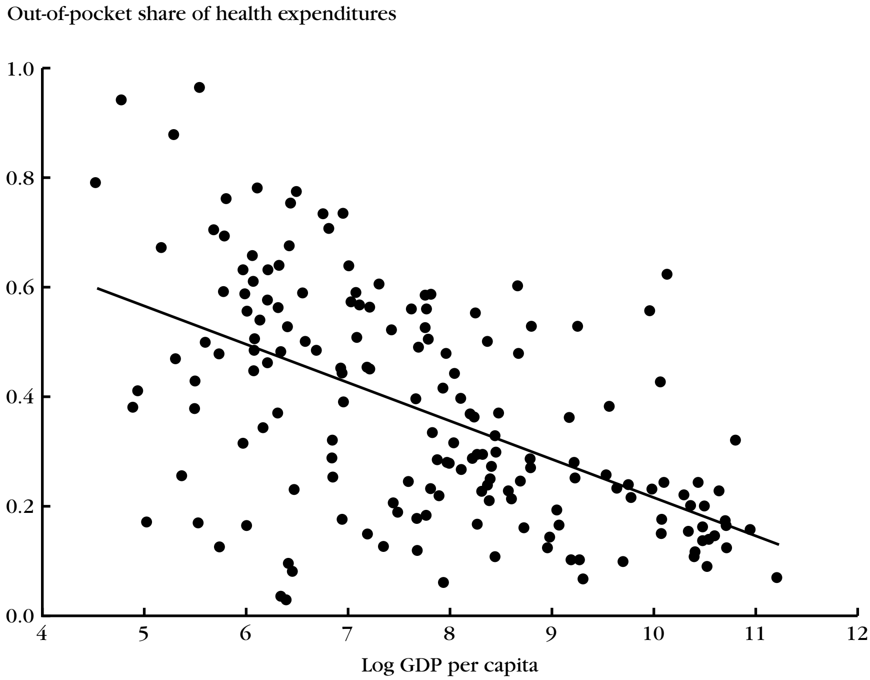
on 176 observations for 2004. Other than for the countries of the Organisation for Economic Co-operation and Development, which show a slightly higher income elasticity, tests for regional effects all yield negative results. The fit of this simple regression is very tight (R-squared is 0.954), which leaves little room for issues such as fee-for-service versus capitation systems, global budget caps (for hospitals), public versus private financing, and—most important for the purpose of this discussion—foreign aid and debt relief to have an additional impact on the overall financial resources available for health care within a country. (Health expenditures per capita increase 0.07 percent for every 1 percent increase in foreign aid; the standard error is 0.042.)

Why is per capita health expenditure so closely related to GDP per capita? One would expect that in countries where governments give high priority to health care, the overall rate of spending would be relatively high given GDP per capita—unless, of course, private financing for health care is being reduced as a result. This crowding-out phenomenon can also be at work when foreign aid for health care is increased, thus allowing governments or the private sector to spend fewer of their own resources. Whatever the mechanism, when GDP per capita is known, health expenditures per capita can be predicted with more than 95 percent accuracy.

A second common observation is that in low-income countries, private, uninsured, out-of-pocket expenditures on health care make up a larger share of total financial resources than in richer countries (Figure 26.2). In many low-income countries the share exceeds 50 percent; in India and China it is over 75 percent. However, R-squared for this regression is only 0.311, leaving plenty of scope for policy measures to reduce the out-of-pocket share, especially through the implementation of health insurance. Risk sharing for health care is critical to efforts to alleviate poverty. A recent study shows that about 150 million people per year suffer catastrophic financial shocks due to uninsured health care expenditures.

These two observations prompt the conclusions that in low-income countries total future resources for health care will be small, and a large share will consist of private, out-of-pocket expenditures. Conventional efforts to increase health resources will not

Figure 26.2 Decreases in the share of out-of-pocket expenditures with development



Source: World Health Organization, Statistical Information System, <http://www.who.int/whosis/en/index.html> (accessed 2004).

change this. The main challenges are to increase overall resources without crowding out existing private resources and to increase risk sharing for poor households.

Poor Pockets in Growing Countries

By 2015, a large number of the world's poor will live in poor, remote areas of what will by then be middle-income countries. For these countries, the problem will not be a question of sufficient resources for health care but of how those resources are being distributed. Equality in health has been high on the international policy agenda for decades, but it has proven an elusive goal. Virtually without exception, country studies show that the poor have less access to all types of health care and benefit less from publicly provided services than do higher-income groups. Thus, health status is universally lower for the poor than for the rich. The quest for health equality is often used as a major argument for heavy government involvement in health care. After more than 25 years of policy failure in this area, evidence suggests that it is time to rethink reliance on government as the sole financier or provider of health care.

Colombia provides a good example of how progress can be made to achieve access for all. It introduced a comprehensive health insurance scheme in the early 1980s consisting of two regimes: a contributory regime focusing on workers with monthly incomes of about US$170.00 or higher and a subsidized regime for the poor. The contributory regime is financed through mandatory payroll taxes, the subsidized regime from a mixture of fiscal revenues and cross-subsidies from payroll taxes. A controversial but necessary aspect of the dual insurance scheme is that benefits are more limited in the subsidized regime, reducing the requirement of equality. Paradoxically, the overall effect of the introduction of the new system has been more equality in insurance coverage, access to health care, and health outcomes.

Further, even for the fully subsidized regime, the government has not relied solely on the public sector; instead, participants choose from among a mixture of public and private, for-profit and not-for-profit health insurance companies. In turn, the insurance companies contract health services from a network of public, private, or owned clinics and hospitals. This supply aspect is often overlooked when discussing the feasibility of providing access to health services for the poor through low-cost health insurance. In many developing countries, governments promise free health care for all but fail in the delivery. As part of the public sector, health staff often go unpaid for months, clinics lack drugs and equipment, and hospitals become dilapidated from lack of maintenance. The insurer–provider contracts provide for a steady and reliable income flow for clinics and hospitals, which facilitates sufficient staffing and much-needed investment in health care infrastructure. The Colombian experience suggests that health insurance coverage for all can be achieved in middle-income countries provided that a number of lessons are taken to heart: first, the goal of ex ante equality is an impediment to providing access for all; the global evidence is overwhelming. Second, higher levels of ex post equality can be achieved if coverage levels for the poor take the realistic view that resources are limited. And finally, by relying on insurer–provider contracts—with the providers either public or private—incentives can be put in place to provide reliable access for all income levels.

Financing Health Care in Poor Countries

Financing health care in poor countries that have limited or no growth prospects remains challenging. But health insurance can play a major role here, too. As shown earlier, the share of private payment for health care is large in poor countries. Given the overall limitations of resources, policies to increase access should be designed so as not to crowd out those private resources. Prepaid, low-cost voluntary health insurance provides such a mechanism. It harnesses the existing resources, provides a steady income flow for the providers, and protects participants from financial shocks as a result of illness. Recent experiences in a number of African countries suggests a way forward.

The Dutch nongovernmental organization (NGO) PharmAccess develops low-income health insurance products for a variety of low-income workers. The NGO started with workplace programs in large international companies, providing comprehensive health insurance for the workers, including counseling and treatment related to HIV and AIDS and treatment for tuberculosis and malaria. As in the case of Colombia, PharmAccess develops contracts between insurers and providers to guarantee easily accessible and high-quality care. This approach is currently being implemented in more than 30 African countries. The major challenge now is not only to provide insurance coverage to workers at large and often international companies but also to increase coverage for workers in small and local companies and for the self-employed. Pilot projects of this kind are being developed and implemented in Namibia, Nigeria, and Tanzania. These schemes provide an easy mechanism for donor support to be used to subsidize the insurance premiums without risking the crowding out of existing public or private resources. Group insurance packages are developed for farmer cooperatives, participants in microfinance schemes, market women, fishermen cooperatives, small information and communications technology enterprises, organized coffee growers, and other target groups. In all cases the benefit levels are tailored to the needs (and means) of the target groups. With the aid of a generous grant from the Dutch government, insurance premiums are subsidized for the first few years to entice low-income households to participate in these new schemes. The steady income flow from these prepaid schemes allows providers to invest in improvements of the health care infrastructure.

Of course the success of this approach depends on the effective and sustained demand for these voluntary (private) prepaid insurance schemes. Long-term experience with such schemes is still limited, but a growing literature on the willingness to pay for health insurance suggests that the market for such schemes is large, even among the poor.

The Willingness to Pay for Health Insurance

In the absence of real world experience, economists gauge the willingness to pay (WTP) for health insurance in low-income countries by means of contingent valuation (CV) methods. The number of studies in this area is rapidly growing and provides a consistent picture. One study by Barnighausen et al. (involving a survey conducted between September 1999 and January 2000) examined WTP among informal-sector workers in Wuhan, China, and found that these workers were willing to pay the equivalent of about US$4.00 per member per month. This amount is higher than the estimated cost of insurance based on past health expenditures. Another study conducted in 2005 by Dror, Radermacher, and R. Koren used unidirectional bidding in a CV survey to obtain estimates of WTP for health insurance in India, finding that the poor were willing to pay a higher percentage of their income on health insurance premiums than were higher-income groups. The median WTP for health insurance was the equivalent of about US$15.00, and 25 percent of the respondents were willing to pay the equivalent of US$20.00 or more. Asgary et al. examined WTP for health insurance in rural Iran, finding that households were willing to pay US$2.77 per month on average. Asfaw and von Braun have estimated that on average, the WTP for a community-based health insurance scheme in Ethiopia was the equivalent of about US$0.60 per month, pointing out that although this amount seems small, "if universal coverage of insurance is assumed, it is possible to generate around 631 million Birr (US$75 million) per annum from 1.57 million urban and 9.5 million rural households of the country. This amount is much higher than the maximum amount of money used as a recurrent budget by the health sector of the country" (249).

A recent study for Namibia reported the results presented in Table 26.1. Using the CV method, the authors estimated that households in the poorest quintile were willing to pay the equivalent of about US$18.50, or 5 percent of their income, on health insurance. Remarkably, this is almost exactly the amount of their current expected expenditure level. Higher-income households were willing to pay more for insurance, again reflecting their expected outlays (for the highest-income group, the WTP much lower than their expected expenditures, probably due to the limited coverage of the hypothetical insurance package that was offered).

Table 26.1 Mean willingness to pay (WTP) for health insurance and expected health expenditures

Quintile	Expected health expenditures per capita per year (Namibian dollars at 2006 prices)	Mean WTP per capita per year (Namibian dollars at 2006 prices)	WTP as a percentage of mean per capita consumption per year
1	130	132	4.97
2	162	180	3.07
3	215	204	1.96
4	324	264	1.31
5	902	312	0.47
Total	283	252	1.20

Sources: Calculated by the author based on the Republic of Namibia Okambilimbili Survey, 2006, and A. Asfaw, E. Gustafsson-Wright, and J. van der Gaag, *Willingness to pay for health insurance: An analysis of the potential market for health insurance in Namibia* (Washington, DC: Brookings Institution, 2007).

Experience with Community Health Insurance Programs

Voluntary health insurance schemes have long been around in developing countries. Unfortunately, the experiences with such schemes have been mixed, and hard analyses of the causes of these mixed results are scarce. Based on an extensive survey of the literature, Preker et al. concluded that there is good evidence that community financing arrangements lead to better access to drugs, primary care, and even hospital care, but they also found that many schemes have difficulties in raising sufficient resources. Implementation problems are also mentioned in a report from the Ministry of Health in Tanzania that discusses experiences with community health insurance schemes in Ghana, Tanzania, Uganda, and Zanzibar. In particular, the need to introduce user fees (to entice participation in the insurance scheme) and to design a system of exemptions (for instance, for pregnant women) and waivers (for the very poor) proved major obstacles for the successful implementation of such schemes. Wagstaff et al. found that the introduction of a heavily subsidized voluntary health insurance scheme in rural China did increase outpatient and inpatient utilization by 20 to 30 percent but had no impact on out-of-pocket spending or utilization among the poor.

It is worth noting that none of these studies analyzed or even described the link of the insurance schemes with health care providers. The current evidence suggests that for such schemes to be successful, more experience is necessary with alternative forms of implementation, including effective insurance provider contracts.

The sustainability question for these types of schemes is not different from the sustainability question regarding budget support for public systems. For low-income countries, additional resources to provide free or highly subsidized public health care will be necessary for years to come. The same is likely to be true for prepaid health insurance schemes for low-income households. The main difference is that the prepaid schemes leverage the already available private resources and thereby empower low-income households to demand easily accessible quality care. Furthermore, the prepaid schemes can contract out services to both public and private providers, thus contributing to the development of a more integrated overall health care system.

Conclusion

In poor nongrowing countries and in poor pockets of countries that are developing, resources for health care will be scarce, and a large proportion of those resources will be private. Donor aid for the first group of countries and central government aid for the poor in the second group should be designed in such a way that the private resources stay in the health system rather than being crowded out. Private, voluntary health insurance may provide a mechanism to achieve this goal. It will also provide a reliable income flow for health care providers and protect the poor against the negative financial shock of having to face large health care expenditures. Potentially, the demand for suitably designed low-cost private health insurance is large, even among the poor. The main challenge is to design insurer–provider contracts that guarantee reliable and easy access to high-quality care. Experience with such contractual arrangements is scarce. The way forward should include experimentation with alternative contractual arrangements among (public and private) insurers and (public and private) providers, accompanied by serious evaluation efforts to learn from mistakes and accumulate information on best practices.

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Chapter 27

Microfinance Interventions to Enable the Poorest to Improve Their Asset Base

Fazle Hasan Abed

Microfinance has proven an effective tool in alleviating poverty, particularly among the population living on less than a dollar a day. Worldwide, more than 100 million people now receive microfinance, but not all of them are below the dollar-a-day poverty line. Although microfinance is expanding all over the world, probably fewer than half of the people who have access to financial services through microfinance live on less than a dollar a day. The International Food Policy Research Institute has estimated that India has 70 million borrowers, of whom only about 6 million live on less than a dollar a day, suggesting that the majority of borrowers are above the dollar-a-day poverty line. These people are also poor and should not be ignored. These numbers suggest something that the experience of the Bangladeshi organization BRAC (Box 27.1) has shown to be true—that microfinance has not yet reached the large numbers of very poor people for whom access to finance would lead to better lives. When one is poor and has no money to start a small business that can help improve one's life, access to finance is very important; it is kind of a dream come true.

People also need a service that will help them save small sums of money for a rainy day. Even poor people practice saving in small quantities and would find it useful to have a safe place to put these savings, to which they could add in small amounts—a few cents every week.

Therefore, there is a need for an institution that allows the poor to save and to borrow small sums of money when they need it. The actual amount borrowed would depend on the ability of their enterprise to generate income to repay the loan; the figure could be as low as US$50.00 or as high as, say, US$400.00 to

Box 27.1 About BRAC

BRAC (formerly the Bangladesh Rural Advancement Committee) was founded to rehabilitate refugees returning to Bangladesh after the country's 1971 war of independence. BRAC soon faced the long-term task of improving the living conditions of the rural poor and expanded its work into fields such as income generation, health care, population control, and primary education for children. As BRAC grew, it targeted the landless poor, particularly women in rural Bangladesh, a large percentage of whom live below the poverty line with no access to resources. BRAC now works in more than 69,400 villages in Bangladesh and reaches more than 110 million poor people.

BRAC employs a holistic approach to poverty alleviation and empowerment of the poor through programs in health, education, and social and legal empowerment as well as economic development interventions such as microfinance. In BRAC's work, empowerment of women is a precondition for sustainable poverty alleviation. So far, BRAC has organized about 7 million Bangladeshi women into more than 260,000 groups called Village Organizations. These groups form the basis for BRAC's multifaceted programs, which seek to create an enabling environment in which the poor can participate in their own development and improve the quality of their lives. In 2007 BRAC had disbursed more than US$4.6 billion in microcredit to its Village Organization members, with a recovery rate of 99.5 percent.

In 2002, BRAC went international, using its early experience in the postwar reconstruction of Bangladesh to help a war-ravaged Afghanistan. In 2004 BRAC also registered as a foreign NGO in Sri Lanka to help the country get back on its feet after its eastern coastal provinces were virtually destroyed by the devastating tsunami. In 2006 BRAC launched operations in Africa—currently working in southern Sudan, Tanzania, and Uganda—with plans to expand to several other countries over the next few years.

US$500.00. This is the service provided by a microfinance institution, and it is one of the activities carried out by BRAC.

How Microfinance Works

How does microfinance work? Microfinance involves organizing poor individuals within a community into groups, encouraging them to save, and lending them small sums of money for which they are jointly liable. Amounts ranging from US$50.00 to US$500.00, depending on the enterprise, are lent to individuals in these groups, who then repay the loans with interest in regular installments over a specified period of time, usually one year. Once the first loan is repaid, the borrowers are able to take further loans, which tend to be progressively larger. Gradually they improve their enterprise, increase their asset base, and lift themselves out of poverty. That is the standard microfinance model, and it works for most people.

For some people—fewer than 10 or 15 percent of borrowers—it does not work, not because their enterprises have failed but because something unexpected has happened in their family, making it difficult for them to repay their loans. For example, the death or infirmity of the family's main breadwinner may cause the borrowing household to default on loan repayments. As a result the borrowing household loses its access to microfinance and is not able to acquire any further financial support. To overcome these issues, BRAC has put in place several measures, including death benefits for borrowing households.

Failure to repay a loan occurs in only a small percentage of cases, however. For the large majority of borrowers, microfinance has proven effective. It is the most effective intervention known to us for attacking poverty at the level of the household rather than the economy.

Microfinance for the Ultra Poor

The situation for the ultra poor, however, is quite different. BRAC's definition of the ultra poor is not people living on less than 50 cents a day but those living on less than 35 cents a day. BRAC's experience in working with more than 100,000 households in Bangladesh that fall under its definition of ultra poor has shown that these families are not really microfinance clients. Existing microfinance group members within the village choose not to include these individuals in microfinance activities, saying, "No, she can't repay her loan. She's too poor. She is by herself, she has no husband. She works in other people's houses, she has five children, she has no way of taking money and repaying a loan."

So what can be done about the ultra poor? BRAC has recognized that before providing microfinance to the ultra poor, it needs to invest in building up their capacity to fully use such mainstream development interventions. This investment involves transferring assets (such as livestock) to them through a grant—not a loan—of around US$150.00 and, while these assets are earning income, providing a small stipend for them to live on and to use to send their children to school. For 2 years BRAC "holds their hands," allowing them to graduate out of ultra poverty into "tolerable poverty," at which point they can become microfinance clients. As microfinance clients, they are able to graduate out of poverty using the standard microfinance framework described earlier.

This is what it takes to lift the ultra poor out of poverty. It is an investment, whereas microfinance is a business. Microfinance institutions not only recover their capital but also earn interest, which allows them to cover their costs and, if they are successful, even make some profit so they can expand their portfolio. The ultra poor need a "ladder" so they can climb up to a level of poverty at which, through microfinance, they can work toward emerging from poverty. This is what BRAC is doing in Bangladesh with its program for the ultra poor. In 2002 the pilot intervention of asset transfer and stipend provision included 100,000 ultra-poor families and was supported with US$58 million of donor financing. Its success has allowed BRAC to expand the program to 800,000 ultra-poor families, and in 2006 it planned to spend US$188 million over the following 5 years (2007–11) to guide these families onto the road out of poverty.

Institutions for Microfinance

Which are the best organizations to offer microfinance—banks or microfinance institutions? If banks were able to provide microfinance, the extension of microfinance would be much easier given that banks are available all over the world. Banks, however, have a fundamentally different culture from institutions that provide microfinance services. Bankers do not go to villages seeking clients; rather people go to banks to borrow money and repay it. In contrast, microfinance institutions go to the villages, look for poor people, organize them into groups, and get them to start saving.

One of the distinguishing features of the service provided by many microfinance institutions is the organizing of borrowers into groups. There is solidarity among microfinance group members, so if an individual member cannot pay this week's installment, one of the other members will say, "All right, I will help you out this week, and if at some point in the future I don't have enough money, you can help me." The success of microfinance is due in large part to the group settings in which these programs operate. Individually, a poor person is powerless, but a group is powerful. A group not only facilitates access to finance and saving services but also offers a gateway into communities for approaching issues that affect them, such as the occurrence of disease. In an organized microfinance group, one member can be trained as a village health worker who can help her community deal with health issues such as dehydration and diarrhea. Microfinance builds a lot of social capital and trust between group members, the full potential of which has not yet been explored. Therefore, much more can be done to realize the full benefits of microfinance.

"Microfinance Plus Plus"

BRAC is not just a microfinance organization; it is a development organization. It operates what is called a "microfinance plus plus" program, which provides support in the form of linkages along the different points of a microenterprise's supply chain. For example, when poor rural women borrow money to buy livestock, they often face several problems, including lack of proper feed and veterinary care as well as low demand for milk in rural areas and lack of access to more lucrative city and town markets. BRAC works with its borrowers who buy cows, giving them training in livestock rearing. BRAC's poultry and livestock feed mills provide access to superior-quality animal feed, and its community extension workers provide door-to-door immunization and veterinary care. Through BRAC's artificial insemination program the microentrepreneurs have access to better breeds of cows that yield more milk. On the other end of the supply chain, for its 400,000 borrowers who have bought cows, BRAC has put in place a system to collect milk from them, process it, and sell the final product to more viable city and town markets. Therefore, in addition to providing microfinance, BRAC also provides marketing and input support.

Similarly, when 400,000 of its women borrowers were planting vegetable gardens but lacked access to good seeds, BRAC entered the seed business to provide them with high-quality seeds that help improve the productivity of their enterprises.

Microfinance alone works well, but if it can go a bit beyond pure access to finance—the "plus plus"—by, for instance, connecting borrowers to the right enterprises, providing inputs, and marketing their products, microfinance has an even greater impact.

Addressing Constraints to Microfinance Expansion

Given the now well-known benefits of microfinance, it is useful to consider why it is not expanding exponentially throughout the world. Constraints to the expansion of microfinance and suggestions of ways to address them are as follows:

1. *Government regulation.* In China, provincial permission is required to start a microfinance organization. Government regulation is fine, but the government should understand what it is trying to regulate. The governments of all countries should give microfinance organizations free rein to provide microfinance to the poorest people. It is important for government representatives, particularly in the central bank, to understand what microfinance is and what it can do for the poor.

2. *Institutional capacity.* Some nongovernmental organizations are content to have 30,000 borrowers. The philosophy at BRAC, however, is that although small may be beautiful, large is necessary. BRAC wants to reach millions of borrowers in order to make a significant impact given the scale of global poverty. Organizations should focus on building their capacity to quickly reach larger numbers of people.

3. *Wholesaling by banks.* Banks should not be microfinance organizations, but they should be wholesalers, and microfinance institutions should be retailers. In other words, banks should offer financing to microfinance institutions.

4. *Training.* To provide 200 or 300 million of the poorest people with access to microfinance it is crucial not only to understand the theoretical underpinning of how microfinance works but also to have large numbers of people who can go to a village to collect money, collect savings, and service loans. Training organizations are needed to develop the capacity of microfinance program staff. Universities, including some in Bangladesh, have started offering master's of business administration degrees in microfinance to develop the quality of human resources involved in operating these programs.

Chapter 28

Scaling Up Microfinance in India: The Role of the Private Sector

Sona Varma

Financial inclusion—the universal provision of financial services to all citizens—is an important goal for Indian policymakers. The vast network of cooperative banks that provide credit to agriculture, the nationalization of commercial banks in 1969, and the creation of an elaborate framework of priority-sector lending were all elements of a state-led approach to meeting the credit needs of large segments of the Indian population that had no access to institutional finance. The strategy for extending the reach of the financial system relied primarily on expanding rural bank branches, setting up special-purpose, government-sponsored institutions (such as regional rural banks), and setting targets for commercial bank lending to broad sectors unable to access credit, such as agriculture and small-scale industry. The success of this strategy was mixed at best, and a large share of India's poor still have no access to financial services at a reasonable cost.

In India, financial exclusion increases with poverty. A recent household survey in India showed that 86 percent of those in India's highest income quintile have bank accounts compared with 18 percent of those in the lowest quintile. Given that a strong link has been shown between poverty reduction and access to financial services, providing India's poorest people with access to financial services is important. India's poorest need financial services for a number of reasons: they require a safe place to store their savings (however small), they need credit for both business and consumption purposes, and, given their high level of exposure to risks such as disease and crop failure, they need insurance services.

The Evolution of Microfinance in India

Microfinance appeared to hold promise for reaching people in India with no access to financial services. Microfinance arrived somewhat late in India; Bangladesh's nongovernmental organizations (NGOs), for example, were already implementing a flourishing microfinance business when the first operations started in India in the early 1990s. These operations took the form of self-help groups (SHGs) made up of 15–20 people, predominantly women, who came together to gain access to saving and credit services. The National Bank for Agriculture and Rural Development, an apex development bank mandated to facilitate credit to agriculture, small-scale and cottage industries, and other rural activities, proposed that SHGs be linked to commercial banks to channel institutional credit to the rural poor. This proposal led to a pilot project in 1992 under which India's central bank, the Reserve Bank of India (RBI), allowed commercial banks to lend to SHGs without requiring collateral. This key policy change catalyzed the expansion of microfinance operations in India.

The SHG–bank linkage model grew rapidly and soon became well known as the largest microfinance intervention in the world. It initially offered promise as a good model of public–private partnership for providing microfinance because it was backed by regulatory policies that allowed commercial banks to lend to unregistered groups without taking collateral. A number of design issues ensure that it is the poor that typically use these services (although a World Bank survey in 2003 found that the ability of SHGs to target the poor varies from state to state). As of March 2007, this model had linked 41 million people to commercial banks, the cumulative credit disbursed was more than US$4 billion, and the outstanding loan portfolio was about US$2.4 billion (at 2007 prices). Although the SHG model still accounts for the bulk of microfinance lending in India, it faces a number of challenges. For example, the model is susceptible to political capture because politicians looking to disburse handouts at election time use SHGs for this purpose. Given the large unmet demand for credit, it became clear that alternative channels for microcredit delivery in rural areas were badly needed.

This need led to the growth of alternative institutions to serve as intermediaries in disbursing credit to the rural poor. These alternative institutions are referred to in the rest of the chapter as microfinance institutions (MFIs). MFIs in India take many forms; there are NGO MFIs, cooperative MFIs, and company MFIs. This third category refers to MFIs registered under the Indian Companies Act as "nonbank finance companies," a classification that allows them to provide microcredit but not to take deposits, except under special circumstances. It includes barely 20 MFIs but accounts for more than 80 percent of the total MFI loan portfolio. This growth was facilitated by public policy. Banks in India are required to provide 40 percent of their credit to sectors considered high priorities, such as agriculture, small-scale industry, and vulnerable people, including the poor, those with disabilities, and minorities. In 2000, RBI added microfinance to this list. This change released large amounts of commercial bank financing for MFIs and allowed them to scale up their lending operations rapidly. At the end of March 2007, company MFIs had an outstanding loan portfolio of about US$1 billion to about 10.5 million borrowers (Box 28.1).

Microcredit borrowers use microloans for a variety of purposes. Although industrywide estimates of the use of loans are not publicly available, the evidence available shows that a large share of loans is used for income generation in agriculture as well as nonagricultural activities, such as animal husbandry, shopkeeping, and other microenterprises. Commercial banks in India are especially keen to finance agriculture through microcredit in order to meet their priority-sector lending obligations. A significant proportion of lending is also used to finance consumption, which is consistent with survey findings showing that the poor have a great need for loans to finance consumption-related spending, often associated with financial and medical emergencies. In fact, some MFIs provide a special category of emergency loans to their clients. The average rate of interest charged for microcredit is approximately 22–25 percent.

Box 28.1 Facts about Indian microfinance, 2006–07

Microfinance Institutions (MFIs)

Total number of MFI borrowers: 10.5 million
Total number of poor MFI borrowers: 3.2 million
Growth in number of MFI borrowers, 2006–07: 42 percent
Growth in amount of MFI loans outstanding, 2006–07: 76 percent
Average loan outstanding, MFI borrowers: US$78.00

Self-Help Groups (SHGs)

Total number of SHG members: 26.3 million
Total number of poor SHG members: 13.4 million
Growth in number of SHG borrowers, 2006–07: 11 percent
Growth in amount of SHG loans outstanding, 2006–07: 48 percent
Average loan outstanding, SHG borrowers: US$92.00

Source: P. Ghate, *Microfinance in India: State of the Sector Report, 2007* (New Delhi: Microfinance India, 2007).

Private Provision of Microfinance: A Case Study of ICICI Bank

A number of Indian commercial banks recognized the useful opportunity to partner with MFIs to expand microfinance outreach in rural areas. Several factors resulted in a large-scale expansion of commercial bank lending to MFIs for further lending to their borrowers. First, a large domestic market for microfinance was waiting to be served. Second, policy measures, such as including lending to MFIs in the list of priority-sector lending activities, made this option more attractive to banks. And third, banks were keen to find new avenues for lending, especially in the rural areas.

The effort was led by ICICI Bank, India's largest private-sector bank, which provided the bulk of this financing between 2003 and 2007. ICICI Bank's initial foray into microfinance was through the SHG–bank linkage model. In 2003 ICICI Bank merged with the Bank of Madura, a small South Indian bank that had a substantial rural presence in the state of Tamil Nadu and a strong network of SHGs. The merger helped ICICI Bank expand the financing of SHGs, but the pace of outreach was slow and the lack of rural branches in other states prevented ICICI Bank from scaling up SHG financing rapidly.

Starting in 2003, the bank began to experiment with other models of reaching people without access to institutional finance using MFIs. First, the bank used the MFI intermediation model, under which MFIs borrowed from ICICI Bank for lending to the end clients. The MFIs took on the risk associated with the financial performance of the groups receiving loans. Hence they had an important stake in forming high-quality groups, in contrast to the NGOs that facilitated the creation of SHGs. It proved difficult to scale up the MFI intermediation model, however. MFIs typically had small balance sheets and could take on only a limited amount of debt without becoming overly indebted, thus increasing their financial risks. Besides, MFIs were exposed to the entire risk of the clients, a situation that put undue risk on these organizations given their usually narrow geographical focus.

To prevent MFIs from becoming overindebted, ICICI Bank developed the partnership model. Under this model, existing MFIs identify, train, and promote the microfinance clients and ICICI Bank finances individual clients directly on the recommendation of the MFIs. An MFI provides a partial guarantee of the borrower's repayment (in the form of a "first-loss default guarantee"). This arrangement allows MFIs to scale up operations rapidly because the expansion of credit is no longer constrained by the size of their balance sheets. Using the partnership model, ICICI Bank's microfinance loan portfolio grew from virtually nonexistent in 2001 to about US$350 million in March 2007, and the number of clients served rose from 20,000 in 2001 to almost 3 million in March 2007. A number of Indian banks have adopted this model for their microfinance operations.

More recently, ICICI Bank has faced some challenges with respect to ensuring full compliance with Know Your Customer (KYC) norms given the rapid growth of credit. Banks all over the world are expected to comply with KYC norms, which ensure that banks lend to bona fide borrowers for bona fide purposes. To improve compliance, ICICI Bank is issuing biometric identity cards to its customers to facilitate identification and to speed loan disbursements and repayments. These cards contain the clients' loan details and use the clients' fingerprints for purposes of identification. These measures are complemented with computerized systems at the MFIs to provide adequate management information.

As ICICI Bank gained experience in microfinance, it became apparent that the poor need more than credit. In fact, they require a range of financial services, especially risk mitigation products, given their vulnerability to shocks such as sickness and crop failure. The poor also deserve a better rate of return on their savings. ICICI Bank and its subsidiaries are working together closely to develop insurance and investment products to cater to these needs. The ICICI Foundation for Inclusive Growth was set up in 2007 to focus on increasing the incomes of low-income households by offering financial services for the poor.

Next Steps: A Broad Range of Financial Services for India's Poor

The current market for microcredit in India is estimated at around US$25 billion (at 2008 prices), making India perhaps the largest market for this type of finance. A large segment of this market has yet to be served. There is enormous scope for microfinance to deliver a range of financial services that are currently not available to a large majority of India's poor. A significant expansion of microfinance would entail certain prerequisites in terms of institutions, innovations, and evaluation that could go a long way in developing an inclusive financial system. Some key factors that could catalyze the growth of microfinance in India include the following:

1. *There should be an expanded role for the private sector.* Donor finances have been a critical source of funding for the growth of microfinance in some countries. In Bangladesh, for example, where the level of microfinance penetration is high, donor funding was key to increasing the scale of financing available for microfinance (though large MFIs in that country have now significantly reduced their dependence on donor funds). In contrast, donors have played a relatively small role in scaling up microfinance in India. Meeting demand in the large Indian microfinance market will require a large volume of funds that can be raised only through private participation and will necessitate tap-

ping all funds—debt and equity. Although the bulk of private-sector financing to MFIs is still provided in the form of loans, Indian MFIs have started attracting equity capital. Innovative partnerships among equity and debt providers, NGOs, MFIs, governments, and other stakeholders hold the key to successfully meeting the demand for microfinance, especially microcredit.

2. *Innovative models and delivery channels will be crucial to reach scale.* Just as multiple sources of funding will need to be tapped to meet the large demand for microcredit, multiple models and delivery channels will have to be deployed to increase the availability of financial services to the underserved. There is a growing consensus that rural credit, especially for the poor, is best delivered by local institutions that have a good understanding of the financial requirements of the poor, as well as their credit histories and ability to take on debt. To its credit, the RBI has taken several steps that can help improve access. In 2005 the RBI adopted a business correspondent / business facilitator model to help build links between large banks, which have scale economies and diversified products, and local institutions or individuals, which have local knowledge and low delivery costs. Under this model, banks are allowed to appoint NGOs and other nonprofit institutions, as well as schoolteachers, retired servicemen, and other individuals, to act as agents of the bank for the purpose of offering various financial services, especially savings and remittance products. A major benefit of this policy to banks is that they can reach a large segment of the population without incurring the overhead costs of setting up branches in all areas served. This model, combined with appropriate technology such as smart cards and point-of-sale devices, can go a long way in not only improving access but also developing the financial histories of individuals in terms of savings, credit, and remittances. ICICI Bank has deployed the business correspondent (BC) model to offer savings products to small savers, reaching about 60,000 clients with the program in 2007–08. ICICI Bank is increasing the use of technology in its operations by issuing biometric smart cards through MFI partners and BCs to all borrowers. The bank is also offering banking services to its mainstream customers through mobile telephones and exploring the use of these telephones for its microfinance operations.

   Another option for increasing the penetration of financial services is to allow the establishment of small banks that can focus on the poor. In India, small banks have existed for years in the form of public-sector cooperatives, but these banks have run into financial problems and are undergoing a massive restructuring. Allowing small, well-managed private banks to operate with lower capital requirements but with a tight focus on capital adequacy can be useful for providing financial services to the poor, especially those whose needs have grown too large to be reached by microfinance.

To facilitate the success of these models, the government has an important role to play in easing institutional bottlenecks such as lack of credit bureaus, land titling, tenancy rights, and a universal national identity card. Measures to improve these conditions would be critical in unlocking credit for a large segment of the poor population.

3. *A complete suite of financial products is required.* Several surveys show that more than credit, the poor require savings and risk-mitigating products such as insurance and emergency loans, especially for medical reasons. The private sector has a unique ability to adapt cutting-edge products usually designed for prime clients to fit the needs of the poor. For example, insurance companies are beginning to provide affordable insurance to meet the needs of the poor. ICICI Bank's insurance arm, ICICI Lombard, has teamed up with SKS Microfinance to offer health insurance in combination with microcredit to households below the poverty line. It has also collaborated with BASIX, another microfinance provider, to provide weather insurance to farmers. Because most MFIs in India are unable to offer savings products owing to regulatory constraints, many commercial banks are using the BC model to offer savings facilities to the poor. Banks are also working to develop reliable remittance products for India's vast number of migrant laborers who work outside of their home states. Finally, asset management companies, such as ICICI Prudential, are developing mutual funds targeted to the poor, with tiny minimum investment requirements. These funds would provide an opportunity for poor Indians to tap into the phenomenal returns offered by the Indian equity markets in recent years.

4. *Financing efforts need to be coupled with capacity-building efforts for MFIs.* MFIs face a lack of skilled workers and entrepreneurs who are willing to start MFIs. To help support the development of MFIs, the ICICI Foundation for Inclusive Growth is providing capacity-building services for entrepreneurs and technical assistance to MFIs. The objective is to create a support system that can alleviate the training and capacity-building constraints faced by MFIs. Capacity-building services for MFIs are also being offered by a number of other entities, such as Microsave India, which has training programs for MFI managers and tool kits for MFI entrepreneurs to aid them in setting up their businesses.

5. *Financing of clients needs to be coupled with efforts to build livelihoods.* Improving market access for low-income households is critical to bring about an increase in

their incomes. The ICICI Foundation is helping to link small entrepreneurs to markets by supporting the Network Enterprise Fund, which invests in a series of "network companies" that provide targeted services to entrepreneurs in areas such as handicrafts, dairy, village-based tourism, and foods. By helping members enter into structured partnerships with large companies, the network companies give entrepreneurs an opportunity to engage in markets. The BASIX Group, which is also a large provider of microfinance in India, focuses on livelihood building by offering credit and technical assistance in an integrated manner.

6. *Finally, impact evaluation should not be neglected in the rush to provide financing.* Although there is much anecdotal evidence of the impact of microfinance, there have been few rigorous assessments of the extent to which microfinance has improved the lives of beneficiaries. In recent years, the microfinance movement worldwide has come under attack as a stop-gap solution to poverty. Reliable longitudinal studies are needed to track the impact of microfinance on clients' lives. The ICICI Foundation supports the Centre for Micro Finance (CMF), which is currently engaged in comprehensive multiyear studies that follow microfinance clients over a period of 3 to 4 years to understand the impact of microcredit on their incomes. For example, CMF researchers are examining the impact of Spandana's microfinance program in Hyderabad on income, consumption, financial services usage, asset ownership, business scale and profitability, and intrahousehold decisionmaking. The state-owned Small Industries Development Bank of India conducted a two-stage longitudinal socioeconomic impact study to assess the development impact of microfinance programs on a national scale. The study found that on balance, the incomes of microfinance clients increased approximately 33 percent over 2 years in the program, whereas those of nonclients increased 12 percent. Microfinance also had related benefits, such as increasing the amount of assets under the ownership of women and enhancing the ability of women in the poorest income category to accumulate savings.

Conclusion

Microfinance provides a good avenue for extending financial services to India's poor. Despite the recent success in scaling up microfinance, a number of issues need to be addressed to ensure that the poor receive high-quality services at a reasonable cost and that microfinance extends its reach to the poorest. Given the amount of Indian demand for microfinance, the private sector will have to play a much larger role in providing services, and drawing in private-sector players will require the commercial viability of microfinance. Microfinance providers (whatever their legal form) must provide a wide range of financial services including savings and insurance. Capacity-building efforts are needed to develop a steady stream of skilled workers and managers for this industry. Periodic impact evaluations are required to provide insights into the ability of microfinance to alleviate poverty. Finally, measures must be taken to complement poor people's access to finance with access to markets, which would help them build their businesses.

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Chapter 29

Halving Brazil's Poverty, 1983–2006

Francisco H. G. Ferreira and Phillippe G. Leite

With a population of 189 million and a per capita gross national income (GNI) of US$8,800.00 (at purchasing power parity [PPP] exchange rates) in 2006, Brazil is a large middle-income country that has long been accustomed to a high level of inequality. At its historical peak in 1989, the country's Gini coefficient for per capita household income was 0.625. Although international comparisons of inequality statistics are fraught with problems, that figure meant that Brazil was the second most unequal country in the world, just after Sierra Leone. One key implication of such a high level of inequality is that Brazil's poverty rate has been higher than that of most other countries with similar levels of per capita GNI at PPP. Using the international poverty line of two dollars a day,[1] Brazil's poverty rate was 21.2 percent in 2004. In contrast, the poverty rate of Belarus was less than 2 percent, Iran's was 7.3 percent, Tunisia's was 6.6 percent, and Turkey's was 18.7 percent. Only Thailand had a slightly higher poverty rate, at 25.2 percent.

Since the mid-1990s, however, Brazil has undergone something of a distributional reversal. Between 1993 and 2006, there was a substantial decline in inequality. While still anemic by emerging market standards, the country's economic growth also improved: after growing at a paltry 0.8 percent per year from 1983 to 1993, Brazilian gross domestic product (GDP) per capita grew at an annual average rate of

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Table 29.1 Incomes and summary measures of inequality and poverty, Brazil 1981–2006

Year	Mean income (reals)	Median (reals)	Gini coefficient	E(0)	E(1)	E(2)	Administrative poverty line: Headcount	Administrative poverty line: Poverty gap	Administrative poverty line: FGT(2)
1981	336.7	173.2	0.574	0.613	0.647	1.447	0.296	0.124	0.070
1982	348.5	178.9	0.581	0.629	0.669	1.552	0.293	0.123	0.070
1983	273.4	137.5	0.584	0.631	0.675	1.515	0.383	0.170	0.099
1984	273.2	136.3	0.583	0.626	0.679	1.464	0.379	0.163	0.093
1985	331.7	163.4	0.589	0.649	0.696	1.622	0.317	0.133	0.075
1986	483.6	249.4	0.578	0.620	0.673	1.637	0.185	0.069	0.036
1987	362.6	181.7	0.592	0.666	0.710	1.791	0.297	0.127	0.073
1988	338.9	161.1	0.609	0.714	0.750	1.742	0.338	0.152	0.091
1989	382.7	170.6	0.625	0.757	0.811	2.212	0.315	0.142	0.084
1990	347.3	167.5	0.604	0.700	0.735	1.767	0.328	0.147	0.088
1992	302.3	162.8	0.573	0.628	0.666	1.876	0.325	0.150	0.093
1993	320.7	157.2	0.595	0.678	0.743	2.308	0.326	0.151	0.093
1995	385.7	190.1	0.591	0.659	0.705	1.627	0.277	0.117	0.070
1996	393.9	194.1	0.591	0.664	0.700	1.609	0.273	0.122	0.075
1997	401.2	198.3	0.593	0.668	0.709	1.739	0.273	0.116	0.071
1998	404.0	203.7	0.591	0.658	0.707	1.672	0.251	0.110	0.066
1999	385.8	198.3	0.585	0.641	0.685	1.530	0.256	0.112	0.067
2001	393.4	199.2	0.586	0.646	0.697	1.661	0.258	0.113	0.069
2002	396.3	204.6	0.580	0.628	0.677	1.522	0.245	0.102	0.060
2003	381.2	201.7	0.575	0.619	0.663	1.474	0.249	0.106	0.064
2004	393.5	213.8	0.564	0.589	0.641	1.573	0.222	0.093	0.054
2005	419.6	229.2	0.561	0.582	0.637	1.538	0.214	0.084	0.048
2006	445.2	246.3	0.560	0.584	0.634	1.508	0.191	0.086	0.056

Source: The authors' calculations from the Pesquisa Nacional por Amostra de Domicilios.

Notes: Incomes are monthly household per capita incomes, measured in September 2004 reals. E(0), Theil-L index; E(1) and E(2), Theil-T index; FGT(2), squared poverty gap. The "administrative poverty line" is set as R$100 per person per month in September 2004 values.

1.3 percent from 1993 to 2006. This was enough to reduce the incidence of poverty by half between 1983 and 2006, from 38 percent to 19 percent (Table 29.1).

This performance is not particularly impressive when compared to the poverty reduction rates of fast-growing Asian economies. Using the two-dollars-a-day poverty line, Thailand reduced its poverty incidence by 62 percent between 1975 and 1992, Indonesia's poverty rate fell 82 percent between 1975 and 1995, and, more recently, China's poverty rate fell by 60.5 percent between 1981 and 2004. Nevertheless, the fact that Brazil reduced its poverty by half is noteworthy because it was accomplished at much lower rates of annual growth. During the periods mentioned, economic growth in Thailand, Indonesia, and China was 6.0 percent, 5.1 percent, and 8.7 percent per annum, respectively. In contrast, Brazil's average annual rate of growth in GDP per capita between 1983 and 2006 was 1.1 percent. Clearly, Brazil's total growth elasticity of poverty reduction is—or has recently become—considerably higher than those of the Asian tigers.

This chapter provides a brief account of the changes in poverty and inequality in Brazil during the past quarter century, then summarizes the main explanations for these changes that have been suggested in the literature, and finally concludes with the lessons learned.

Brazil's Distributional Dynamics, 1983–2006

After growing rapidly in the 1970s, Brazil's economy stagnated in the 1980s as a result of the Latin American debt crisis. Although there was a brief period of recovery from 1984 to 1986, it was not sustained. The period from 1987 to 1993 was marked by both economic stagnation and hyperinflation resulting from accumulated fiscal deficits and an accommodating monetary policy. Overall, GDP per capita grew by 0.8 percent per year on average between 1983 and 1993.

During that period, inequality (as measured by the Gini coefficient) edged upward from 0.584 to 0.595. As shown in Table 29.1, other common measures of inequality also rose. The sluggish growth and slightly rising dispersion reduced poverty somewhat, but not by very much. Based on an income-based monthly poverty line of R$100.00 per capita in 2004 prices, poverty incidence declined from 38 percent to 33 percent. Measures more sensitive to the depth and intensity of poverty indicated even smaller declines: the poverty gap fell from 17.0 percent to 15.1 percent, and the squared poverty gap, FGT(2), fell from 9.9 percent to 9.3 percent. All three poverty measures remained higher in 1993 than they had been in 1981, before the onset of the recession of the early 1980s.

Against that background, 1994 was something of a watershed year. Through a combination of the deindexation of contracts and an exchange rate–based stabilization policy, collectively known as the Real Plan, the government finally managed to control inflation, which fell from 2,269 percent in 1994 to 24 percent in 1995 (and to 4.3 percent in 1997). The same year marked the conclusion of a trade liberalization process that had begun with the removal of quantitative restrictions and tariff reductions in 1988. The 1990s also saw a substantial expansion of Brazil's social security and social assistance systems, driven by increases in coverage and in average benefit levels that were motivated to a large extent by the implementation of reforms mandated by the 1988 Constitution. In the 2000s, these programs were complemented by a large national conditional cash transfer (CCT) scheme known as Bolsa Família.

With growth picking up a little and inequality dropping, poverty reduction accelerated. From 1993 to 2003, poverty declined by 2.7 percent per year. Between

2003 and 2006, the average annual rate of decline was 8.5 percent. The poverty gap fell from 15.1 percent to 8.6 percent between 1993 and 2006, while the squared poverty gap fell from 9.3 percent to 5.6 percent.

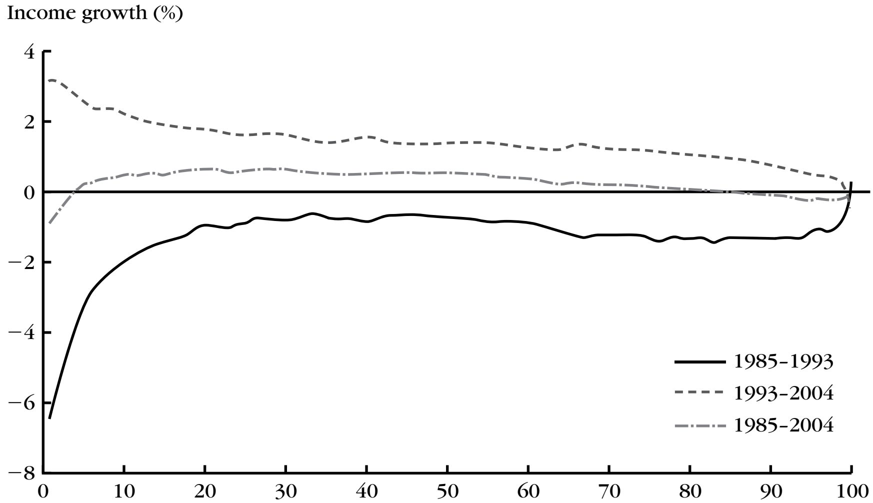
It is important to note that the magnitude of the decline in poverty between 1993 and 2006 depends on the specific poverty line that is used. Researchers using a poverty line that allows for spatial differences in the cost of living across states report a much smaller rate of poverty reduction. However, that poverty line fixes cost-of-living differentials at their 1996 values, so it does not represent an unambiguously superior alternative. In the absence of continuous monitoring of spatial price differences, arguments can be made for either poverty line. The reader should be aware that although Brazil's poverty reduction is qualitatively robust to those differences, the magnitudes do vary appreciably, and the rates of decline reported in this chapter are at the higher end of the interval.

Having said that, nothing can illustrate the contrast between the pre-1993 and the post-1993 subperiods better than a comparison of their growth incidence curves (GICs). A GIC simply plots the rate of income growth between two points in time for each percentile of the income distribution against the percentile rank. Figure 29.1 depicts the *annualized* GIC for Brazil during two different periods: 1985–1993 and 1993–2004. The contrast is stark: incomes fell almost everywhere along the distribution in the first subperiod, although relatively more for the poor. In the second subperiod, incomes grew everywhere along the distribution, relatively faster for the very poor.

Although not everyone benefited equally, Brazil's poverty reduction does appear to have been relatively broad based. Table 29.2 has a simple poverty profile for Brazil, comparing poverty and inequality measures for key specific subgroups in 1983 and 2006. In 1983, the incidence, depth, and severity of poverty were much higher in Brazil's rural areas than in its cities, and this remained the case in 2006. Urban poverty actually fell a little faster, declining by 45 percent against 40 percent in rural areas, but this hardly amounts to a dramatic shift in the urban/rural profile. In addition, because the overall rural population has grown much less rapidly due to urbanization, the share of rural poverty in total national poverty actually fell over the period.

The profile changed even less markedly in terms of the gender of the household head: poverty was almost identical among male-headed and female-headed households in 1983, and it was halved for both during the 23-year period. The regional distribution of poverty incidence also changed little. Other than a reranking between the south and the southeast, the ranks were unchanged. There was a small amount of "poverty convergence" to match the regional GDP convergence that took place during this period: the standard deviation of poverty headcounts across the five

Figure 29.1 Growth incidence curves for Brazil



Source: F. Ferreira, P. Leite, and M. Ravallion, Poverty reduction without economic growth? Explaining Brazil's poverty dynamics: 1985–2004, World Bank Policy Research Working Paper 4431, World Bank, Washington, DC, 2007.

regions in Table 29.2 fell from 0.15 in 1983 to 0.12 in 2006. Unfortunately, a similar comparison cannot be made for a racial partition of the population, because the 1983 Pesquisa Nacional por Amostra de Domicilios did not include questions regarding race. The 2006 profile confirms, however, that poverty is predominantly an Afro-Brazilian phenomenon: more than a quarter of black Brazilians were poor in 2006 compared to 11 percent of whites.

The process of poverty reduction between the early 1980s and the mid-2000s was therefore broadly neutral with regard to the geographical and gender profiles of the population. The large rural–urban and regional disparities that existed in 1983 were not reduced, but neither were they exacerbated. These broad improvements in living standards were also reflected in other, nonincome indicators. Brazilian infant mortality rates fell from 85.2 per thousand in 1980 to 30.6 per thousand in 2000. Life expectancy at birth rose by almost 12 years, from 56.9 to 68.6 years.

How much did growth in mean incomes and a decline in inequality contribute to this reduction in poverty? Ferreira, Leite, and Litchfield have decomposed the change in poverty between 1993 and 2004 into a component due to growth alone (as if growth had been equiproportional across the distribution, with a constant Lorenz curve) and another due to changes in the distribution (at a constant mean).

Table 29.2 A concise profile of poverty in Brazil, 1983 and 2006

	Mean income (reals)	E(0)	Headcount	Poverty gap	FGT(2)
1983					
Rural	114.06	0.446	0.6627	0.3259	0.1980
Urban	334.90	0.567	0.2750	0.1096	0.0610
Male-headed households	276.64	0.639	0.3839	0.1711	0.1001
Female-headed households	248.64	0.563	0.3764	0.1602	0.0918
Household head ethnicity: white (includes Asian)	—	—	—	—	—
Household head ethnicity: nonwhite	—	—	—	—	—
Household region					
North	259.09	0.482	0.3242	0.1169	0.0582
Northeast	143.62	0.579	0.6370	0.3125	0.1895
Southeast	357.27	0.559	0.2454	0.0973	0.0547
South	280.68	0.554	0.3167	0.1311	0.0748
Center–West	271.00	0.582	0.3691	0.1424	0.0749
2006					
Rural	203.52	0.456	0.4073	0.1771	0.1050
Urban	493.99	0.540	0.1487	0.0537	0.0306
Male-headed households	451.82	0.582	0.1942	0.0754	0.0434
Female-headed households	425.78	0.536	0.1853	0.0713	0.0419
Household head ethnicity: white (includes Asian)	611.36	0.548	0.1093	0.0411	0.0241
Household head ethnicity: nonwhite	287.49	0.457	0.2712	0.1062	0.0611
Household region					
North	294.44	0.472	0.2708	0.0977	0.0524
Northeast	262.99	0.588	0.3760	0.1556	0.0906
Southeast	554.06	0.501	0.1010	0.0359	0.0214
South	534.16	0.450	0.0958	0.0340	0.0194
Center–West	502.18	0.545	0.1299	0.0451	0.0257

Source: Authors' calculations from the Pesquisa Nacional por Amostra de Domicilios.
Notes: E(0), Theil-L index; FGT(2), squared poverty gap.

They have found that the growth component accounts for roughly two-thirds of the decline in poverty incidence, FGT(0), with the remaining third due to falling inequality. As one would have expected from Figure 29.1, this "redistribution" or inequality component is even larger for more bottom-sensitive measures, such as the poverty gap (45 percent) and the squared poverty gap (50 percent).

What Accounts for Brazil's "Distributional Reversal" since 1994?

If anything makes the 50 percent reduction in Brazil's poverty rate between 1983 and 2006 of broader interest, it is the symbiosis between (moderate) economic growth and inequality reduction, both of which contributed to poverty reduction. Despite its very high initial levels of inequality, Brazil has clearly been experiencing that elusive phenomenon "pro-poor growth" since the mid-1990s (and more sharply since 2001). This is most clearly illustrated, once again, by the GIC in Figure 29.1.

What brought about the decline in Brazil's income inequality in the past 10 to 15 years? How was it achieved at the same time that growth picked up? As always in the field of income distribution analysis, a number of overlapping factors played a role. This section highlights four factors that have been persistently identified in the recent literature: (1) the effect of price stabilization and the demise of hyperinflation, (2) the role of the expansion in educational attainment in boosting the *supply* of skill and the consequent decline in the skill premium, (3) the effect of trade liberalization on the *demand* for skill and hence on wage inequality, and (4) a dramatic expansion in the social assistance system, including both improvements in targeting and large increases in volume.

The Demise of Hyperinflation

There are a number of reasons why high inflation contributed to higher inequality in the 1980s and early 1990s. There are economies of scale in financial transactions, which make the benefits of hedging against inflation higher for those with higher balances at stake, at the same cost. This effect is compounded by barriers to entry to some asset markets that are particularly effective in avoiding the inflation tax. In the labor market, wage indexation works less well for unskilled, poorer workers. Finally, in addition to financial assets, one can protect the value of one's wealth against inflation by reallocating the funds in one's portfolio from cash to consumption goods. The effectiveness of this strategy declines with the share of foods in one's consumption basket because foodstuffs are more perishable than most other categories of goods; this share is typically higher for poorer households. It also depends on the storage technology available to households. There is a positive correlation between freezer ownership and household income, which is yet another reason why the ability to defend one's wealth against inflation increases with income.

Improved Educational Attainment

Another aspect of public policy was responsible for a second factor driving the reduction in inequality. If sound macroeconomic management eliminated hyperinflation, increased investment in primary and secondary schooling helped support the broad-based increase in the educational level of the workforce. Between 1983 and 2006, the average years of schooling in Brazil's adult population (aged 25 or older) rose from 4.0 to 6.7. This represents a change in the stock, which is of course slower than the change in the flow out of the educational system. In 1983 a 20-year-old had on average slightly less than 6 years of schooling. By 2006, a 20-year-old would have had 9.1 years of education.

Given the dominant share of labor earnings in total incomes and the strong relationship between years of schooling and earnings, it is not surprising that these changes in education had a large impact on the distribution of income. The precise impact mechanisms, however, are much less clear ex ante. A long time ago, Nobel laureate Jan Tinbergen famously characterized the dynamics of earnings inequality as being driven fundamentally by a "race" between what has since become known as skill-biased technical change (SBTC)—which increases the returns to skill and thus tends to increase inequality—and educational expansion—which increases the supply of skilled workers and thus tends to reduce returns and inequality.

The Tinbergen race, essential though it was to the dynamics of Brazilian inequality over the period considered, was complicated by one additional factor. The final effect of increases in educational attainment on earnings inequality depends not only on the average level of increases in the stock of education but also on the *composition* of those increases. If education itself is becoming more unequally distributed, it is possible that educational expansion contributes to more, not less, earnings inequality. In fact, given the constant but convex returns to education, even a Lorenz-preserving increase in education could increase inequality. Between 1976 and 1996, Brazil experienced a combination of growing levels of education in the presence of convex returns and rising educational inequality. Since the mid-1990s, the composition effect of Brazil's education expansion has started to reinforce rather than offset the decline in average returns to schooling. This has contributed to a considerable acceleration in the rate of reduction of earnings inequality and income inequality in this later period.

Although changes in the supply side were of great importance over this period, a fuller understanding of changes in the earnings–education profile also requires a consideration of the evolution of the demand for skill. Although the Brazilian economy has continued to modernize, technological progress does not appear to have increased the demand for skills enough to offset the increases in the supply of education. This much is evident from the fall in the average returns to education. (However, the decline in average returns masks a more nuanced picture by level of schooling: returns to completed primary and secondary education have largely fallen. Returns to university or college degrees relative to primary schooling have not fallen.)

Trade Liberalization

One candidate explanation for the muted role of SBTC in Brazil was the somewhat unusual nature of the country's trade liberalization process between 1988 and

1995. During that period quotas and other quantitative restrictions were largely eliminated, and average nominal tariffs fell from 43.4 percent to 13.9 percent. However, contrary to what has been seen in other commonly studied episodes in Latin America, the dominant view is that this trade liberalization contributed to a *decline* in wage inequality. The reason is essentially that, unlike many other developing countries that liberalized in the 1990s, Brazil had a pre-existing pattern of protection that was biased in favor of skilled workers. Tariff reductions, therefore, did have the wage effects predicted by the Stolper-Samuelson theorem: they contributed to an increase in the wages of unskilled workers relative to those of skilled workers. There is some evidence that this growing demand for unskilled labor and the ensuing reallocation of workers and activities across industries contributed to an increase in the elasticity of poverty reduction with respect to growth in the tradable goods sectors, particularly agriculture. Although the nontradable service sector remained the one with the highest growth elasticity of poverty reduction, poverty did become more sensitive to growth in agricultural output.

The three factors considered so far primarily affect market incomes. Lower inflation affects the distributions of both labor incomes (through differential indexation) and capital incomes (through various channels, including differential access to asset markets with diverse degrees of exposure to the inflation tax). Changes in the supply of and demand for education are key drivers of the earnings structure. Important though they were, these changes in the primary distribution of income did not account for all of the observed reduction in household income inequality in Brazil. By some estimates, between one-third to one-half of the overall decline in inequality from 2001 to 2004 is attributable to changes in the redistributive role of the state.

Increased Social Assistance

These changes have arisen primarily from the large increases in social security and social assistance expenditures that have occurred in Brazil since the mid-1980s. While some of the growth in pension outlays has been regressive, some initiatives have been exceptionally progressive. In particular, the introduction of noncontributory retirement and disability pensions for all agricultural workers extended benefits to the elderly in some of the most underprivileged areas and occupations in the country. Since 1994 the rising real value of the minimum wage (to which basic pensions are indexed) has further enhanced the poverty-reducing impact of these benefits.

The past couple of years have also seen a massive scaling up of the country's pre-existing CCT program (Bolsa Escola) into a better-integrated, better-funded, and much larger program known as Bolsa Família. It now reaches some 11 million households, or around 45 million individuals—nearly one in every four Brazilians. The transfer amounts are relatively small, but the program appears to be well targeted, which ensures that contributions reach those who need them the most. Although the jury is still out on whether conditional transfers have a real impact on the learning outcomes of the children who benefit from them, there is now little doubt that the immediate effect of the cash on the livelihoods of recipient families is substantial.

Conclusions

Three broad lessons emerge from this short account of Brazil's poverty reduction experience since 1983. First, growth and inequality need not always be opposing forces for poverty reduction. During the 1980s Brazil had no growth to speak of, and inequality was actually rising. Poverty hardly budged. From the mid-1990s onward, a modest resumption in growth went hand in hand with declining inequality. In fact, both processes (economic growth and inequality reduction) accelerated after 2001. Consequently, poverty also decreased the fastest in this last period.

Second, to the extent that there remains—in some quarters—a perception of antagonism between the roles of markets and the state in the fight against poverty, this appears to be a figment of ideological imagination. Brazil's success against poverty, slow and incomplete as it was, combined market forces and public interventions in equal measure. Some key public actions were pro-market, such as re-imposing fiscal and monetary discipline and liberalizing trade. Another central public policy was to expand the provision of educational services in order to accommodate the rising demand to keep children in school longer. This is the state as a builder of opportunities. But the state also played a role in direct income redistribution through both unconditional transfers (such as targeted, noncontributory social pensions) and CCTs (such as Bolsa Família). These public interventions supported rather than undermined private investments. The result was broader, more inclusive growth and poverty reduction.

Finally, a third lesson can be learned from what was missing rather than what was present: economic growth was mediocre in Brazil during most of the period. Brazil's achievements were concentrated in the period from 2001 to 2006, not only because inequality was falling but, crucially, because the economy was then growing again. This growth spurt benefited greatly from an unusually auspicious external environment in terms of capital inflows, demand for exports, and terms of trade. It is by no means certain that such a benign combination will last long.

Imagine how much better Brazil's poverty reduction performance could become if the country were to succeed in approaching the growth rates of China, Thailand, and Indonesia, while also resisting the increases in inequality that have occurred in the first two countries. Doing so will require further increasing the rates of public and private domestic investment, which will be possible only with increased efficiency in the public sector. That is not a simple counterfactual to imagine but it is surely one worth pursuing.

Note

1. US$2.15 at 1993 PPP.

For Further Reading

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Chapter 30

Zero Hunger and Territories of Citizenship: Promoting Food Security in Brazil's Rural Areas

José Graziano da Silva

In his inaugural speech in 2003, Brazil's President Luiz Inácio Lula da Silva stated that he would consider his life's mission accomplished if every Brazilian were able to have three meals a day by the time he left office. "This is a cause that could and should belong to everyone, without distinctions of class, party, or ideology," he said, calling upon all elements of Brazilian society to embrace this goal. For the first time, the fight against hunger was placed at the top of the political agenda in Brazil.

President Lula was driven to eradicate hunger not solely for moral reasons but also because he believed that Brazil could not succeed as a nation without doing so. Hunger and poverty are the most visible faces of social exclusion, and a society cannot be united and cannot achieve true economic development when some members face such tremendous challenges.

In Brazil, food insecurity affects a significant portion of the population. Although the country's population is overwhelmingly urban, and therefore the total number of people living in food insecurity is larger in metropolitan areas, the problem is proportionally more significant in the rural areas, particularly in the traditionally poorer north and northeast regions. While 38 percent of Brazilians living in urban areas suffer from some degree of food insecurity, the problem affects half of all rural inhabitants—around 15 million people. Of these, more than 20 percent suffer from severe food insecurity. This underscores the paradox of rural Brazil: it is home to a dynamic and growing export-oriented agribusiness sector as well as to numerous small farmers who produce a substantial proportion of the food sold on the domestic market, but they are hampered by low productivity levels and little access to technology.

In order to address some of these issues, President Lula launched the Zero Hunger strategy in 2003 and the Territories of Citizenship program in 2008. Zero Hunger and, to a certain extent, Territories of Citizenship, were inspired by Josué de Castro, who said that hunger was the biological manifestation of a sociological problem.

Zero Hunger

The goal of the Zero Hunger strategy was even more ambitious than the first Millennium Development Goal and the goals of the 1996 World Food Summit: its aim was to eradicate hunger altogether. To do so, the strategy sought to integrate and coordinate various government programs and public policies to promote food security by combining immediate action with medium- and long-term programs. The first step was to create the Special Ministry for Food Security and against Hunger (MESA), an institutional framework capable of coordinating the more than 10 ministries and 30 programs involved. The strategy also encouraged the participation of state and municipal governments, along with civil society. In 2004, MESA and the Ministry of Social Assistance were merged into the Ministry of Social Development and the Fight against Hunger.

Zero Hunger simultaneously promotes emergency efforts to guarantee vulnerable populations access to food and works to implement structural changes that help them to overcome poverty, hunger, and exclusion (Figure 30.1). Its twin-track approach is in line with the recommendations of the Food and Agriculture Organization of the United Nations (FAO) to promote food security, empower rural communities to improve farm performance, establish safety nets, and provide immediate help to families in need with medium- and long-term interventions.

To reach its goals, the program has targeted its activities depending on whether people reside in rural or metropolitan areas or in small or medium-size cities. Like many popular broad-based programs, Zero Hunger expected to achieve results quickly. However, because there was a need to establish new institutions such as MESA and expand programs to reach the poorest communities across Brazil, it got off to a slower-than-expected start, though it grew rapidly afterward. Between 2003 and 2007, Zero Hunger's budget more than doubled, from R$6.2 billion (roughly US$2.2 billion) to R$13.3 billion (roughly US$7.5 billion). The program is now close to meeting its short-term objective of ensuring that all Brazilian families have enough to eat every day. And significant progress has been made, albeit more gradually, in tackling the root causes of hunger and malnutrition on a sustainable basis.

Figure 30.1 Main provisions of Zero Hunger

Structural long-term policies

- Generation of income and jobs
- Universal social protection
- Incentives for small-scale farming
- Intensification of agrarian reform
- Minimum wages
- Educational incentives

Specific targeted policies

- Food ration program
- Emergency food baskets
- Maintenance of food security stocks
- Ensuring safety and quality of food products
- Workers' food program (PAT)
- Maternal/infant nutrition
- School meals

Local policies

Rural areas

- Support to small-scale farming
- Support for local production and consumption

Small and medium cities

- Central food bank
- Urban agriculture
- Partnerships with retailers
- Modernization of food supply systems

Large cities

- "People's restaurants"
- Decentralized food banks
- Partnerships with retailers
- Modernization of food supply systems

Source: Projeta Fome Zero: Uma proposta de Politica de Segurança alimentar para o Brasil, Instituto de Pesquisa e Estudos da Cidadania, São Paulo, October 2001.

Zero Hunger's main short-term action to fight poverty and hunger was the Bolsa Família conditional cash transfer (CCT) program. As of March 2008, 11 million poor families received the transfers. By 2005, Bolsa Família CCTs had allowed around 36 percent of recipient families (with a monthly per capita income of up to US$25.00) to rise above the poverty line.

The overall impact of the Zero Hunger program can be measured by the reduction in poverty in Brazil between 2003 and 2008. According to the Brazilian Institute for Applied Economic Research (IPEA), the number of poor fell by 27 percent, from 15.4 million in 2003 to 11.3 million in 2008, while the number of extremely poor fell 48 percent during the same period. According to IPEA, there were three main reasons for the fall: economic growth, increased minimum wages, and cash transfer programs, all of which had been contemplated in the original Zero Hunger strategy.

Of the many activities undertaken by Zero Hunger, some had more immediate effects than others. This was the case with the safety net programs, especially the Bolsa Família program. The Bolsa Família initiative and others like it injected significant resources into local and regional economies and were widely accepted by the political, social, and economic establishments.

Challenges in Rural Areas

The same was not the case for Zero Hunger's structural transformation policies, one of which was land reform, which the Lula administration considered an essential part of guaranteeing food security. But attempts at land reform met with continual political and judicial challenges. The Lula administration was also caught in the middle of a political struggle. Social groups that have historically supported President Lula's Workers' Party pressed for far-reaching land reform. Although the numbers of landless people settled fell short of expectations, the advances have been significant. Throughout Brazilian history (or at least as far back as records have been kept), 824,483 families have been given land, according to the Instituto Nacional de Colonização e Reforma Agrária of the Ministry of Agrarian Development. Of these families, more than half were given land between 2003 and 2007.

At the same time that the Lula administration was trying to appease the social groups pressing for extensive land reform, it was also trying to form essential political and social alliances with various sectors—including the rural establishment—to promote its policies. This meant that the administration often had to walk a fine line between extremes to create a necessary consensus on key themes. These particular challenges meant that Zero Hunger programs targeting rural areas were frequently more difficult to get off the ground than were those in more urban areas.

In addition, the existing institutional structure in rural areas needed to be improved. Before Zero Hunger programs could even begin to show results, it was necessary to strengthen, build, or rebuild institutions and instruments promoting the development of small-scale farming. In Brazil as in other Latin American and Caribbean countries, institutions that assisted the rural poor by promoting access to natural resources and stimulating small farm production had been underfunded and understaffed for many years.

From 2003 onward, the government sought to expand the incentives available to small-scale farmers. Under the National Program for Family Agriculture (PRONAF), farmers received about R$2.3 billion in credit in 2002/03. By 2007/08, that figure was R$12 billion. During that 5-year period, PRONAF signed more than 7.5 million credit contracts with small farmers. In 2003 the Lula administration also created the Food Procurement Program (PAA) to purchase food from small-scale farmers. The PAA offers small farmers a guaranteed market for their products, thus stimulating production and assuring them of a fair price for their labor. Furthermore, the products bought by the PAA are distributed through the country's social protection network (for example, the National School Feeding Program), which helps to feed families suffering from extreme food insecurity. From 2003 to 2006, the PAA budget increased from R$81 million to R$200 million and the number of small farmers selling food to the program more than doubled, from slightly more than 40,000 to almost 90,000.

Despite these successes, the difficulties in implementing the needed structural changes, combined with the longer time frame required to achieve results, led Zero Hunger's focus to gradually shift toward the fast-acting CCT components. It was not that the Lula administration did not want to move faster in promoting structural changes and creating the conditions necessary for those who produce food to overcome food insecurity but rather that the means necessary to do so were not readily available. Despite respectable advances, the government recognized the need to do more on this front.

Territories of Citizenship

The government has recently responded to this perceived need by implementing Territories of Citizenship, a regional development strategy that focuses on raising the living standards of vulnerable populations. Launched in February 2008, the strategy shares some similarities with Zero Hunger in that it, too, is a federal program involving multiple ministries that allows for synergy with state and municipal governments and encourages the participation of civil society. Its budget of R$11.3 billion is also similar to Zero Hunger's 2007 budget.

However, the Territories of Citizenship program specifically focuses on communities with lower human development indexes, areas that have a high concentration of small farmers, families settled by land reform, fishing communities, indigenous populations, and communities formed by the descendants of slaves (*quilombolas*). Initially the program will focus on 60 areas in all 26 states and the Federal District, encompassing 17 percent of the nation's territory and benefiting around 24 million Brazilians.

Though Territories of Citizenship focuses on rural areas, its innovative design breaks from the traditional urban–rural duality and looks at territories in an integrated fashion. It recognizes that predominantly rural areas may encompass smaller urban areas or, in some cases, may extend to the outskirts of larger cities and that these also play an important role in the social and economic reality of the zone. Thus zones are formed by groups of municipalities that have similar economic and environmental features as well as similar social, cultural, and geographical identities.

Territories of Citizenship operates on three fronts: it stimulates productive activities, seeks to improve rural infrastructure, and promotes social, cultural, economic, and political rights. The strategy tries to address these three components in an integrated manner. For instance, it may link farming incentives to boost production with improvements in infrastructure, or it may recognize legal ownership of land by slave descendants or indigenous communities while at the same time supporting the organization of the community and facilitating access to public services such as health care and education.

Another important feature of Territories of Citizenship is the social participation it has fostered, which goes beyond that engendered by Zero Hunger. Within the scope of the programs and actions included in the Territories of Citizenship strategy and planned budget, the beneficiary communities help define the priorities and the regional development plans. The concept of shared responsibility also allows for state and municipal governments to participate as they deem necessary, increasing the budget and/or activities that can benefit specific zones. Social participation continues in the execution phase in that all activities can be monitored online through the Territories of Citizenship website.

Relevant Lessons

A recent evaluation of Zero Hunger by the FAO found five key lessons that can be relevant to Territories of Citizenship and other food security programs in Brazil and Latin America and the Caribbean as a whole.

- First, the experience of the Zero Hunger program shows that, with sufficient political will, it is possible to bring about a rapid and significant decrease in the levels of poverty and hunger.

- Second, it shows that it is also financially feasible to reduce hunger in the short term: Bolsa Família benefits a quarter of Brazil's population but requires an investment of just over 2 percent of the federal budget and only 0.4 of the GDP.

- Third, it demonstrates that reducing hunger also appears to generate economic benefits to local development, especially in economically depressed rural areas.

- Fourth, it shows that institutional arrangements for any national food security system need to be bolstered by strengthening monitoring and evaluation mechanisms.

- Fifth, it makes clear that placing an emphasis on decentralized local systems is important for food security because it is at this level that the best results are achieved and the most active social participation is engendered.

The importance of the decentralized nature of Zero Hunger and Territories of Citizenship, as well as the high degree of social participation incorporated in these strategies, cannot be overemphasized. Although no significant evaluations have indicated that decentralized identification of beneficiaries leads to a greater program impact than centralized identification and that social accountability via local social councils has a significant impact on performance, the FAO evaluation found strong evidence of the advantages of both of these approaches.

This premise is confirmed by a 2008 study by de Janvry, Finan, and Sadoulet that analyzed how local elections affected the implementation of Brazil's Bolsa Escola, a CCT program introduced years before the Zero Hunger program to reduce primary school dropout rates among the poor. The authors reported: "The decentralized implementation of publicly funded programs offers the promise of greater impacts than centralized implementation as it can take advantage of local information. This is, however, not sufficient for better program outcomes to obtain. Also needed are accountability mechanisms so local providers are induced to make use of these advantages for greater program performance." They concluded that "electoral accountability is a powerful instrument for efficient implementation of decentralized programs, but that other mechanisms of citizen control need to be put into place when electoral rules do not provide such accountability."[1]

The Zero Hunger experience also shows that combining short-, medium-, and long-term actions and different geographical approaches makes it possible to fight hunger and poverty on multiple levels, from providing immediate access to food to promoting long-term food security by giving the poor the means by which to satisfy their own food requirements.

Though Zero Hunger achieved important advances in fighting hunger and poverty, it was also deficient in some areas, which partially explains why the Territories of Citizenship strategy was implemented. It was designed to complement Zero Hunger, not work against it. Specifically, it redirects the focus to rural areas but with a twist: its territorial focus allows for a more integrated approach. Finally, by allowing the beneficiary communities to help define the priorities, the Territories of Citizenship strategy takes the notion of shared responsibility to a new level.

Note

1. A. de Janvry, F. Finan, and E. Sadoulet, Local electoral accountability and program performance: Bolsa Escola in Brazil, draft, FAO Regional Office for Latin America and the Caribbean, 2008, <http://www.rlc.fao.org/es/prioridades/seguridad>.

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Chapter 31

Poverty, Inequality, and Welfare in a Rapid-Growth Economy: The Chilean Experience

Dante Contreras

Chile is maturing politically and becoming a more modern and globalized society. The country's current priority is to ensure more equitable distribution of economic growth and overall opportunities, which depends on the government's ability to improve public policy and expand its reach. By international standards, Chile has a high level of income inequality (it is among the 50 percent of Latin American countries with the highest levels). Though poverty has declined significantly there since the early 1990s, the risk of people falling into poverty remains high because half the population has low household incomes and is subject to significant income fluctuations. Access to education has increased considerably, but socioeconomic factors continue to determine the opportunities available to young people. For these reasons, it is critical that the country address social issues in order to continue its development and use its public resources more effectively.

This chapter focuses on the strategies the Chilean government has used and is currently using to tackle issues related to poverty, inequality, and welfare and to address the challenges that remain. After 1990, economic and social policies sought to protect and strengthen economic growth while at the same time providing basic goods and services to the neediest sectors of society through a range of targeted social policies. The resulting pro-growth reforms led to significant reductions in the country's poverty levels, but they were not designed as social protection instruments to fully address household vulnerability or provide integrated solutions to the multiple constraints facing Chilean families. Consequently, the government has more recently begun to focus on social protection instruments that integrate and optimize social services in order to improve service provision to the poorest groups.

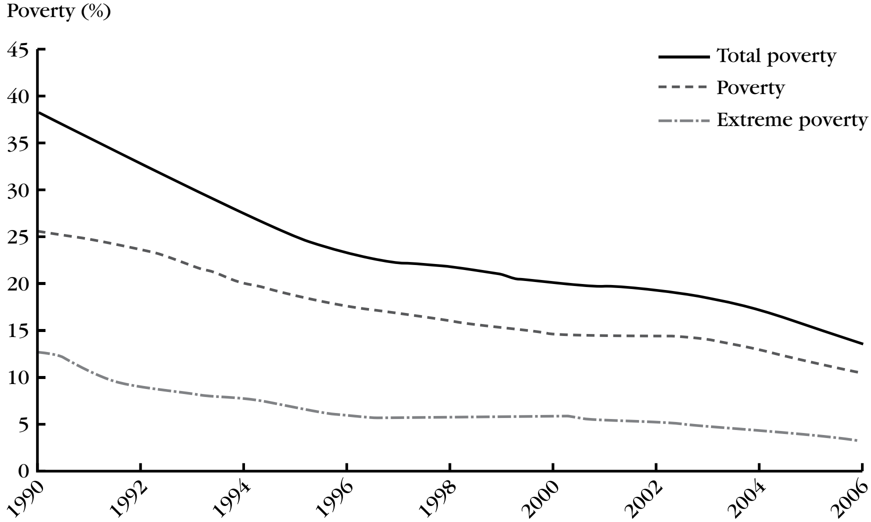
Poverty, Equality, and Welfare: Recent Successes and Ongoing Challenges

Since the early 1980s, Chile has been the most successful of all Latin American countries in terms of economic growth, which has averaged approximately 5 percent per year. Although this sustained growth has led to a dramatic reduction in poverty rates—from 40 percent in 1990 to 13.7 percent in 2006 (Figure 31.1)—the level of inequality has remained persistently high. A variety of cross-sectional and survey data indicate that Chile has successfully reduced poverty, targeted its public policies, and increased household well-being over the past decade. Other survey data, however, indicate that Chilean households perceive that they remain unprotected in certain areas. The households surveyed reported—among other concerns—significant labor instability, lack of health insurance, poor access to quality education, and uncertainty regarding social security programs. In other words, despite the documented increases in welfare, many Chilean households consider themselves vulnerable. Furthermore, the evidence available regarding income convergence is weak, implying that although economic growth has positively affected poverty levels, it has not ensured a significant reduction in inequality. Using the Lowess nonparametric estimation method, in 2008 Neilson et al. estimated the relationship between per capita income in 1996 and the change in per capita income between 1996 and 2001. They found the relationship negatively significant but only for the poorest half of the per capita income distribution and not on a scale large enough to result in a significant change in the Gini coefficient. Existing social protection instruments cover only some income-related risks, such as old age and unemployment in the case of salaried workers. Current social policy does not address the day-to-day risks of low-income workers.

Nevertheless, the evidence suggests that the current and sustained high levels of inequality in Chile are not necessarily associated with decreased welfare, because inequality has remained stable in the presence of income increases for both rich and poor households. In other words, despite high inequality, both the rich and the poor are better off. Table 31.1 presents Gini coefficients for Chile and Latin America; a low Gini coefficient indicates a more equal income or wealth distribution, while a high Gini coefficient indicates a more unequal distribution (thus, 0 corresponds to perfect equality, with everyone having exactly the same income, and 1 corresponds to perfect inequality, with a single person having all the income).

The Gini coefficient for Latin America remained relatively stable between 1990 and 2005, but—using per capita autonomous income—the coefficient for

Figure 31.1 Poverty and extreme poverty in Chile, 1990–2006



Source: MIDEPLAN (Ministerio de Planificación), *Encuesta CASEN* (Caracterización Socioeconómica) 2006 (Santiago: MIDEPLAN, 2007).

Chile decreased from 0.57 in 1990 to 0.54 in 2006. Nevertheless, inequality in Chile remains significantly higher than in the rest of Latin America. Hence, it can be inferred that inequality is linked to factors other than purely economic ones. As a result, the medium-term challenges facing Chile are complex and multidimensional, involving income and wealth levels, education and employment opportunities, power and social status, and so on, all of which are strongly interlinked. Their complexity makes it very difficult to design effective social policies, especially ones that will produce short-term results.

Poverty can be measured both in terms of average income levels and in terms of the degree of income inequality. The intergenerational transmission of pov-

Table 31.1 Poverty and inequality in Chile and Latin America, 1990 and 2005/06

	Chile		Latin America	
Indicator	1990	2006	1990	2005
Poverty headcount (%)	39	14	48	40
Inequality of per capita income (Gini coefficient)	0.57	0.54	0.52	0.52

Sources: CEPAL (Comisión Económica para América Latina y el Caribe), *Panorama Social de América Latina 2007* (Santiago: CEPAL, 2007) and MIDEPLAN (Ministerio de Planificación), *Encuesta CASEN* (Caracterización Socioeconómica) 2006 (Santiago: MIDEPLAN, 2007).

erty reflects the unequal distribution of opportunities, and the exclusion of poor people from the decisionmaking process reflects the unequal distribution of power. Segregation in neighborhoods and schools, for example, is both a cause and an effect of poverty and inequality, with negative consequences for social cohesion and the opportunities available to the segregated groups. This exclusion includes lack of access to education and the labor market, which only compounds poverty and inequality and creates poverty traps. Chile is an example of the fact that economic growth and general social policies have been insufficient to improve the living conditions of a small group of extremely poor people. Only at the beginning of the 1990s did conditions significantly improve for extremely poor people.

A panel dataset collected by Chile's Ministry of Planning for the period 1996–2001 indicates that within this time frame approximately half of all poverty measured at a given point in time was transient. As the poverty line rises, the proportion of the population that is transitorily measured as poor remains constant, whereas the proportion of the population that is counted as chronically poor (people who are measured as poor at more than one point in time) rises. Poverty fell from 22 to 19 percent between 1996 and 2001, but at least at one point during that time more than 31 percent of the population was counted as poor (Table 31.2). This result emphasizes the broader reach of transitory poverty. Data indicate that 46 percent of people who were poor in 2001 had not been poor in 1996 and that the newly poor in 2001 were drawn from all deciles, although only 14 percent had fallen within the top half of the income distribution in 1996.

A detailed examination of the variables associated with the probability of entering and exiting poverty shows that the main factor causing people to fall into poverty and enabling them to escape it is employment. This validates the need for policies in support of employment opportunities and employment security, such as the newly introduced unemployment insurance. This finding further suggests an increase in the relative importance of employment issues in the design of future social safety nets, including instruments that would facilitate the participation of more family members in the labor force, such as public childcare, job training, and so on.

Health shocks to a household head are also a significant barrier when it comes to escaping poverty, although this does not hold true for households with higher incomes. Poor households need adequate health coverage and insurance against adverse shocks that can permanently impair their capacity to generate income. A somewhat related finding is that the number of children under the age of 15 years negatively affects the probability that a household will move out of poverty and increases the likelihood of its falling into poverty. And although the educational level of the household head reduces the risk of poverty, other than in the case of a technical education, it does not significantly help poor people to escape poverty; in

Table 31.2 Transition matrix, 1996–2001 (% of the population)

	2001		
1996	Poor	Nonpoor	Total
Poor	10.1	12.2	22.3
Nonpoor	8.9	68.8	77.6
Total	18.9	81.1	100.0

Source: C. Neilson, D. Contreras, R. Cooper, and J. Hermann, The dynamics of poverty in Chile, *Journal of Latin American Studies* 40, no. 2 (2008): 251–73.

this sense, education appears to function more as insurance against poverty than a pathway out of it. Households that own their own home or a second home are also less likely to become poor. The reality that 9 percent of households remain poor over time justifies greater focus on social programs that target extreme poverty—such as Chile Solidario (discussed in the next section). Nevertheless, strategies to reduce poverty will also have to focus on households that are not currently poor but are at risk of falling into poverty in the future.

Social Protection Instruments

The evidence discussed earlier shows that in Chile social inequality affects not only people's income levels but also their health, education, and social and economic opportunities. Despite a sharp reduction in poverty and an increase in real incomes, both the poor and the middle class face serious risks associated with unemployment, economic well-being, health, and aging. In addition, new challenges are emerging as the society modernizes. Citizens are becoming more autonomous and aware of their rights, requiring cultural and institutional changes to promote universal equality and participation. To this end, the government has supported two programs to extend and optimize its social protection network: Chile Solidario and Chile Crece Contigo.

Chile Solidario, established in 2003, is a conditional cash transfer (CCT) program—similar to Mexico's Oportunidades and Brazil's Bolsa Família—that targets people in extreme poverty. In Chile, extremely poor people are often unaware either of their eligibility for government assistance or of how to go about accessing or applying for such assistance. With this in mind, the Chilean government introduced Chile Solidario with the aim of targeting the extremely poor through a national system of registered beneficiaries who are monitored by public social workers. The program currently covers about 290,000 households. Families are invited to take part in the program based on a score that generates a multidimensional ranking index. Families are visited by a social worker (or a similarly trained professional) who works with the family to establish a plan to address major problems, including access to public services in areas such as health, employment, and domestic violence. In addition to family support, beneficiaries are entitled to the "Bono de Protection a la Familia," a CCT paid to female household heads or the female partners of male household heads with the provision that the family be supported. Chile Solidario works in collaboration with the municipalities—the local public service providers—to ensure the efficient day-to-day operation of the program in response to beneficiaries.

Established in 2007, Chile Crece Contigo is a social safety net program that supports children—and hence their families—from conception to preschool age. The program provides universal access to services and benefits through a network of coordinated public services with the ultimate aim of improving the children's psycho-emotional and physical well-being. Chile Crece Contigo provides nursery facilities and preschool care for children of working mothers, job-seeking mothers, and mothers still attending school—which together represent the poorest 40 percent of the population. The program gives each mother a guide to pregnancy, arranges for childcare at the time of the first pregnancy checkup, and offers childcare training for the mother during key stages of child development. Recipient families are also given access to benefits such as home improvement, education, and programs addressing domestic violence. This initiative, based on experience from the United Kingdom, is unique in Latin America. It is being implemented sequentially across Chile, beginning with 160 municipalities in August 2007, but by January 2008 it is expected to be expanded to include all children in the public health system.

Promoting Equal Opportunity

Inequality has been a permanent feature of Chilean society, particularly in terms of opportunities for advancement. Although increased social service coverage in education, health, and housing has ensured at least some skill development among the vast majority of children and youth, current social policy means that the accumulation of those skills is proportional to household resources, reinforcing the foundation upon which inequality is based. A more equal distribution of opportunities requires two interventions. First, it is important to level the playing field through policies that compensate for inequalities among the most disadvantaged groups. And second, discriminatory practices with regard to access to employment opportunities and positions of power need to be eliminated.

One measure used to quantify social mobility and the equality of opportunities is a comparison of the income elasticity of children and their parents. In this context, a low elasticity indicates that socioeconomic background is less important when it comes to defining the set of economic opportunities. In Chile, the intergenerational elasticity of income is approximately 0.66, which is significantly higher than international standards (in Canada and Sweden, for example, this elasticity nears 0.2). However, once education is controlled for among the children, the elasticity is no longer statistically significant. This indicates that the low level of intergenerational mobility in Chile results from a lack of quality educational opportunities for the poorest segments of the population.

Education

The evidence convincingly demonstrates that education is a key factor for improving incomes, social mobility, and welfare—although, as previously mentioned, education, unless it is technical, is a means of avoiding rather than escaping poverty. Policies to improve education must be a key area of focus in order to achieve sustainable economic growth and development. In recent decades, debate on how to improve access to and the quality of education has been controversial, to say the least. Since 1990, Chile has significantly increased its expenditure on education: as a percentage of gross domestic product, public expenditure on education increased from 2.6 percent in 1990 to 4.0 percent in 2006. Further, profound and widespread reforms of the school system have been implemented, including decentralization; demand subsidies; standardized evaluations, such as that provided by the National System of Evaluation of Education (the SIMCE test); special programs to improve the quality of education and the equity of access to it; educational programs targeted to the poorest schools; and the extension of the school day. Still, the educational attainment of Chilean students remains well below that of students in developed countries. Indeed, according to the 2003 results of standardized international tests by the Programme for International Student Assessment (PISA), only 5 percent of 15-year-old Chilean students achieved at as high a level as average students from countries of the Organisation for Economic Co-operation and Development (OECD). In addition, only 6 percent of these students achieved a level of excellence (Level 4 or 5), compared with 31 percent of OECD students.

This outcome has also been observed in other Latin American countries. According to the PISA test, Argentina, Brazil, Chile, Mexico, and Peru exhibited educational outcomes below those of other countries with similar levels of per capita expenditure. In Chile, access to high-quality education is unequally distributed: the most vulnerable children receive the poorest-quality education. Consequently, the government has instituted a voucher scheme that differentiates students according to their vulnerability. Students from low-income families now receive additional funding, at a rate 50 percent higher than other students, in order to compensate for their socioeconomic disadvantages.

Concluding Remarks

Chile is undergoing a process of significant change. Although the country is consolidating gains in terms of economic growth and poverty alleviation, new social demands are arising that require new strategic approaches. There are three pending challenges. First, if social interventions are to be sustained, economic growth and political stability are required. Second, the existing social protection programs need to be consolidated; this requires ongoing program evaluation, efficient allocation of public expenditures, and adequate institutional arrangements to support initiatives. Finally, given the high level of inequality, improved social mobility and access to opportunities will ultimately determine the country's success in advancing its development agenda.

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Essay 2

The Fight against Poverty and Hunger in Brazil

Patrus Ananias de Souza

Brazil suffers from the persistence of two historically related problems: a high percentage of the population lives in poverty—approximately 23 percent in 2007, or around 42 million people—and the level of social inequality is high; the level of income concentration as measured by the Gini index was 0.553 in 2007. Experience has shown that because past economic growth in Brazil did not redistribute income, it was insufficient to create solid domestic markets and to promote the basis for sustainable development. Inequality and poverty are the causes, not the consequences, of the underdevelopment.

The Brazilian government understands that the social agenda is intrinsic to the economic agenda and complementary to it. Without human development and capacity building, it will be impossible to produce a permanent cycle of sustainable growth that can bring benefits in an equitable way to the entire population. Brazil's President Luiz Inácio Lula da Silva considers the fight against poverty and hunger a priority and makes great efforts to overcome these problems, having achieved significant progress since the beginning of his administration.

The Brazilian Strategy

The government's strategy for fighting poverty and hunger is known as Zero Hunger, which creates a basis for promoting food and nutrition security, contributes to the reduction of extreme poverty, and fosters a sense of citizenship among the population most vulnerable to hunger. By integrating social protection measures with those aimed at ensuring a broader set of social rights, this strategy eliminates the false dichotomy between development policies and emergency measures.

The creation of the Ministry of Social Development and Fight against Hunger in 2004 was an important factor in strengthening and articulating social policies in Brazil. This ministry, which is responsible for a budget of US$14.21 billion in 2009, has implemented two large systems of social policies: one for social assistance and one for food and nutrition security. These systems are composed of a set of programs for poor families that includes conditional cash transfers (CCTs), social assistance services, actions to guarantee the right to proper food and nutrition, and the promotion of sustainable opportunities for social inclusion for these families. These two systems are being expanded and consolidated as public policies that ensure the rights of citizens. They are regulated by laws that assign responsibilities to the three governmental levels in Brazil—national, state, and municipal—working in partnership with civil society.

An Array of Programs to Fight Poverty and Hunger

The main program in Brazil's Zero Hunger initiative is Bolsa Família, a CCT program that promotes improved health care and education for participating families. Bolsa Família benefits around 45 million poor people, providing a basic income to 11.1 million families that earn up to US$60.00 per capita a month. The program transfers an average of US$36.00 a month to families, with a maximum benefit of approximately US$80.00, depending on household income and family characteristics. The calculation of the benefit depends on the number of children. Beginning in 2008, the age limit for children of beneficiary families was extended from 15 to 17 years; as a result, the maximum benefit per family could be as high as US$80.00 a month. This income helps ensure access to food and other basic goods. In addition to receiving financial resources, families must keep their children in school and pursue an agenda of basic health care (prenatal and child development monitoring, vaccination, and so on). These conditions expand participants' opportunities for social inclusion and help to break the poverty cycle across generations. Participating families benefit from several other government provisions as well, including subsidized electricity and prioritization of participating young people and adults in education programs.

Bolsa Família also increasingly works to promote opportunities for work and income generation for poor people through mechanisms such as professional training, support for social entrepreneurship and family agriculture, and production-oriented microcredit. The budget for the Bolsa Família program is US$4.95 billion in 2009.

Studies have shown that the Bolsa Família benefit is used mainly to purchase food. Among those served, 9 out of 10 families report improving their eating habits, 7 out of 10 families say that the variety of food they consume has increased, and 9 out of 10 children eat three or more meals a day. Research also shows that the program has positive impacts on local and regional economies, creating new opportunities for work and income.

One key factor explaining the success of Bolsa Família is that it works in an integrated fashion with the other programs in both the social assistance and the food and nutrition security systems. The Unified Social Assistance System (SUAS) is implementing a new organizational model for providing social assistance and for managing national social assistance policy in a unified way. It operates at several levels of complexity. An important cash transfer linked to SUAS is the Continuous Cash Benefit, which pays a monthly minimum wage (around US$190.00) to 2.5 million elderly people and to people with disabilities who cannot work and have a per capita family monthly income of less than US$47.00. The 2009 budget for the Continuous Cash Benefit program is US$8 billion. The Reference Center for Social Assistance enrolls families, provides social and psychological guidance, identifies needs, and refers families to other levels within the system. At more complex levels, differentiated centers deal with cases of violation of rights, such as those regarding child labor and sexual exploitation of children and adolescents, and take care of the most vulnerable populations, such as the elderly poor, children, people with disabilities, and the homeless.

The right to adequate food is institutionally ensured by joint action undertaken by the three governmental levels and civil society and enforced by the Organic Law of Food and Nutrition Security. This law, designed in partnership with various groups in Brazilian civil society, called for implementation of the National System of Food and Nutrition Security, which articulates policies to ensure that the population has access to high-quality food at regular times and in adequate quantities. The law requires the state to be involved in food production, commercialization, and storage; in food education; and in guaranteeing access to water and food, among other actions. The law also involves the state in strengthening family agriculture (through financing, technical assistance, and guarantee of purchase); creating local facilities to improve access to food and water (such as restaurants, food banks, community kitchens, and cisterns); setting storage policies; pursuing agrarian reform; establishing and operating school feeding programs; and ensuring that there is healthy food in the marketplace. The policy is monitored by the National Council on Food and Nutrition Security, consisting of 18 ministers of state and 36 representatives of civil society and directly linked to the presidency of the republic.

A Strong Start Calling for Continuous Progress

How well have these efforts worked? The programs that are part of the Zero Hunger strategy have contributed very significantly to the recent drop in poverty and income inequality in Brazil.

Brazil has already achieved the first Millennium Development Goal, which calls for halving extreme poverty by 2015. In 1992, 11.7 percent of the population lived on less than a dollar a day, but by 2006 the percentage had fallen to 4.7 percent. Between 2003 and 2007, poverty levels declined by 33.14 percent. In 2003, 33.96 percent of the population lived below the poverty line, but by 2007 the share was 22.70 percent. Sixteen and a half million people overcame poverty during that period.

Moreover, the Brazilian economy has been growing, benefiting everyone, especially the poor. Brazilians' incomes increased by an average of 9.16 percent from 2005 to 2006. The incomes of the poorest 40 percent increased by an average of 12 percent, whereas the incomes of the richest 10 percent rose by 7.85 percent. Brazil is managing to reduce both poverty and inequality at the same time, with income concentration reaching its lowest level of the past 30 years in 2007.

Nonetheless, the number of families in poverty is still high. According to the *Human Development Report,* in 2006 Brazil was still one of the 10 most unequal countries in the world, despite the improvements achieved. Thus, it is crucial for the country to keep moving in the direction of economic growth with income distribution and social inclusion. Brazil must continue to work to consolidate policies institutionally, to focus on families and territories, to pursue universal human development and strong social protection where necessary, and to ensure food and nutrition security. More must be invested in the poorest regions and people. Such investments will require clear and precise goals, transparency, greater integration among social policies, accountability, and evaluation of the impacts of the programs. Finally, as recent global events have shown, the state has an increasing strategic role in managing, challenging, or alleviating the impacts of globalization.

Essay 3

Reaching the Poorest of the Poor at the Community Level: The Experience of the Philippines

Domingo F. Panganiban

The Republic of the Philippines has entered a new and hopeful phase in the struggle to lift its poor out of poverty. The *Philippines Midterm Progress Report on the Millennium Development Goals* (MDGs) shows that the Filipino people are on track and that national economic gains have trickled down to the grassroots. The number of Filipinos living in poverty fell by 15.3 percent between 1990 and 2003. The number of Filipinos living below the subsistence threshold declined by 10.8 percent over the same period. And the number of underweight children younger than 5 years old dropped by 9.9 percent between 1990 and 2005. Equally encouraging is the report's favorable assessment of the country's efforts to promote gender equality, combat deadly diseases, and ensure safe water and sanitation facilities for the entire citizenry.

These advances have not occurred by chance. For decades the country was unable to sustain growth long enough to reduce poverty to levels attained by other East Asian nations. There was widespread inequity and chronic instability in the economic cycle as the nation underwent alternate periods of boom and bust. The Philippines' current effort to fight hunger and reach the poorest of the poor is the result of years of refinement and reform. In the years leading up to the turn of the past century, there was already widespread understanding that faster, more efficient economic growth is needed to significantly reduce poverty among Filipinos. Today a difficult period of recovery and reform is behind the Philippines, and the country is finally on a high road to progress. Inflation and interest rates are down. Investments are pouring in. Tourism is on the rise. And in the second quarter of

2007, economic growth was measured at a historic 20-year high of 7.5 percent. The country's concerted efforts to ensure that local plans reflect national anti-poverty goals and to develop regular community-based monitoring of economic and social indicators may offer lessons for other countries fighting poverty and hunger.

Linking National Goals to Local Action

In keeping with the equitable spirit of the progress made so far, the Philippines has embarked on a deliberate program to improve the personal security and opportunity of the great mass of Filipinos. The Medium-Term Philippine Development Plan was devised in 2001 with four main policy objectives:

1. *macroeconomic stability and equitable growth based on free enterprise*—to stress the importance of economic progress in the bid to reduce poverty levels,

2. *agricultural and fisheries modernization*—to ensure the needed focus on food security and the growth of the rural sector and to address the problems of regional poverty and underemployment,

3. *comprehensive human development and the protection of the vulnerable*—to fill the need for greater social protection and accurate and effective delivery of basic services to the poor, and

4. *good and effective governance*—to underscore the fundamental role of government (both national and local) in all poverty reduction efforts.

Within this framework of growth and stability, the Philippines proceeded to outline the five principles of its national anti-poverty strategy:

1. *accelerated asset reform*—to address the problem of economic inequity and widen the citizens' share of resources, whether natural or manufactured;

2. *improved access to human development services*—to increase the number of people receiving adequate education, health care, sanitation, electricity, potable water, and housing;

3. *the provision of better employment and livelihood opportunities;*

4. *security from violence and social protection for vulnerable sectors*—to eliminate all forms of discrimination; and

5. *the institutionalized participation of the poor in matters of governance*—to address the issue of political equity.

The Philippine development process begins at the national level, where policies are formulated, budget appropriations are decided, and the country's overall economic policy is determined. These national policies are then transmitted to the regional level through various regional offices. From there the bulk of the next—and most difficult—phase of the process is passed on to the implementing agents: the country's local government units.

At the local level, the Philippine government's anti-poverty strategy revolves around a policy of convergence and consultation. That policy translates national priorities into actual work at the provincial, municipal, and village levels. To ensure that the objectives of the national government are amply reflected in both regional and local plans, the strategy identifies a clear set of desired outcomes for programs at the local level, including

- a local development plan incorporating targets and the corresponding increase in budget allocation for MDG-responsive programs and projects,
- local policies that facilitate the achievement of the MDGs,
- a local monitoring system to track progress toward the attainment of the MDGs,
- improved delivery of basic services through the replication of good practices, and
- the inclusion of the accomplishment of MDG targets among the performance commitments of local government units.

Monitoring Poverty to Help Refine and Reform Programs

The Philippine archipelago is made up of more than 7,000 islands, all characterized by mountainous terrain and separated by large bodies of water. Policy executives at all levels therefore confront the persistent problem of determining exactly where and who the poor are and what services they require.

For several years, varying estimates of the extent of poverty in the Philippines have been made. As valuable as some of these estimates may have been, they have not provided local governments with sufficient up-to-date factual data on which to base effective interventions. The Philippine government's current poverty-monitoring system relies heavily on a few large surveys of household income, expenditures, and health. These surveys are by their nature too costly to be undertaken frequently. Moreover, they are conducted over different time periods, making it impossible to obtain a comprehensive profile of the poverty and health situation at a specific point in time. For these reasons the government has embarked on an endeavor to ensure the nationwide use of the Community-Based Monitoring System (CBMS). CBMS is an organized process of data collection and processing at the local level. The system facilitates the integration of data for local planning, program implementation, and evaluation. It promotes evidence-based policymaking and encourages communities to participate in the data-gathering process.

The 14 core indicators used in CBMS questionnaires are premised on basic needs. These needs consist of health, nutrition, housing, water and sanitation, basic education, income, employment, and the local peace and order situation. Because CBMS gives local government planners a means to gather precise information on a wide variety of subjects, it can provide a strong basis for the formulation of truly effective programs at the local level. If the poor and unemployed wholeheartedly give the information sought in the questionnaires, local leaders will know, for instance, the work qualifications of the affected households and the conditions that prevail in each community; what industries the unemployed are suited to; where hunger, malnutrition, and disease are most rampant; and which gender, sector, and age groups are most affected by poverty, unemployment, and disease. This information will allow local leaders to determine what future measures and social services are most likely to improve conditions in depressed communities. With this information they can carry out precise, fact-based local planning and action to address the specific needs of each community or sector.

For policy executives at the national level, tracking the progress made in each community and sector—and determining what national programs require further refinement at the local level—poses considerable logistical challenges. By using modern information technology, CBMS can establish a highly reliable communications network through which local data can be instantly transmitted from local governments to a national repository. This network makes the system useful both for ensuring the precision of national government interventions and for monitoring the progress made by local governments toward each MDG.

Notwithstanding the need for further refinement, the strategy of national and local government partnership has already allowed the country to react to emergencies with remarkable speed and efficiency. In November 2006, an independent survey firm reported that some 800,000 Filipino families had endured severe hunger in the third quarter of that year. The Philippine government responded to the emergency with the Accelerated Hunger Mitigation Program, an effort that continues to involve the entire country's logistics apparatus and bureaucracy. On the national level, this program has five basic objectives:

1. increase food production,
2. build up the logistics for food delivery throughout the country,
3. put more money in the pockets of the poor and the hungry,
4. promote good nutrition, and
5. manage population growth rates.

Within a few days of the Philippine government's discharge of this emergency program, an entire policy structure was created to pursue six main goals at the community level:

1. the backyard propagation of vegetables and fish;
2. the establishment of public food stalls to sell low-cost but safe and nutritious food to the poor;
3. the improvement of ports, roads, and other transport facilities;
4. the implementation of free school feeding programs;
5. more aggressive microfinance and employment programs and free skills training services; and
6. the widespread promotion of responsible parenthood and family planning.

The government's central political leadership assigned responsibilities to local governments and to each agency in the Philippine government's bureaucracy, with clear targets and responsibility centers.

The initial phase of the program proved a resounding success. In June 2007 the same survey firm that had reported high numbers of hungry Filipino families in 2006 announced that the number of households suffering from severe hunger had decreased from 800,000 to 390,000 by the second quarter of 2007.

Lessons from the Philippine Experience

In general, the Philippine experience suggests seven basic imperatives for developing nations:

1. sound macroeconomic policies to promote the creation of jobs and suitable employment opportunities for the poor;

2. a strong partnership between national governments and local government units to maintain the relevant and timely delivery of services, assistance, and additional resources to the poorest of the poor;

3. equitable asset distribution to prevent and eliminate social inequity, poverty, and hunger;

4. infrastructure development to expand and enhance each country's competitive advantages;

5. rural and agricultural development to ensure food security, economic competitiveness, regional growth, and national self-reliance;

6. good governance and carefully controlled public investments to guarantee both the integrity of government and the efficiency of public spending; and

7. political stability to encourage people's trust in the political leadership and its system of governance.

But perhaps the most important lesson learned so far is that poverty and hunger must be confronted not merely as problems experienced by households, communities, and nations but as a challenge to humanity as a whole. More than 1 billion people throughout the world survive on less than a dollar a day. Their food is inadequate, and their children fall to disease. Their economic life is stagnant, and they are unable to cope with the pace of modern progress. The plight of the world's poor and hungry is a handicap and a menace not only to them but also to more prosperous communities and nations. The global community must embark on stronger and more effective international programs to make the benefits of progress available for the improvement and growth of impoverished communities. This task is not only a logical necessity but a moral responsibility that puts to the test the very foundations of modern human progress and society.

Part 4

Including the Excluded

A fundamental cause of poverty for many people is their deliberate and systematic exclusion from full participation in the betterment available to society as a whole, solely on the basis of their identity (Sen 2000). As pointed out in Chapter 1 of this volume, excluded groups tend to be among minorities and marginalized people. They may be effectively barred from pursuing opportunities that could enable them to enhance their welfare through their own efforts. Consequently, they may be left behind even in times of growth. Using data from the Minorities at Risk (MAR) database, the *Human Development Report 2004* suggested that an estimated 891 million people, or one in seven of the world's people, suffered from discrimination on the basis of ethnic, linguistic, or religious identity (UNDP 2004, 32).[1] Furthermore, when gender discrimination is considered, the number of people experiencing discrimination is much higher.

Addressing exclusion requires simultaneous action in many spheres. The international consultation on racial and economic discrimination led by the International Council on Human Rights Policy (ICHRP) in 2001 concluded that "an effective approach must address, at a minimum: legal rights, political representation, economic resources, provision of key services such as education, and attitudes and perceptions" (ICHRP 2001, 23). As noted by Braunholtz-Speight (2008), these five areas of action are also reflected in the United Nations Convention on the Elimination of All Forms of Discrimination against Women, as well as in the recent U.K. Department for International Development (DFID) policy paper titled "Reducing Poverty by Tackling Social Exclusion" (DFID 2005).

The chapters and essays in this part of the book consider these issues in more detail, highlighting the need for action to empower excluded groups and examining some policies that have worked. Each entry highlights the importance of addressing the poorest groups in society, for those who are the poorest are often from an identifiable group that, as a group, is measured as the poorest (see Frances Stewart's chapter). Chapters 32 and 33 and Essay 5 consider how excluded groups can be empowered by political representation, economic resources, and the provision of key services such as education. In the remainder of this part, these actions are investigated as they apply to specific contexts (in this case, South Asia) and specific excluded groups, in particular, ethnic minorities and indigenous peoples, women, and people with disabilities.

Policies to Redress Poverty Resulting from Exclusion

In Chapter 32 Frances Stewart focuses particularly on access to education, asset ownership, services, and employment. She identifies three broad approaches that are used to address these:

1. direct policies, commonly thought of as affirmative action, which include targets, quotas, and preferential treatment to improve the discriminated groups' access to jobs, assets, services, government contracts, and political representation;

2. indirect policies, which are more universal and include policies for progressive taxation, legal policies to correct discrimination in certain areas (such as housing and employment), and policies regarding macroeconomic activities that favor particular areas; and

3. integrationist policies, which are designed to reduce group consciousness and include policies that bring together people from different groups in schools and universities.

Stewart argues that direct policies can be a quick way to increase equality and engender greater respect for excluded groups, although they may also provoke opposition among more privileged groups because they are highly visible. It is important to note, however, that some of these policies, such as those establishing quotas in the civil service or in higher education, may not be directly relevant to the poorest but may benefit them indirectly by affecting their chances of upward mobility (Bardhan 1996).

Another potential risk of direct policies, Stewart notes, is that by targeting certain groups, they can reinforce group distinctions, which could in turn encourage prejudice and cultural stereotyping, especially if the direct policies do not have a time limit. She points out that indirect and integrationist policies can be less damaging on that front. In contrast to direct policies, however, indirect ones tend to work more slowly, and integrationist policies, by promoting uniformity and suppressing cultural and religious differences, can threaten cultural identities and conceal deep inequalities.

Anirudh Krishna (Chapter 33) and Vijay Kumar Thallam (Essay 5) separately look into another form of empowerment for the poor: political representation. Krishna tackles the question of why the poor, who often form a majority or a near majority, have so little organizational power with which to advance their interests. A number of reasons have been advanced in the literature, including the tenacity of vested interests (North 1990), bargaining problems that arise when "disputes about sharing the potential benefits from the change may lead to a breakdown of the necessary coordination" (Bardhan 2005, 522), and inadequate access to knowledge and information ("knowledge is power"; Bacon 1597). Krishna argues, however, that the poor do not necessarily all share the same interests. He suggests that "the poor" is merely a figure of speech referring to people with different identities and interests as a result of their different trajectories into and out of poverty. He gives the example of a sample of households in Andhra Pradesh, India, where those who had recently fallen into poverty expressed a desire for health services, the persistent poor wanted wage labor, and those who had recently graduated out of poverty wanted irrigation and education.

In his essay Kumar Thallam explores whether interventions that support the development of organizations of the poor can empower them to be catalysts for change. He finds an increasing number of instances in which facilitating the development of groups of poor women has brought about increased empowerment and many improvements in welfare. Kumar Thallam describes the experience of facilitating "self-help groups" among low-caste women in villages in Andhra Pradesh, India. He notes that successful groups gather women of similar socioeconomic status in a village, allowing the group to be formed on the basis of affinity among the members rather than on the basis of narrowly defined interests. Federations of these groups at the village level then use the trust built in self-help groups to provide poor women with economic and political space within which to undertake activities such as marketing, bulk purchasing of commodities, and exerting pressure on local governments for the provision of services.

These chapters and essay underline the need for increased action to ensure the inclusion of the excluded, but it is important to keep in mind that in many cases supplemental strategies will be needed to address issues of identity, perceptions, role models, and peer group effects that remain barriers to participation and advancement (Hoff and Pandey 2004; Akerlof and Kranton 2005; Durlauf 2006). Indeed, even when direct action to promote inclusion is undertaken, barriers remain, limiting the benefits to excluded groups and raising the possibility that negative perceptions of the abilities of minorities are reinforced among the majority. As Loury (2006) states when discussing combating the persistent racial inequality in the United States: "Even if there were no overt racial discrimination against blacks, powerful social forces would still be at work to perpetuate into future generations the consequences of a universally acknowledged history of racism in America" (407).

Exploring Policies in Context and for Specific Forms of Exclusion

Recognizing that the development of approaches to include the excluded must be context specific and participatory, the remaining chapters and essays in this part of the book explore what types of policies are required to tackle poverty resulting from exclusion in specific contexts and from specific forms of exclusion.

Essay 6, by Qazi Kholiquzzaman Ahmad, and Chapter 34, by Sukhadeo Thorat, examine the situation in South Asia. Whereas Ahmad provides a broad overview of the situation in South Asia and highlights the need for inclusionary policies across the region, Thorat considers the case of scheduled castes in India. He explains that their exclusion consists of exclusion from assets and adverse inclusion in certain markets and political systems and discusses India's recent experience in developing and implementing policies to reverse this exclusion. Although India has implemented a number of policies over the years to reverse exclusion, little research has been conducted to evaluate the impacts. Nevertheless, Thorat looks only at policies related to scheduled castes and leaves out a host of other types of excluded populations in India, such as scheduled tribes, Muslims, and "backward castes."

It is likely that addressing exclusion in other contexts may require emphasis on different policy interventions. For example, when excluded groups speak a different language from the majority, as excluded indigenous communities in Latin America do, attaining fluency in the main language can be an important step in reducing disparity. Some evidence from Latin America shows that when excluded groups are fluent in the main language and achieve educational parity with the nonexcluded groups, job and income discrimination against them declines substantially (Hall and Patrinos 2006).

In Essay 7 Lennart Båge looks at the situation of ethnic minorities and indigenous peoples and explores the policies that have been implemented to redress their exclusion. He first identifies the issues that render these groups more vulnerable, including the fact that many of them inhabit economically and politically marginal areas in fragile ecosystems, their lack of political representation, the weak protection accorded to their property rights, and the fact that most are not well equipped to take advantage of market opportunities. Båge argues that until recently, national and international development policies have generally overlooked these facts and have therefore not been very successful at integrating ethnic minorities and indigenous people in the development process. He notes that this neglect is changing, and he draws from the experience of the International Fund for Agricultural Development to develop basic principles for policies targeting ethnic minorities and indigenous peoples. He especially underscores the need for more participatory approaches, as well as for the recognition and protection of indigenous entitlements to natural resources.

Chapters 35 and 36 deal with the issue of gender exclusion. Neelima Khetan and Ajay Mehta focus on policies promoting political representation for women and highlight the situation in India, where one-third of the seats on local councils are reserved for women and for scheduled castes and tribes. Nonetheless, they find that the level of political participation by women is low, reflecting the limitations of affirmative action–type policies in promoting broad-based inclusion of women. Still, preliminary results from a recent paper based on experimental evidence from India suggest that the exposure to a female leader resulting from mandated political representation for women, while highly unpopular, reduces prejudice by around 50 to 100 percent depending on the measure used (Beaman et al. 2008).

Khetan and Mehta also discuss the successful experiences of Seva Mandir, a grassroots nongovernmental organization in India. They find that although the leadership initiatives did not come from the poorest in this case, expanding opportunities to enable women to gain higher status, more autonomy, and self-governance is key to improving their plight. To that end, the next chapter, by John Ambler, Lauren Pandolfelli, Anna Kramer, and Ruth Meinzen-Dick, discusses interventions to strengthen women's assets and status. The authors highlight the importance of simultaneously building women's assets and improving their societal status. They describe four successful interventions: two that improved women's assets, thereby improving their social status, and two that strengthened women's status through legal change and women's increased awareness of their rights.

Chapter 37 and Essay 4 address the situation of people with disabilities, an often neglected group, 80 percent of whom live in developing countries. It is important to recognize that disability comes in many forms, with some forms allowing for full functionality in economic activities and other forms, such as mental or severe physical disability, being more debilitating. Government policies targeting people with disabilities must therefore be tailored accordingly. For people with disabilities who are able to participate in productive economic activities, policies that reduce discrimination against them and policies that facilitate their access to employment opportunities, credit, and productive assets are in order. Conversely, for those suffering from more severe forms of disabilities, targeted welfare-enhancing policies, such as increased access to health services, are needed.

In her essay Charlotte McClain-Nhlapo notes that in the past there was a tendency to undervalue the capacity of people with disabilities and their ability to contribute to economic growth and poverty reduction. Programs targeting people with disabilities were either nonexistent or further marginalized them. Like Båge, McClain-Nhlapo advocates participatory approaches to including people with disabilities. Further, she highlights the importance of state involvement in empowering them by developing norms and standards for inclusion, creating an enabling environment, and planning for accessible infrastructure and technologies.

In Chapter 37 Zhang Dongmei presents China's experience in dealing with people excluded as a result of disabilities. He highlights the special challenges faced by people with disabilities and their vulnerability to poverty and echoes McClain-Nhlapo's point on the lack of adequate funding and policy interventions targeted to that subgroup. Zhang then suggests policy interventions at the central and local levels, such as increased direct transfers and supportive policies such as those promoting subsidized-interest lending and training for labor transfer, to address poverty among people with disabilities

Note

1. The MAR database, available online at <http://www.cidcm.umd.edu/mar/>, tracks politically active minorities across the world on three dimensions: political, economic, and cultural. It uses subjective data to assess the traits and challenges faced by these groups.

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Chapter 32

Addressing Discrimination and Inequality among Groups

Frances Stewart

Economic and political inequalities among groups—for example, between Muslims and Hindus in India, between northern and southern Nigerians, or between ladinos and indigenous people in Bolivia, Guatemala, and Peru—are often significant and multidimensional, causing much resentment and even violent political protest. Moreover, as global migration accelerates and societies become more heterogeneous, the prevalence and significance of group inequalities are rising. Abundant policy, theory, and measurements focus on inequalities among individuals (so-called vertical inequalities), but far less work has been done on inequalities among groups (horizontal inequalities, or HI). Inequalities among groups are important from a number of perspectives: they may adversely affect the well-being of members of the deprived groups, hinder efforts to eradicate poverty, lead to unfair and exclusionary societies, impede the full realization of economic potential, and increase the risk of violent conflict.

The popular conception of *social exclusion* and HI hold much in common. A group or groups are said to be socially excluded when they are marginalized politically, economically, or socially, often on multiple levels. However, while similar policy recommendations stem from social exclusion and HI approaches, HI is more precise and draws attention to richer as well as poorer groups. For this reason, this chapter focuses on HI, exploring the types of inequalities involved, why these inequalities matter, and what policy options—and associated implementation constraints—exist to address this form of discrimination and inequality.

The author is grateful to two referees for their very helpful comments.

Defining Group Inequalities

Societal group distinctions take many forms, from differences in race and major religions—and the branches within them—to ethnic and caste distinctions and even geographic distinctions. Socially significant group identities arise partly from individual perceptions within groups and partly from the perceptions of those outside them. Leaders, educators, and the media, among others, have an important influence on the evolution of significant group distinctions. Although many groups have unclear boundaries and evolve over time, some group distinctions are an important way in which people interact and identify themselves. Group distinctions are therefore highly relevant to the well-being of both individuals and society as a whole. Moreover, as ideology has become less important as a source of identity and political mobilization, ethnic and religious distinctions have come to the fore, as indicated by the increasing proportion of violent conflicts labeled ethnic.

The determinants of a group's well-being and prospects go well beyond the members' economic circumstances and instead encompass multiple dimensions. Significant dimensions of horizontal inequalities are as follows:

- *Economic HI* include inequalities in asset ownership, incomes, and employment opportunities.

- *Social HI* cover inequalities in access to a range of services, such as education, health, and housing, and hence in human outcomes, including education, health, and nutrition.

- *Political HI* involve inequalities in the distribution of political opportunities and power across groups at many levels, including governmental (executive), bureaucratic, and military power.

- *Cultural status HI* refer to differences in recognition and de facto hierarchical status of groups' cultural norms, customs, and practices.

Although some outcomes—notably income, health, and political power—are relevant across all societies, what is needed to achieve those outcomes varies by individual society, and therefore so do those inequalities of greatest significance. Ownership of and access to land, for example, are of great importance where agriculture accounts for a considerable proportion of economic output and employment, but it becomes less important as development proceeds; then access to housing and jobs in the formal sectors become increasingly important.

Why Horizontal Inequalities Matter

HI matter for a number of reasons. First, unequal access to political, economic, and social resources and inequalities of cultural status can have a serious negative impact on the welfare of members of poorer groups who are sensitive to their group's relative position. This is illustrated by research in the United States showing that the psychological health of African Americans is adversely affected by the position their group occupies. Second, severe HI may diminish the potential of a society to develop when individuals are barred access to education or jobs—regardless of individual merit—and are instead discriminated against on the basis of group membership. As deprived groups gain improved access to education and jobs, their economic potential can be more fully realized. Malaysia exemplifies this: when policies enabled the majority population to participate in economic transformation, rapid economic growth followed. Third, HI can prove a major handicap to the elimination of poverty because it is difficult to reach members of deprived groups effectively with programs of assistance. In particular, deprived groups face multiple disadvantages and discrimination, and these challenges need to be confronted collectively. For example, this has been a serious problem in tackling poverty in the Andean countries. Finally, sharp group inequalities make violent group mobilization and ethnic conflicts more likely by providing powerful grievances for leaders to use to mobilize people by calling on cultural markers and pointing to group exploitation.

Evidence across countries indicates a significant relationship between HI and the onset of violent conflict, while studies within Indonesia and Nepal present a similar picture, demonstrating that the location of conflict within a country is related to the extent of group inequality in that location. Of course, not all countries with high levels of HI experience conflict; rather, the likelihood of conflict increases as inequalities increase.

Policies Addressing Group Inequalities and Discrimination

Given the ways in which group inequalities can reduce well-being, efficiency, and political stability, a policy priority is the reduction of inequalities to bring about a socially inclusive and fair society and to reduce the probability of violent conflict. This is particularly important in countries where inequalities are severe. Although this chapter primarily focuses on policies related to socioeconomic inequalities, it is also important to address political and cultural inequalities. Indeed, political inequalities can be more politically provocative than socioeconomic ones. All major groups should participate in the political process in government and bureaucracy, as well as in the military and police. This does not necessarily happen even in a fully democratic system, and conscious constitutional design as well as formal and informal policies are needed to ensure that it does. In relation to cultural inequalities, policies with respect to language, religion, and cultural practices can all contribute to the development of more inclusive societies.

Three types of policy addressing socioeconomic inequalities may be differentiated: direct (targeted) policies, indirect (universal) policies, and integrationist policies (Table 32.1). Direct approaches target specific entitled groups using quotas and subsidies. Indirect approaches are general policies applied to the whole population but designed in such a way that relatively poor groups are the net beneficiaries. Integrationist approaches are policies aimed at reducing the significance of group boundaries.

The main advantage of direct approaches is that they can work rather quickly; they also tend to be highly visible, which has both advantages and disadvantages. One advantage is that groups can see that they are being given better treatment than other groups. U.S. affirmative action on education, for example, was a visible response to the civil rights movement. Nevertheless, the visibility of direct approaches can also provoke opposition by the more privileged groups. Some argue that one cause of the Sri Lankan civil war in the late 1970s was Tamil resentment of policies that reduced their educational advantages and reversed their previous

Table 32.1 A summary of policy approaches supporting the reduction of horizontal inequalities

Type of policy	Direct	Indirect	Integrationist
Definition	Policies by which groups receive privileges; disincentives are tied to group membership	General policies with indirect implications for distribution to groups	Policies to minimize overt group distinctions and encourage national identity
Examples	Educational quotas; government contracts allocated preferentially	Progressive taxation; anti-discrimination law	Integrated schools; national sporting events
Advantages	Provides a visible sign of action toward equality; effects are fast	Provides no visible indication of action toward equality; does not entrench group labels by drawing more attention to them	Reduces consciousness of group differences; makes discrimination less likely
Disadvantages	May provoke opposition; can entrench group differences by drawing attention to them; can encourage corruption	Works slowly; may not achieve much	Loss of cultural identity may lead to opposition and increased inequality of cultural status for some

Source: Devised by the author.

position of privileged employment in the civil service. Moreover, it is argued that direct approaches reinforce group distinctions, thereby encouraging prejudice and cultural stereotyping. People's perceptions of other groups, however, are also influenced by their relative position and the nature of their interaction with them. The greater social and economic equality among groups that results from direct action may consequently reduce group prejudice. However, to avoid long-term problems from stereotyping, direct approaches should be time-limited if possible.

Indirect approaches are in some respects more attractive because, in principle, they improve equality without labeling people by the group to which they belong, but they may work more slowly. Monitoring and evaluation are essential for all approaches, but especially for indirect ones. The pros and cons of integrationist approaches have been much debated in developed countries. Some experts argue that integrationism threatens cultural and religious values by imposing uniformity, while others argue that integrationism is the most effective way to ensure social stability and group equality in multicultural societies.

Examples of Direct Policy Approaches

Many heterogeneous societies have adopted direct approaches to reducing group inequalities. Direct policies can consist of articulated targets or legally enforceable quotas. In either case, these policies may be backed by the allocation of public-sector contracts to enterprises that meet the predetermined targets. Direct policies have been adopted in a range of areas, as described in the following subsections.

Asset Ownership and Access

Policies related to asset ownership and access include land tenure policies involving redistribution of government-owned land, forcible eviction, purchases, and restrictions on ownership (as applied in Fiji, Malaysia, Namibia, and Zimbabwe); policies supporting the terms of privatization (Fiji); and policies addressing inequalities in financial assets—for example, between particular groups (Malaysia and South Africa), credit allocation (Fiji and Malaysia), and preferential training (Brazil and New Zealand).

Public Expenditure

Public expenditure allocation has three distinct aspects. The first involves the construction of public facilities, such as infrastructure. Policies in support of public-sector contracts to ensure fairer group participation have been implemented in Canada, Malaysia, Northern Ireland, South Africa, and the United States. The U.S. Public Sector Works Employment Act of 1977, for example, required that at least 10 percent of each local works project grant go to minority businesses. Similarly, in Malaysia, companies owned by indigenous groups (the *bumiputera*) receive a margin of preference in competing for contracts. The second aspect relates to the operation of public facilities. Quotas for public-sector employment have been introduced in India, Malaysia, and Sri Lanka, for example. The final aspect involves targeting beneficiaries of education, health, and housing services. Quotas for university education have been introduced in Malaysia, Nigeria, and Sri Lanka; however, they are not very effective if educational inequality begins at the lower levels. Hence, policies need to be introduced at the appropriate level. Policies to improve health access and services in deprived areas were introduced in northern Ghana, and special efforts have been made to improve the access of the African American population in the United States. In Northern Ireland, policies were introduced to ensure equal access to public housing.

Private-Sector Employment Quotas and Subsidies

Some countries—for example, Kenya, Malaysia, and South Africa—have introduced requirements for the private sector to meet group employment objectives.

Examples of Indirect Policy Approaches

All policies have some impact on distribution. Indirect policies aimed at reducing HI do so by designing policies with universal application that favor particular groups. Language policy is a clear example. Making a particular language a requirement can strengthen the position of some groups and weaken that of others with respect to access to and performance at school or university or in public-sector employment. Language policy has been used in this way in Malaysia and Sri Lanka. Legal, fiscal, and macroeconomic policies each have similar important consequences for HI, as is discussed in the following subsections.

Legal Policies

Outlawing discriminatory practices can substantially reduce group inequalities. This occurred in Northern Ireland, where the Fair Employment Acts were critical in reducing employment inequality. Moreover, policies that outlaw discrimination in employment, education, housing, and so on according to group membership are ethically just and generally politically acceptable. Another way the legal system can reduce inequalities is through the recognition and enforcement of economic and social rights. In Peru, for example, a human rights ombudsman (*defensorio del pueblo*) has been instituted to help enforce the rights of indigenous peoples. Still, policies that outlaw discrimination or recognize human rights are unlikely to be enough on their own. First, the law must be enforced, which is especially important in poor societies with weak legal systems, no legal aid, and discrimination reaching deep into the legal system itself. Second, as a result of long-term disadvantage, deprived groups lack education and money and have poor social networks. Even with a level playing field, these groups would be disadvantaged in obtaining higher education, jobs, and credit, for example. Hence, policies to reduce group inequalities need to go beyond antidiscrimination legislation. Although legal action has great potential to reduce discrimination, other supporting policies are needed, including legal aid.

Fiscal Policies

The introduction of progressive tax and expenditure policies (including anti-poverty programs) will generally benefit deprived groups relative to privileged ones. It is also possible to introduce specific reforms to the fiscal system with the aim of reducing HI, for example, through tax incentives for investment in particular regions or sectors where identified groups are concentrated. In many contexts, specific privileged groups are concentrated in the commercial trading sector, and taxes on wholesale and retail trade would alleviate HI. The poorest people and groups are generally not in the formal sector, so direct taxes would generally contribute to reducing HI. In Niger, for example, most people in the informal sector belong to a different ethnic group from those in the formal public or private sector. Indirect taxation may also be designed to help improve distribution by exempting staple goods (such as food and basic fuels, which are consumed as a high proportion of income by poor groups) and, conversely, by raising the tax rates on so-called luxury goods (those consumed more by relatively well-off groups). Cultural differences in consumption patterns may also make it possible to use the tax system differentially. For example, the taxation of alcohol would benefit Muslim groups. Where groups are regionally concentrated, reallocation of public expenditure toward deprived regions is likely to reduce HI.

Macroeconomic Policies and the Need for Economywide Restructuring

Beyond the fiscal system, broad incentives generated by macroeconomic policy often affect group inequality as well. Changes in the exchange rate typically designed to favor tradable products often have implications for group inequality based on a group division of labor (a common result of colonial policy). In many African countries, for example, the groups who produce cash crops for export are different from those producing food for local or their own consumption. In some cases, specific government actions supporting group equality—including investments in education and infrastructure—have been undermined by macroeconomic policies in terms of their impact on relative group incomes. Northern Ghana, for example, has suffered in this way.

Consequently, in addition to specific corrective actions in support of educational or infrastructural disadvantages, the implications of macroeconomic policies for group incomes and employment need to be taken into account in the design and introduction of compensatory policies in order to offset possible adverse impacts.

Examples of Integrationist Policies

Integrationist policies are directed at reducing overt group boundaries. Indirect policies—especially effective antidiscriminatory policies—tend to support integration. In addition, an integrationist approach brings people together from different groups in schools and universities, the workplace, sports and social clubs, and so on. These policies also encourage uniformity (for example, of dress and language) but may contribute to resentment by exacerbating cultural inequalities. Integrationist policies raise national consciousness while reducing group consciousness. Such policies are usually effected by political leaders, educators, religious and ethnic leaders, and the media. One example is the policy pursued rather successfully by President Nkrumah in Ghana emphasizing national identity and reducing ethnic consciousness. Integrationist policies require a change in culture and perceptions and understandably take time. Moreover, if severe inequalities continue, consciousness of group distinctions may sharpen and thus render integrationist policies less effective.

The Need for a Comprehensive Approach

Group inequalities are often of historical origin, typically arising from colonial settlements and policy and deeply embedded in a society. Moreover, the deprivations are generally multidimensional and hence reinforcing. Thus, groups that are educationally deprived also have few financial resources, and a corresponding lack of political power may prevent significant corrective action. Asymmetries in social capital further reinforce other inequalities because social networks within the deprived groups rarely expand beyond the group or include opportunities for contact with better-off groups. For these reasons, effective policy needs to address several dimensions of inequality.

A combination of approaches is desirable: direct approaches can help make indirect approaches more effective, while integrationist policies can contribute to lessening divisions within society and increasing intergroup respect. For example, South Africa addressed business “empowerment” through a direct approach targeting capital ownership by blacks, while other, indirect approaches focused on expanding education, for example, and dismantling discriminatory regulations. Integrationist policies were followed in the political and educational systems. Nevertheless, appropriate action critically depends on context. In Indonesia, for example, any direct approach would be extremely difficult to manage because different groups dominate in different locations, and direct approaches would run the risk of provoking specific groups.

Although many countries have adopted selective policies toward reducing HI, only those that have adopted a comprehensive approach have narrowed the gap substantially. The contrasting experiences of Guatemala, Peru, Malaysia, and Northern Ireland illustrate this point. Guatemala and Peru have recently made efforts to reduce HI between the indigenous and white populations, with a particular focus on the education sector. Yet large gaps in incomes remain in both countries, while inequalities in child mortality in Guatemala remained unchanged from 1995 to 1999 and access to white-collar employment by the indigenous population declined relative to that of ladinos. In Peru, inequalities between the indigenous and ladino populations in the areas of women's education, child mortality, and household wealth remained virtually unchanged from 2000 to 2004, and inequality in white-collar employment worsened somewhat. Moreover, the returns to education were far lower for indigenous people in Peru than in other countries as a result of lower-quality schools for indigenous children, discrimination in employment, and weaker social networks. These issues can be even more challenging when the deprived group is physically remote, as is the case of some of the indigenous population in Peru. It may also be necessary to tackle perceptions, because negative perceptions of the abilities of a minority may reduce their job prospects.

In contrast, in both Malaysia and Northern Ireland a comprehensive approach to correcting group inequalities was taken. Following the anti-Chinese riots of 1969 in Malaysia, in 1971 the country introduced the New Economic Policy, which aimed to reduce inequalities between the Malays and the Chinese. The goal was to help secure national unity using policies "to accelerate the process of restructuring Malaysian society to correct economic imbalance so as to reduce and eventually eliminate the identification of race with economic function."[1] Restructuring policies included expanding the capital ownership share of the *bumiputera,* instituting educational quotas in public institutions in line with population shares, and creating credit policies favoring the *bumiputera.* Between 1970 and 1999, the ratio of the average income of the *bumiputera* to that of the Chinese increased from 0.42 to 0.57, the ratio of the share of ownership grew from 0.03 to 0.23, and the share of registered professionals among the *bumiputera* rose from 8 to 47 percent.

In Northern Ireland, Catholics were systematically and consistently deprived over centuries following the English takeover. In 1971, for example, just 11 percent of senior public officials were Catholic. A concerted effort to correct inequalities was undertaken from the late 1970s through housing and education policy and fair employment legislation. From the late 1970s to the late 1990s, the ratio of Catholics to Protestants in higher education increased from 0.39 to 0.81 and the ratio of the share of high incomes among Catholics grew from 0.55 to 0.77. By 2004, inequalities in higher education and in access to basic health services had been eliminated.

Conclusion

Sharp group inequalities can produce many adverse consequences, the most serious of which is mobilization for violent conflict. It is therefore important to introduce policies to correct political, cultural, and socioeconomic inequalities. As this chapter has highlighted, holistic approaches are needed that incorporate direct, indirect, and integrationist mechanisms. Antidiscrimination legislation is clearly an important first step, but it is insufficient on its own to correct asymmetries in the contexts of deep-rooted inequality. Ultimately, the appropriateness of policy is dependent on the particular context. Fundamental to policy design is a full analysis of the context and dynamics of existing inequalities across groups, including awareness of the evolution of those inequalities.

One major problem is securing acceptance of policies by the more privileged groups who stand to lose their advantageous positions relative to disadvantaged groups. It is essential to persuade decisionmakers of the importance of avoiding severe group inequalities in order to create a just and inclusive society and to maintain social and political stability. International consensus is needed on the desirability of inclusive political and economic systems and of policies to correct sharp group inequalities. Currently most international discourse largely ignores the issue of group inequalities, giving priority to accountability, democracy based on the majority, and growth and poverty reduction. Indeed, it is at a national rather than an international level that most awareness of this issue lies, along with the corresponding policy innovations. It is most politically feasible to introduce programs targeting disadvantaged majority groups at a national level, as in Fiji, Malaysia, Namibia, South Africa, and Sri Lanka. Elsewhere, programs targeting disadvantaged minorities have also been introduced by advantaged majorities—as in Brazil, India, and the United States—because the majority values the promotion of an inclusive society.

Governments that choose to implement policies to correct group inequalities risk possible social tension stemming from the resentment of losing groups. Generally, for corrective mechanisms to be successful, broad acceptance of the objective is required across all groups. Also important are perceptions relating to the existence and causes of HI and, hence, the "fairness" of remedial policies. Dissemination of objective research on the nature and causes of HI may help correct perceptions and thus secure national support for corrective policies. Broad transparency in policy implementation is also important in providing legitimacy for policies.

Given the increasing heterogeneity of populations as national and international migration and ethnic and religious mobilization increase, policies aiming to reduce discrimination and group inequalities must be positioned high on both the national and the international policy agendas.

Note

1. Federation of Malaysia, *Second National Plan, 1971–75* (Kuala Lumpur: National Printing Department).

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Chapter 33

The Dynamics of Poverty: Why Don't "the Poor" Act Collectively?

Anirudh Krishna

Where the poor form a majority or near-majority, why don't they vote themselves to power in democracies? In Madagascar, Mozambique, Mali, Guatemala, Honduras, Kenya, and Bangladesh, where the poor constitute 71, 70, 64, 56, 53, 52, and 50 percent of the population, respectively, why don't poor groups emerge and take power democratically? Even in countries where the poor form a smaller but still sizable part of the population—such as India (29 percent), Ecuador (35 percent), and the Philippines (37 percent)—why are the politics of poverty not more emphatic, potent, and visible? Traditionally these questions have been answered by referring to factors that create divisions among the poor, such as caste, religion, or tribe; but there is also a more fundamental basis of division, emanating from the separate relationships that different poor people have with poverty itself.

Not everyone who is poor was born into poverty. New research shows that large numbers of poor people have fallen into poverty within their lifetimes. Their relationship with poverty is qualitatively different from that of people who have been chronically poor. Different trajectories into and out of poverty define different relationships that produce different identities and interests among subgroups of poor people. Apart from those who have newly fallen into poverty and those who are persistently poor, a further subgroup consists of upwardly mobile poor people on the cusp of escaping poverty. Members of each of these subgroups have quite

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For a complete description of the Stages-of-Progress methodology, together with a training manual and published research papers, please consult <www.pubpol.duke.edu/krishna>.

different interests, and their demands from the state are correspondingly disparate. These divisions make it difficult for poor people to unite and make common cause. Rather than considering "the poor" as a homogeneous group requiring some common policy responses, it is preferable to take account of subgroup-specific requirements. Policymakers intending to deal more effectively with poverty will do well to mount a more comprehensive response. Unless the creation of new poverty is first stemmed, efforts to move people out of poverty will ultimately be ineffective. Mounting a more comprehensive response—addressing escape and descent concurrently—will also help empower poor people socially and politically.

Poverty Creation in the Midst of Economic Growth

Poverty is being constantly refreshed, with two concurrent streams flowing in parallel. Even as some people escape poverty, others are simultaneously falling into poverty. The numbers on both sides are large, though they vary across contexts. Everywhere, however, the rate at which people are falling into poverty is worryingly high (Box 33.1). Large movements in both directions constantly reconfigure the composition of "the poor." Until relatively recently, however, these movements were hidden from view. Conventionally, those measuring poverty have seen the poor as a stock, considering the numbers of poor people at a particular moment in time. Such stocks can be compared across two points in time and the net change calculated. Such analysis does not reveal, however, exactly how this change was derived: how many people fell into poverty within the specified time frame, and how many others concurrently escaped poverty?

It is only quite recently, mostly within the past 5 to 10 years, that scholars working independently in different parts of the world have examined poverty in a dynamic context. Their studies collectively help construct a new and more complete view of how poverty is simultaneously created and reduced. Regardless of the country or period studied or the definitions and methodology used, the results are the same: descents and escapes occur concurrently. A study of more than 1,000 households in KwaZulu-Natal, South Africa, shows that while 10 percent of households moved upward out of poverty over the 5-year period 1993–98, another 25 percent of households simultaneously fell into poverty. Ironically, and quite counterintuitively, poverty increased overall even as many people moved out of poverty. Similarly, in Bangladesh over the 13-year period 1987–2000, 26 percent of the households studied escaped poverty but another 18 percent of households concurrently fell into poverty. Movements both out of and into poverty were large in every instance.

These movements into and out of poverty are not marginal or temporary events. Thus, people do not fall into poverty only to escape in a later period, nor indeed are these results confined to borderline households fluctuating around the

Box 33.1 The complexity underlying net poverty changes

The realization of the complexity underlying net poverty changes emerged through the process of conducting studies of the dynamics of household poverty over the past six years in countries of Africa, Asia, and North and South America using the Stages-of-Progress methodology, which enables measurement and comparison to be done reliably and reasonably quickly. More important, this methodology enabled the identification of the factors associated with movements out of and into poverty. Research teams interviewed more than 25,000 people, identifying who had escaped poverty and why and who had fallen into poverty and why. These teams met hundreds of very poor people who had not been poor 5, 10, or 20 years earlier. Their accounts of descents into poverty were awful to hear, but they provided an understanding of the incompleteness and ultimate futility of most current efforts to reduce poverty.

The data reproduced here show, for example, that even as 19 percent of people came out of poverty in the 20 western Kenyan villages studied, another 18 percent fell into poverty, resulting in a net reduction of only 1 percent. Such paltry gains have become frustratingly familiar from newspaper accounts, and the inference is that nothing much seems to be happening. In truth, a great deal is happening (Table 33.1).

Each row in Table 33.1 relates to a separate study, and each row illustrates the fundamentally dynamic nature of poverty. Take Andhra Pradesh, for example: 14 percent of people in villages studied there came out of poverty over the 25-year period 1979–2004, but another 12 percent fell into poverty over that period. Overall, only a 2-percent reduction in poverty resulted, but a total of 26 percent of all households experienced a change in their poverty status. Similarly, large movements have been experienced elsewhere. The net change in poverty was only 9 percent in the Ugandan villages studied, but 39 percent of people fell into or came out of poverty.

poverty line. For instance, in Uganda, only one-third of households that fell into poverty during the 15-year period 1979–94 were able to escape from poverty over the next 10 years. The remaining two-thirds were still poor when investigations were conducted in 2004. Meanwhile, an additional 11 percent of households had fallen into poverty, further adding to the ranks of the poor in these communities.

Movement reconstitutes the profile of people in poverty. Who is poor at the end of a period is considerably different from who was poor at the beginning. "The poor"

Table 33.1 Households escaping from and descending into poverty, 1979–2004

Region, country: Number of communities, households	Share of total (%) Escaped poverty	Share of total (%) Became poor
Rajasthan, India: 35 communities, 6,376 households	11	8
Gujarat, India: 36 communities, 5,817 households	9	6
Andhra Pradesh, India: 36 communities, 5,536 households	14	12
Western Kenya: 20 communities, 1,706 households	18	19
Central and western Uganda: 36 communities, 2,631 households	24	15
Cajamarca and Puno, Peru: 40 communities, 3,817 households	17	8
North Carolina, United States: 13 communities, 312 households[a]	23	12

Source: Compiled by the author; for individual research papers and results, see <www.pubpol.duke.edu/krishna>.
[a]Over a 10-year period.

is a swiftly changing and diverse collection of people, with subgroups that are traveling in opposite directions. For this reason alone, it is difficult for all who happen to be poor at some moment in time to consider themselves part of some collective-action group; but there is also another reason related to the different factors that are associated, respectively, with movements into and out of poverty. Escaping poverty and falling into poverty are not symmetric in terms of their underlying causes. As a result, two separate sets of policies are required to address these two issues. Those countries that have adopted both sets of policies are also the ones in which poverty has been reduced to single digits. Other countries have been less successful.

Asymmetric Reasons for Escape and Descent

Ill health and high health care costs are associated with the majority of descents into poverty studied. In low-income regions, such as rural Rajasthan or urban Nairobi, as much as in high-income areas, such as North Carolina in the United States, the majority of households that became poor faced one or more serious illnesses (or injuries) in their family. Other people, who were poor constantly, also faced one or more episodes of debilitating ill health. Ill health imposes a double whammy—high treatment costs together with loss of earning power—and it has the most influence on becoming poor in all regions underlying this study, including Gujarat, a state with economic growth rates of 9 percent and higher. Ill health is an equally critical factor in descent into poverty in areas of Kenya, Peru, and Uganda. The positive influences that families experience when new earning opportunities come their way are nullified when health care expenses take a bigger bite out of the household budget. Other factors also matter, but nowhere do these factors matter as much as or more than ill health (Table 33.2). Researchers comparing trends across multiple, diverse countries have concluded, similarly, that a "medical poverty trap" is driving thousands into poverty. Thousands of families are living one illness away from poverty, and thousands have become deeply indebted on account of health-related costs.

Escaping poverty is responsive to an entirely *different* set of reasons than those related to a descent into poverty (Table 33.3). Developing a new income source is the most important factor associated with successful escapes. Jobs in the government and private sectors are important for this purpose, but they are not always quantitatively the most important reason for escape. Diversification within agriculture has been more important in several regions, and new sources of income from the urban informal sector constituted the primary reason for escape in other regions. About three-quarters of all escapes examined through the research underlying this chapter were associated with income diversification through informal-sector occupations and agriculture.

Assistance in the forms of education, transportation and communication links, agricultural infrastructure, irrigation, and regular receipt of information about

Table 33.2 Principal reasons for households' descent into poverty

	Share of descending households (%)					
Reasons	Rajasthan, India	Gujarat, India	Western Kenya	Andhra Pradesh, India	Central and western Uganda	Puno and Cajamarca, Peru
Poor health and health-related expenses	60	88	74	74	71	67
Marriage / dowry / new household–related expenses	31	68		69	18	29
Funeral-related expenses	34	49	64	28	15	11
High-interest private debt	72	52		60		
Drought / irrigation failure / crop disease	18			44	19	11
Unproductive land / land exhaustion			38		8	
Number of observations	364	189	172	335	202	252

Source: Compiled by the author; for individual research papers and results, see <www.pubpol.duke.edu/krishna>.

Notes: These percentages sum to more than 100 because more than one reason was involved in most cases. The data come from a household questionnaire on which the household head was asked to recall the events that caused him or her or household members' poverty status to decline. The list of reasons offered to the household head to choose from came from a prior discussion with an assembled community group as to the circumstances that had caused households to descend into poverty. Blank cells indicate that a given reason was not offered to households in this indicated community.

Table 33.3 Principal reasons for escaping poverty

	Share of escaping households (%)					
Reasons	Rajasthan, India	Gujarat, India	Western Kenya	Andhra Pradesh, India	Central and western Uganda	Puno and Cajamarca, Peru
Diversification of income	70	35	78	51	54	69
Private-sector employment	7	32	61	7	9	19
Public-sector employment	11	39	13	11	6	10
Government/NGO assistance	8	6		7		4
Receipt of irrigation	27	29		25		
Number of observations	499	285	172	348	398	324

Source: Compiled by the author; for individual research papers and results, see <www.pubpol.duke.edu/krishna>.
Note: These percentages sum to more than 100 because more than one reason was involved in most cases. The data come from a household questionnaire on which the household head was asked to recall the events that had caused him or her or household members' poverty status to improve. The list of reasons offered to the household head to choose from comes from a prior discussion with an assembled community group as to the circumstances that had caused households to escape poverty. Blank cells indicate that a given reason was not offered to households in this indicated community.

opportunities available are regarded by the people involved as important for facilitating their escapes out of poverty. On the other hand, the subgroup of the newly poor, having faced different experiences, prefers to have very different types of policy supports—most notably, better health care. Consequently, their demands from the state are quite different from those of the upwardly mobile subgroup of poor people. One study conducted in early 2004 in 36 villages of Andhra Pradesh, India, shows that putatively similar demands of "the poor" diverge significantly across different subgroups. All households in these villages were classified within four mutually exclusive subgroups: those who were poor 7 years ago and also poor in 2004 (the persistently poor), those who were poor 7 years ago but had since escaped from poverty (the formerly poor), those who were not poor 7 years ago but had since fallen into poverty (the newly poor), and those who were not poor at either point in time (not poor). Hence, apart from the not-poor subgroup, members of the other subgroups could be included, at one time or another, in the omnibus category "the poor." More than 1,000 adult residents were selected for interview using random sampling. A list of major demands had been constructed and pilot-tested earlier. Respondents were asked to rank these demands in order of priority.

People belonging to the different subgroups are not very different in terms of gender, age, caste, religion, or education. But their demands from the state vary considerably across these subgroups. Wage labor is the most important demand of the persistently poor. As many as 46 percent of respondents in this subgroup rated this demand among their top three priorities, but only 8 percent of the newly poor and only 5 percent of the formerly poor considered this demand among their top three priorities. Better health care services constituted the top demand of respondents from the newly poor subgroup, as could be expected given that ill health was the most important reason associated with their impoverishment. The largest group of newly poor respondents, 34 percent, regarded health care services as a critical demand from the state. However, only 8 percent of persistently poor respondents and only 7 percent of formerly poor respondents considered health care their key demand from the state.

Housing support was another key demand of newly poor respondents, but relatively few respondents from the other two subgroups—fewer than 10 percent in all—considered housing support among their top three demands from the state. Members of the third subgroup, the formerly poor, had still different demands. Irrigation, high schools, and jobs are their most important demands. These were the means that had helped lift members of this subgroup out of poverty in the past, and these were their key demands in the present as well. These highest-priority demands of the formerly poor subgroup ranked quite low, however, among members of the other two subgroups. Hence, because they face different opportunities and have experienced different threats, different subgroups of the poor have quite different demands from the state, making it even more difficult to organize poor people for collective action.

Conclusion

Net poverty reduction occurs at a sluggish pace not because there is no movement out of poverty. Rather, it is a result of two large and frequently offsetting trends: large numbers of people are falling *into* poverty even as large numbers are making their escape. Until poverty *prevention* is more effectively targeted, poverty reduction will be, at best, a transient gain. These aspects of poverty's fundamentally dynamic nature have come to be understood only quite recently as a critical mass of studies has emerged to track households and individuals over time and examine movements in and out of poverty. As a result, it is now known that many poor people—the majority in some cases—were not born poor, nor have they always been poor. Many have become poor within their lifetimes. On the other hand, many others who were poor in the past have risen out of this state in recent times, and yet others are on the cusp of escaping poverty.

Disaggregating the poor into these constituent subgroups serves a number of important functions. First, it facilitates a better understanding of the sources of poverty, in particular allowing us to consider how poverty is freshly created and how such new creation can be controlled more effectively. Such a disaggregated view aids in the design of more cost-effective policies. It may prove less expensive to increase protective measures that prevent the creation of poverty rather than to invest in poverty relief only after people have fallen into poverty. How much, for instance, does a government spend on housing and other welfare assistance compared to what could have been saved earlier in the process through better medical coverage? Second, considering different subgroups provides a more nuanced and ultimately more useful means for analyzing the politics of the poor. It shows that requirements of the state depend not so much on where households lie on the income scale at any given moment but on the direction in which they are moving. Two households with the same level of income or wealth cannot be assumed to have similar interests; if one has fallen into poverty while the other is persistently poor, their interests will more likely diverge than be similar.

For all of these reasons, it is useful to examine poverty not as it is often visualized —that is, as a somewhat homogeneous mass—but as it really is: as an inconstant, internally differentiated, and fluid collection of individuals who are moving in different directions at the same point of time. "The poor" is merely a figure of speech. Those to whom it refers have different identities and interests, as well as distinct trajectories vis-à-vis poverty. Policymakers will do well to address separately the disparate requirements of different subgroups. Assisting escapes from poverty has always been and should remain an important pillar of policy, but assistance is required equally urgently to prevent descents into poverty. Efforts to move more people out of poverty—through job creation in the formal and informal sectors, irrigation, education, and the like—will need to be accompanied by parallel efforts to prevent or at least slow descents into poverty. Governments and other helping entities should not wait until someone arrives in poverty to provide assistance. Acting pre-emptively is not only better; it may be the only way to overcome poverty comprehensively. Dealing more successfully with health care will be of primary importance in this regard.

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Chapter 34

Economic Exclusion and Poverty Linkages: A Reflection on Concept, Consequences, and Remedies in an Asian Context

Sukhadeo Thorat

There is exclusion on the basis of race, religion, color, gender, or ethnicity in many nations under diverse social, economic, and political systems. Such exclusion is a problem in several countries in Asia. And although many Asian countries—such as China, India, Japan, Malaysia, Nepal, New Zealand, Pakistan, and the Philippines—have developed equal opportunity policies to overcome economic discrimination, the nature of both market- and non-market-related discrimination is still not well understood, and neither are its direct and indirect effects on poverty. The limited number of studies on exclusion in Asia has affected the development of appropriate policies to overcome discrimination and its impact on poverty.

This chapter presents the argument that market- and non-market-related forms of discrimination directly affect poverty but also exacerbate it indirectly by reducing economic growth. The chapter highlights the need for socially inclusive policies; offers an analysis of the consequences of discrimination through the historical example of scheduled castes in India; and indicates potential policy options to redress exclusion and its effects.

The Concept of Economic Exclusion and Its Relationship to Poverty

Broadly speaking, social exclusion can be defined as “the process through which individuals or groups are wholly or partially excluded from full participation in the society within which they live." The concept rightly focuses on both the processes by which social and economic institutions exclude groups and the multidimensional nature of the adverse consequences experienced by those who are excluded.

Social exclusion is group-based in nature. Economic exclusion or discrimination affects whole groups in a society, independent of the income, productivity, or merit of individuals within the group. Anyone can be excluded from access to markets because of lack of income, from access to employment on the grounds of low productivity, or from admission to educational institutions on the basis of lack of merit. In the case of group-based exclusion, however, the basis for exclusion is group identity and not the economic or productive characteristics of a specific individual. Although exclusion results in the denial of economic opportunities—such as access to capital assets, development of skills, and education—the originating cause is not lack of income, productivity, or merit but rather the individual's group identity.

It is quite clear that insofar as exclusion and discrimination involve the denial of access to resources, employment, education, and public services, they certainly impoverish the lives of excluded individuals. Economic theory also implies that such discrimination can hamper economic growth by reducing efficiency. Labor market discrimination causes less than optimal allocation of labor among firms and sectors (given that those who are discriminated against receive a lower wage than the marginal product of their labor), and it reduces the effort expended by workers who perceive themselves to be discriminated against. Discrimination also results in inefficiency by reducing the magnitude of investments in human capital by groups discriminated against and by reducing the return to any human capital investments they make. Discrimination is thus a concern not only for equity but also for economic growth, and in this way it affects poverty both directly, by adversely affecting the income distribution, and indirectly, by affecting economic growth. Moreover, discrimination can also lead to intergroup conflict by exacerbating existing inequality and contributing to its perpetuation from one generation to the next.

The Need for Socially Inclusive Policies

Conclusions regarding the consequences of market discrimination for economic growth and income distribution are derived from mainstream economic theory of market discrimination, which also predicts that in highly competitive markets, discrimination will prove to be a transitory, self-correcting phenomenon because market discrimination comes at a cost to employers and firms, eroding their profits and acting as a deterrent.

The free market solution, however, is not a final and practical remedy for a number of reasons. For example, market discrimination will prevail in a competitive equilibrium if social norms ensure that all employers are discriminators. This is the likely reality, for the persistence of labor market discrimination in high-income countries over decades attests. In the absence of interventions, markets will continue to operate imperfectly, and discrimination will persist. Interventions are thus called for in the form of legal safeguards and policies that ensure fair and equal access and redress long-standing inequities through affirmative action and other measures. Given that excluded groups face discrimination through many market and nonmarket channels, policy interventions are required in the provision of social services and in various markets, such as those for land, labor, capital, and produce.

A Focus on Castes in India

Although exclusionary practices are evident throughout Asia—for example, in the treatment of ethnic minorities in Laos and Vietnam and religious minorities in Central Asia—this chapter focuses on one example of exclusion, the case of scheduled castes in India. This is a useful example because the Indian government has taken significant action to reduce the incidence and impact of exclusionary policies against scheduled castes, so a discussion of the policies introduced in India provides some indication of the types of interventions that can be used to combat social exclusion.

The Present Social and Economic Conditions of Scheduled Castes

The caste system is based on the division of people into social groups whereby each group's occupations and property rights are inherited. The assignment or division of occupations and property rights across castes is unequal and hierarchal, with some occupations considered socially inferior. Castes at the top of the order enjoy more rights at the expense of those located at the bottom. The caste hierarchy is maintained through a system of social and economic penalties that are philosophically justified and supported by elements of the Hindu religion.

It is important to recognize the uniqueness of caste discrimination. The caste system involves exclusion and discrimination in multiple market and nonmarket transactions and societal interactions. Exclusion for scheduled castes (those at the very bottom of the caste hierarchy) may involve

1. limited access to markets such as those for labor, agricultural land, inputs, capital, goods, and social services;

2. differences between prices charged to or received from them in market transactions;

3. exclusion from certain categories of jobs and discrimination in hiring;

4. exclusion from the sale of certain consumer goods such as vegetables or milk due to the notion that scheduled castes are considered impure or “polluting”;

5. discrimination in the use of public services such as roads and bodies of water; and

6. physical or residential exclusion that prevents contact with other community members and full participation in community life.

Some statistics illustrate the multifaceted nature of this discrimination and its impact (Tables 34.1 and 34.2). SCs (members of scheduled castes) have a lower average level of expenditure than those in other castes, resulting in a rural poverty rate of 35 percent among SCs compared with 21 percent among those in other castes and an urban poverty rate of 39 percent among SCs compared with 15 percent among other castes (Table 34.1). (The poverty rate has been estimated by using the poverty line fixed by the Planning Commission of India.) Individuals from scheduled castes

Table 34.1 The incidence of poverty and access to markets among scheduled castes

Indicator	Scheduled castes	Others
Poverty		
Rural poverty incidence (% of households)	35	21
Urban poverty incidence (% of households)	39	15
Average monthly per capita consumption expenditure of rural households (rupees)	418.51	577.22[a]
Average monthly per capita consumption expenditure of urban households (rupees)	608.79	1,004.74
Landownership		
Landless (% of rural households)	10.00	n.a.
Own land but less than half an acre (% of rural households)	65.00	n.a.
Employment		
Self-employed in agriculture (% of rural households)	16.40	41.10
Receive a regular wage/salary (% of urban households)	27.30	35.50
Employed in agricultural wage labor (% of rural households)	51.40	19.00
Employed in casual labor (% of urban households)	26.50	7.40
Unemployment rates based on the current daily status (%)	5.00	3.50
Average weekly wage earning (rupees per week at 1993–94 prices)	174.50	197.05

Sources: *Employment/unemployment Survey, 1999–2000,* and *Consumption expenditure survey, 55th round, 1999–2000* (New Delhi: National Sample Survey Organization, Central Statistical Office, 2000).

Notes: “Others” is net of scheduled castes and tribes and thus excludes scheduled castes and scheduled tribes. All statistics are estimated for the year 2000. The poverty line used is that fixed by the Planning Commission of India. n.a., not available.

[a]Estimates are based on 1999–2000 National Sample Survey employment data, calculated by A. Dubey, in “Note and statistical tables on social groups” prepared for the U.K. Department for International Development (DFID) (New Delhi: DFID, 2003).

Table 34.2 Health indicators for women and children

Indicator	Scheduled castes	Others
Infant mortality (per 1,000)	83.0	62.0
Mortality of children less than 5 years old (per 1,000)	119.0	82.0
Proportion of children more than 3 standard deviations below the average weight for their age (%)	21.2	13.8
Proportion of children more than 2 standard deviations below the average weight for their age (%)	53.5	41.1
Women with anemia (%)	56.0	48.0
Women receiving antenatal checkups (%)	61.8	72.1
Infants delivered at home (%)	72.1	59.0

Source: National Family Health Survey, 1998–99 (Central Statistical Office, New Delhi).
Note: "Others" refers to nonscheduled/nonbackward castes and nonscheduled tribes.

are less likely to own land or any productive assets to enable self-employment; they are more likely to depend on casual wage labor for income, resulting in higher levels of underemployment; and, when they are employed, they receive lower average wages than their non–SC counterparts.

Historically, in addition to being excluded from property rights, SCs have also been denied rights to education. High dropout rates, poor-quality education, and discrimination in education are some of the problems children from scheduled castes have faced. As a result, there are large gaps in literacy rates and education levels between children of SCs and those of other castes. In 2001 (the last census year for which data are available), the literacy rate among children of SCs was 54 percent, whereas among children of those not in scheduled castes or scheduled tribes it was 68 percent.[1]

Data from the 1998–99 National Family Health Survey also reveal a wide gap between SCs and other castes in health status and access to public services (Table 34.2). The rates of infant and child mortality are much higher in scheduled caste households than in others, and the levels of women's health and childbearing are much worse (perhaps a contributing factor). The extent of malnutrition and undernutrition among children of SCs is also much greater than among children of other castes.

Policies and Strategies for Combating Exclusion

Despite the continued discrimination against SCs, the level of discrimination they face has in fact declined over time and as a result of their access to income-earning assets, and their employment has improved. The self-employment rates among SCs suggest that about one-third of scheduled caste households in rural and urban areas have acquired access to capital assets from which they were traditionally prohibited. The literacy rate improved threefold from 1961 to 2001, rising from 10 to 54 percent. Assessed against the background of the traditional restrictions facing SCs in the ownership of capital assets and education, these were gains indeed. The cumulative impact of this and other improvements is reflected in the decline in rural poverty among SCs, from 59 percent in 1983/84 to 35 percent in 1999/2000. The government of India has been proactive in addressing exclusion and undertaking policies to foster social and economic empowerment among SCs. These efforts have had some success, but, as previously suggested, they have not fully addressed exclusion. Although the caste economy has undergone changes, some of its traditions persist. In order to reduce the disparities between SCs and those from other castes, improvements in asset and income levels among SCs need to take place more quickly. This, however, is not the case: calculations by both Dubey and de Haan indicate that although poverty fell among SCs between 1983 and 2000, the rate of reduction was lower for SCs than for those from other castes (–2.50 percent per year compared with –3.02 percent per year).

With this in mind, it is instructive to consider the policies implemented in India. The government's approach draws mainly from provisions of equality for SCs laid out in the constitution and has been influenced by two desires: to overcome the multiple deprivations that SCs inherited from their past exclusion and to provide them with protection against ongoing exclusion and discrimination. The result has been a twofold strategy that includes the following:

1. *Anti-discriminatory or protective measures.* The Protection of Civil Rights Act (1955) and the Prevention of Atrocities Act (1989) outlawed "untouchability" and other forms of discrimination in public places or in the provision of public services and provided legal protection to SCs in the event of acts perpetrated against them by members of higher castes. The practice of reservations in government services, state-supported educational institutions, and various democratic bodies also falls into this category. Reservations are used by the government to ensure proportional participation of SCs in public spheres.

2. *Developmental and empowerment measures.* In the absence of legal affirmative action policies in the private sector, the state has used general programs to promote the economic, educational, and social empowerment of SCs. These measures have been primarily undertaken as a part of anti-poverty programs that target or fix specific quotas for SCs where possible, as follows:

   - Programs for economic empowerment include measures for increasing SC ownership of capital assets; enhancing the business capabilities and skills of SCs;

distributing surplus land to landless scheduled caste households; subsidizing credit and input provision to SC households; providing employment generation schemes to address the lack of employment opportunities for SCs in the lean season; and supporting the release and rehabilitation of bonded laborers.

- Educational development programs comprise about half of the central government's spending on SCs. These programs include improvements in educational infrastructure in the form of hostels and support for educational institutions educating scheduled caste students, admission of these students to educational institutions through quotas and other measures, financial support for their education at various levels, and remedial coaching for boys and girls from scheduled castes. Under all of these schemes, girls are given particular attention.

- Additional schemes focus on improving SC access to civic amenities such as drinking water, housing, sanitation, electricity, roads, and public food distribution, because SCs often live in segregated residential areas with unequal access to these civic amenities.

Although SCs are represented in parliament through reserved seats, it is perceived that they have not been able to effectively participate, contribute to decision-making processes, or monitor program implementation. The paucity of the studies on the role of government representatives from scheduled castes makes it difficult to understand the reasons for this. Isolated research indicates that problems stem in part from the presence of numerous fragmented political groups, limited understanding of the complexity of the issue and its required policy response, and the absence of institutional support to enhance the capacity of representatives to effectively participate in political decisionmaking.

Similar constraints to effective participation are also observed in civil society. Although there have been many civil society initiatives targeting SCs and many of them have rich grassroots knowledge (some even receive selective support from the government), their effectiveness in bringing about change is limited by their lack of access to resources, knowledge of appropriate working methods, and connections to those with influence.

A Call for Research to Develop Inclusive Policies

Given the importance of exclusion in aggravating persistent poverty, the need for action in this area, and the lack of clear insight on how to effect such action (particularly in the Asian context), research on these issues needs to be undertaken.

Systematic studies would support the development of appropriate policies. In particular, research should be undertaken on the following:

1. *The structural context of exclusion.* Further theoretical research is needed on the institutionalization of exclusion associated with caste, ethnicity, religion, color, and other forms of group identity; the effects of such forms of discrimination on economic growth, poverty, and governance; and the remedies against discrimination and deprivation.

2. *The nature and dynamics of exclusion.* There is a gap in the empirical research on the economic, social, and political conditions of excluded groups and the forms and dynamics of market discrimination (in land, capital, employment, product, input, and consumer markets) and nonmarket discrimination (in the provision of social services and in public institutions and political bodies).

3. *The consequences of discrimination.* Further empirical research is needed on the poverty consequences of discrimination and the resulting effects on excluded groups in terms of their access to livelihood opportunities, markets, services, and political institutions.

4. *Policy interventions.* Further research is needed to analyze the impact of public policies intended to combat exclusion and alleviate its impact on poverty. Such research must incorporate scientific analyses of interventions undertaken in Asia to empower marginalized groups in the economic, educational, political, and sociocultural spheres, as well as analyses of civil society initiatives, issues relating to implementation and governance, and policy experiences in other countries.

5. *Collective action.* Research is needed on effective forms of collective action by deprived groups and other segments of society—such as political parties, social organizations, and nongovernmental organizations—in striving to secure human rights.

Conclusion

Although the purpose of this chapter has been to highlight the direct and indirect effects of economic discrimination on poverty and the need for socially inclusive policies, above all the chapter draws attention to the current paucity of knowledge on the full impact of discrimination and how this knowledge gap can be effectively addressed. Studies on these issues, as outlined earlier, are a necessary foundation for the development of appropriate policies to combat discrimination and reduce the poverty associated with it.

Note

1. Scheduled tribes are specific indigenous peoples whose status is acknowledged to some formal degree by the constitution of India. Those from scheduled tribes, together with SCs, are often known as "untouchables."

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Chapter 35

Building a More Gender-Just and Equitable Society: Overcoming the Internal Contradictions to Self-Governance

Neelima Khetan and Ajay Mehta

This chapter is about creating opportunities for men and women to build more just relationships and about transforming oppressive governance arrangements. The insights in it are derived from the experiences of Seva Mandir, a grassroots nongovernmental organization (NGO) in India that has been working closely with women and indigenous people for the past 40 years. The emphasis in our work has been to enable communities and women to play a more central role in dealing with their problems.

The question of the inclusion of women is not new; over the past couple of decades, efforts have been made, both internationally and within India, to include women in social and political processes. These efforts have attempted to boost women's inclusion by building their capacities or by instituting affirmative action of various kinds. India can boast of some bold actions in this direction; the latest (now nearly 15 years old) is the reservation of one-third of the seats on all local councils for women, the third tier of Indian democracy. As a result of this provision, close to 1 million women hold elected office. Several civil society groups have also been active in promoting the cause of women's inclusion through the state. Civil society groups have driven the creation of Women's Development Agencies, the focus on women's rights to their bodies, and the environmental agenda (given that the degradation of the environment severely affects women, who bear most of the costs of fuelwood, fodder, and water shortages).

On the whole, however, these interventions have not led to the kind of results that had been hoped for. In India the ratio of females to males is falling and is cause for serious concern. The gap between literacy levels for boys and girls is still large, and there is evidence of violence against women on a pervasive scale. The rates of maternal and infant mortality in Rajasthan, and in the country as a whole, continue to be high.

Affirmative action in the field of politics has gained unprecedented spaces for women in the public sphere. According to a 2004 study conducted by Seva Mandir in West Bengal and Rajasthan, this shift has led to a distinct gendered prioritization of development expenditures. This observation is significant given that most people believe that women who hold elected office are proxies for men. Yet the increase in women officeholders has not led to an alteration in the character or functioning of these institutions. The local councils continue to be populist in perspective, riddled with corruption, and given to dealing with the concerns of the poor on terms that reinforce their dependency. Inclusion of women in a power structure that alienates and disengages the broad mass of poor and marginal people is not enough to bring about greater fairness and equality within society.

Seva Mandir's work and experience at a micro level also suggest that state- and policy-centered efforts to empower and benefit marginalized groups have not had a significant impact. The existence among both men and women of widespread malnutrition, low rates of literacy and immunization, pervasive poverty, and poor indicators of all-around health suggest an overall failure of governance, the state, and civil society. Even where policy spaces have been created for poor people and women to participate (and several such policy spaces have been created during the past two decades), the response has been muted. According to data collected from the region in which Seva Mandir works by the Jameel Poverty Action Lab (J-PAL) at the Massachusetts Institute of Technology in 2003, although 81 percent of women voted in local council elections, fewer than 2 percent attended the general body meetings of these councils. Men's participation was somewhat greater, with 87 percent of men voting and about 20 percent turning up for meetings. The women's low turnout can be attributed to social structures that inhibit women's mobility, even after the radical affirmative action for women on these councils. It points to the limitations of the affirmative action lever to improve broad-based women's inclusion. The case of greater inclusion of minority populations in forest management is similar. After 15 years of a policy giving joint rights of ownership of forests to local and indigenous communities, the response has been muted. Several other such schemes designed around improving the participation of poor people and women have had equally unexciting results.

Likewise, the provisioning of public goods is rife with dereliction and corruption. The J-PAL study found that on any given working day, the government-run health subcenters in Seva Mandir's working areas were closed 56 percent of the time. A nationwide study on the functioning of primary schools conducted by the World Bank found that teacher absenteeism averaged 25 percent. More disturbing is the fact that even when schools are open, very little teaching occurs and the learning levels of children attending schools are consequently low. Dereliction of duties is not confined to public servants but is also evident among teachers drawn from the community to run community-managed schools. In a J-PAL survey of nonformal education centers supported by Seva Mandir and run by individual communities, it was found that on any given day 36 percent of the teachers were absent. In spite of a decentralized governance system and enabling mechanisms such as the Right to Information law, India continues to experience high levels of absenteeism among health and education personnel, along with extensive corruption. The spectatorship of the poor in the face of corruption or complicity in poor governance—such as irregularity among service providers and in land management—points to a deeper malaise. Although the role of powerful agents such as state officials in this dereliction and poor governance is undeniable, the poor also contribute to their own sense of powerlessness by looking on the drama unfolding around them as a *tamasha,* or "spectacle," that is removed from their powers of agency.

It may be possible to argue that one reason for the failure of all these efforts lies in the fact that the poor's own ability to make use of these spaces has become attenuated. Civil society has found it difficult to acknowledge that the vitality ascribed to the deprived is circumscribed by their own internal contradictions and the dominant trends that foster dereliction, spectatorship, envy, and power-broking tendencies. The lower one is in the power structure, the greater the necessity to accommodate oppressive social relations. In this situation women themselves choose to go for sex determination tests and abortions, further contributing to the declining ratio of females to males. The overall conditions of life also lead to the brutalization of men and the creation of self-demeaning ways of escaping the tensions of their lives (for example, as documented by Shankar Ramaswamy, sexist humor pervades the factory floors in the Delhi slums even as these men search for relationships of true companionship with women). These conditions have adverse consequences not only for women but also for men.

Creating spaces where women and men can overcome these negative power relationships goes beyond policy and requires poor people to practice and experience their own agency in the struggle against the oppressive and disempowering nature of their present context.

Sometime in the mid-1980s Seva Mandir recognized that its strategy of enhancing the capabilities of men and women was not enough to improve their well-being. Nor was it enough for them to organize themselves to demand entitlements from the state. For the most part, the state was not geared to respond meaningfully to their demands, and when it did, it would reproduce the patron–client relations endemic to the functioning of India's democracy. Furthermore, the strategy of collective action, when it did succeed, often required the intervention of Seva Mandir at higher levels of the bureaucracy or political hierarchy. This approach seldom affirmed the confidence of village group members in their own autonomous capacities to bring about change through pressure or persuasion. They realized that so much depended either on the clout of their village leaders vis-à-vis their political patrons or on Seva Mandir, an organization staffed by educated people with connections in high places.

Over time Seva Mandir recognized the limitations of this strategy of collective action focused on an outside body to deliver development, and it changed tack. It adopted a strategy that attempted to locate greater autonomy for action and deliberation within local groups. At the time, the reasons for doing so were crudely to promote bottom-up planning and an empowerment approach to development, but in hindsight the new strategy appears to have created a context in which local people could learn to overcome their own internal contradictions in their struggle for a better future.

This approach required Seva Mandir to have at its command resources and professional capacities to help villagers meet their own development needs and aspirations for a better society and to govern themselves. These development needs included improving the natural resource base on which peasant livelihoods depended and improving access to primary schooling, preschool childcare facilities, public health care services, and livelihood opportunities specifically for women. Eventually this strategy succeeded in creating a large set of new opportunities for village communities and individuals. More than an increase in opportunities, this strategy promoted a discourse among people on the common values and practices essential to build more dignified livelihoods and social arrangements in their communities.

This new strategy proved a significant learning experience for Seva Mandir as well as for the villagers. Contrary to expectations, the villagers did not make large demands for development. The large tracts of common property vested in statutory bodies such as the Forest Department and the village councils could not be taken up for development because these had been informally privatized. The process of getting encroachments vacated was slow and required sustained and deep discussions within the village communities. As a result of these deep consultations at the village level, not only did people, both powerful and poor, give up encroachments but there was an affirmation of the value of villagers' discussions and decisions not to accept unfair practices that violated the interests of the community as a whole. In this climate the space for correcting discrimination against women also expanded.

The story of Savita Devi, a village woman, illustrates the transformative potential of opportunities for self-governance. Her story also demonstrates the critical importance of people's coming together to affirm each other. Finally, her story shows the ephemeral quality of the changes under way and the enormous work that needs to be done to realize the desire of ordinary people to strive toward deeds worthy of respect.

Savita Devi, born into a tribal family in the tribal region of southern Rajasthan, was one of 10 siblings. Although her parents did not encourage her to go to school, she studied through the fifth standard on her own initiative. None of her five sisters and four brothers went to school. Soon after she finished the fifth standard, she was married and started living with her husband, Heeralal, in the village of Naya Khola, 82 kilometers from the city of Udaipur. Naya Khola has 175 households, most of which consist of tribal people. The monthly per capita consumption of tribals living in Naya Khola is around Rs 215 per month. The average level of self-reported literacy in the area is 27.5 percent for men and 5.5 percent for women.

Subsequent to her marriage, Savita did not give up her schooling. With the encouragement of her husband, she enrolled in a Seva Mandir–run informal education center. Her efforts at school made her one of the few formally educated members of her community. Her husband also encouraged her to participate in village meetings, often held in their home, to discuss community welfare matters. This exposure brought Savita into public life. She played an active role in mobilizing women in her village to prevent the theft of wood from their village forest. To prevent women from the neighboring villages from trespassing in their forest, Savita, with the help of 40 other women, guarded the forest every day for more than a year. In 1995 Savita Devi was elected the ward *panch,* or leader, of her village council unopposed. In this capacity she gained confidence and led many campaigns to prevent the sale of liquor during the daytime. In 1998 Seva Mandir trained her to become the local health worker.

Despite the presence of an active group of villagers and bold and able leaders like Savita Devi, however, development was slow to come to Naya Khola. The people of the village grew frustrated and became disenchanted with leaders like Savita. In 2000 Savita stood for election as the village council head but lost by a margin of six votes. One village male said, "We have always been behind our women. Neither sex is more important that the other. Both have to support each other. We have also done a lot of work together to protect our forests. Now Seva Mandir should help us earn some extra income."

In 2004 a long-standing proposal to afforest the village forest land in collaboration with the Forest Department was finally approved under a government scheme called Joint Forest Management. Getting this project approved was no small achievement for the village of Naya Khola. Obtaining permission from the Forest Department to rehabilitate this degraded site involved a long, drawn-out struggle on the part of the local federation of Forest Protection Committees, of which Savita was one of three women officeholders. Only with great reluctance did the Forest Department agree to share land for rehabilitation with the local Forest Protection Committees. This agreement meant that the land in question was freed from encroachments, and the villagers decided to create a community forest there. Seva Mandir facilitated the process by providing technical guidance and funds for raising saplings in nurseries, building a boundary wall to enclose the site, and paying wages for the digging of pits and the planting of saplings.

While payments were being made as plantation work was under way, Seva Mandir workers discovered that a key and highly respected village forestry worker, a tribal from a nearby village, had claimed excessive payments for himself and his brothers. Although he had raised and planted 10,000 saplings, he claimed to have raised and planted 40,000 plants. Savita Devi, who was to verify the actual number of saplings planted in her village, certified that this exaggerated claim was correct. When the fraud was uncovered, Savita admitted, much to her credit and showing rare courage, that she had indeed faltered and had been a spectator to this wrongdoing. She also confessed that her husband had been paid more wages than he was owed for work actually done.

Savita Devi's story reflects the enormous pressures under which people live and the difficulties of holding onto their own ethical sense and vision of a better future. Seva Mandir, despite its new strategy, could not provide constant reaffirmation for people like Savita and her husband in their struggles to work for a more just society. Savita Devi, a highly trusted and much admired local leader, had been co-opted and made complicit in corrupt practices, although she stands out for having the courage to admit to her mistake. For the struggle against corruption and discrimination to succeed, local communities need to activate and affirm this kind of ethically motivated and self-critical analysis.

Despite large investments by government and civil society institutions, the economic status and well-being of men and women in rural areas of southern Rajasthan has not improved significantly. There is still a large gap between men and women in terms of their levels of education, health, and overall status. The experience of Seva Mandir in addressing the persistence of mass poverty and the attendant lack of progress with respect to improving the lives of women provides some insights as to what is needed to improve gender inclusion and progress toward a more just society.

Knowing how to help people like Savita Devi and her husband Heeralal remain on an alternative path to development could be the key to empowering local communities and to making the larger systems of development more accountable. For gender inclusion to occur and for deprived people to be able to improve their status and gain autonomy for self-governance, opportunities for development must be expanded, as Seva Mandir tried to do. More important, the deprived must be enabled to help each other resist becoming complicit in their own disempowerment and to struggle to build just and ethical values in their communities. One important lesson then is that the bonds that bind microcommunities should not be based solely on securing mutual advantage but should be informed by values that reflect the nonhierarchical and nonexploitative society to which people aspire.

Another important lesson that one might draw from the experiences of Seva Mandir and the radical constitutional provisions for affirmative action reflected in the story of Savita Devi is that even as the gender gap in power is reduced, there is no guarantee that corruption and the self-aggrandizing tendencies of people with authority will decline. Similarly, as women catch up with men in terms of education and health, there is no reason to believe that they will have a greater sense of trusteeship in performing services (almost all the health subcenters at which absenteeism was in the range of 56 percent were staffed by women). Better governance and more motivated public servants are essential for gender inclusion, as they are for making society more caring and just, but achieving these goals requires interventions that deal not just with issues of sharing power and enhancing capabilities but also with the question of how people can be motivated to perform good acts.

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Chapter 36

Strengthening Women's Assets and Status: Programs Improving Poor Women's Lives

John Ambler, Lauren Pandolfelli, Anna Kramer, and Ruth Meinzen-Dick

Poverty and hunger cannot be conquered without meeting the specific needs of poor women. Like poor men, they lack the assets and income necessary to exit poverty, but chronically poor women and girls are also subject to a confluence of gender-based vulnerabilities that keep them trapped in poverty. Women have fewer benefits and protections under customary or statutory legal systems than do men, they lack decisionmaking authority and control of financial resources, and they suffer under greater time burdens, social isolation, and threats or acts of violence. Widowhood leaves women more vulnerable to chronic poverty, because a widow may lose her family assets and be forced to leave her husband's village upon his death.

This gender inequality fuels the intergenerational transmission of poverty. Girls systematically have fewer educational opportunities and thus lower lifetime incomes than do boys. In areas where there are few educational or income-earning opportunities for girls, they may be married as young as 13 or 14 years old. These child brides have a greater likelihood of early childbirth, resulting in serious health

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This chapter draws on C. Hufstader, Unlikely entrepreneurs changing Mali, *Oxfam Exchange* (Spring 2007): 10–11; C. Hufstader, Cecilia Reis and Redefining relations between men and women, *Oxfam America Annual Report* 38 and 18 (2006); and A. Ahmed, in collaboration with Taniya Sharmeen and Data Analysis and Technical Assistance Limited, Assessing the performance of conditional cash transfer programs for girls and boys in primary and secondary schools in Bangladesh, paper prepared for the World Bank, Washington, DC, April 2004.

consequences for both themselves and their infants. The HIV/AIDS pandemic also affects women and girls who are chronically poor and hungry. In many countries, women bear the greatest burden of caring for family members stricken with AIDS or replacing the labor lost because of deaths in the family.

But the poor are not all alike, nor are all women. Very poor women experience forms of economic, social, and political deprivation different from those experienced by men and other women. Interventions to improve the lives of very poor women must address the unique dimensions of women's poverty, as well as the local contexts in which women's poverty occurs.

When designing programs to reach poor women, distinguishing between short- and long-term interventions is important, as is discerning interventions that help women spread risk, prevent them from falling even further into poverty, and help them or their children escape poverty. Different combinations of interventions will also be needed at different points in women's lives, from birth to old age.

All interventions need to evaluate how gender norms will affect their success and how the interventions will affect gender norms. Ideally, interventions to improve the lives of women should seek to build both women's assets and their societal status in order to transform gender roles. These programs must make women the primary agents to transform their lives. The following successful interventions have adopted this two-pronged approach to respond to the needs and capabilities of chronically poor women. The first two cases show how building women's economic assets improves their social status, and the second two illustrate how strengthening women's status can promote asset development for them. The Bangladesh schooling program is led by the state, and the remaining programs are supported by Oxfam America and local civil society organizations.

Mali: Saving Money, Building Assets

In the village of N'Golofala, Mali, most people rely on their crops for food and income. Between harvests, farmers have little cash available. So Djouri Konaré, a mother of six, earns a little money preparing rice flavored with tomatoes and piment, a superspicy pepper, to sell on market day. With little cash available, Konaré used to have to borrow ingredients from a food dealer and repay him at whatever price he demanded at the end of the day. Her profits were slim. Konaré found a better option when the local nongovernmental organization (NGO) TONUS helped the women in N'Golofala form a savings group. They pooled their deposits of just a few cents a week and then loaned each other the capital to invest in small moneymaking ventures. This group is part of Oxfam America's Saving for Change microfinance program.

Since April 2005, in Mali Saving for Change has grown to some 2,200 groups with more than 55,000 women members from nearly 900 villages. Saving for Change serves the rural poor at the very bottom of the economic pyramid, with a particular focus on women. The interest that participants pay on their loans builds in the savings groups and stays in communities instead of being repaid to moneylenders or external institutions. Because there are transparent rules for managing the money, women have a safe place to save and flexible cash when they need it most. This feature is especially important for chronically poor women, because the money they save allows them to maintain their family's dignity in the face of shocks, such as the death of a family member and the need to pay for a funeral. This approach can address poverty on a large scale at low costs with local control and an easy-to-replicate format.

Djouri Konaré joined the savings group and borrowed enough to buy the ingredients for her small business at a better price than the food dealer's. After repaying her loan and interest, she can clear as much as US$65.00 a month—a good sum for a rural woman with few assets. Of the program's 26,000 outstanding loans in 2007, 99.8 percent were being repaid on time. Once a year the savings group divides up its assets according to how much each member has saved, and the women use these assets to invest, buy inputs for agriculture, or buy things for their families. From 2005 to 2007, groups in Mali have mobilized US$462,000 in savings, interest payments, fines, and the income from their collective group businesses. Of this amount, US$89,000 has been returned to members, generally just before the planting season when money is scarce. This year, Djouri Konaré's share of the group's savings was US$18.00, which she used to buy a sheep.

Because it is a locally controlled, self-replicating system, Saving for Change has taken root in places that are too unstable or unprofitable for formal financial institutions. Leaders from the trained groups go out and voluntarily form new groups in neighboring villages. Thirty percent of the groups are spontaneously formed in this way. Where even many microfinance programs may bypass the very poor, such savings-led programs offer the first step on a ladder of savings and credit. Malian women are also finding that the program's approach increases their visibility and representation within the community and the household and helps build their social capital. The savings program is thus an important entry point for improving women's status in society. Only a small percentage of rural communities in Mali are currently participating in the program, however, and significant scaling up is needed to reach more women.

Bangladesh: Keeping Girls in School

In Bangladesh, where girls from very poor households are less likely than others to continue their education after primary school because of higher school costs and longer commutes, the Female Secondary School Assistance Project (FSSAP) provides a stipend to girls who agree to delay marriage until they complete their secondary school certificate (SSC). The FSSAP was launched in 1993 with International Development Association (IDA) funding and entered its second phase (FSSAP II) in July 2002. FSSAP II covers one-quarter of rural Bangladesh, with an IDA credit of US$115.70 million and government of Bangladesh financing of US$28.93 million for the 5-year life of the project. In 2002, 5,837 secondary-level schools participated in FSSAP II. Of the 1.09 million girls enrolled in FSSAP schools in 2002, 90.1 percent (983,000) received the stipend.

One participant in the program, 18-year-old Selina, hails from Daragaon village in Habiganj district. Selina is the third child of a poor family of eight children. Her father, a retired guard for a tea estate, has a piece of land that he cultivates, but it is too small to support his family. Selina's father has always been eager to educate his children, but he could not afford to educate his two oldest children to the SSC level. The FSSAP made it possible for Selina to attend a high school about 5 kilometers from her home. She had to walk almost 2 kilometers each day to meet the school bus, and she used a part of the stipend to pay her bus fare. Commuting to school was hard for Selina, but she knew she had to maintain 75 percent attendance at school to receive the stipend so was seldom absent. Because of her regular attendance, she was able to improve her results every year. In 2000 Selina passed the SSC exam with a "B" grade.

At an annual cost of US$121.00 per student, FSSAP has been more successful in reaching girls from poor households than other such stipend programs because it uses geographic targeting, working in 119 rural *upazila*s distinguished by high poverty levels. None of the programs, however, provides a large enough stipend to cover the indirect costs of education, and thus nonpoor girls whose families can afford to supplement the costs of their education are overrepresented among project beneficiaries. Though the stipend helped, "it is impossible," Selina says, "for a very poor student to continue her study depending solely on the stipend." She suggests that the government should provide very poor students with books and school uniforms along with the stipend. Reallocating project funds to poor households only could allow for an increase in the amount of the stipend each girl receives.

Interventions to increase girls' schooling also need to respond to the specific needs of adolescent girls, such as by providing them with safe travel to schools and with clean and private latrines. When girls were asked what they most needed in their schools, they named proper sanitation facilities as their number one priority, because girls prefer to skip school during menstruation rather than share latrines with boys.

Safety-net programs like FSSAP respond to both the short- and long-term needs of very poor women and girls through a combination of immediate assistance (cash or food rations) and investment in girls' schooling. In fact, research has shown that educating girls is one of the most powerful investments a country can make in poverty alleviation, economic growth, and child nutrition.

Mozambique: Strengthening Women's Legal Rights

Cecilia Reis is one of more than 250 traditional healers in Maputo province who have been trained by the local organization MULEIDE (Associaçao Mulher, Lei e Desenvolvimento) to teach people about Mozambique's Family Law, which took effect in 2005. The law addresses a common injustice in Africa: when a husband dies, by tradition his house and fields go to his brother or parents, and thus his wife and children can be left without a home or an income. The new law raises women's status by allowing them to inherit property, to marry later (increasing the minimum age of marriage from 14 to 18), and to earn legal recognition for traditional marriages—the majority in Mozambique. Under the new law, women can make business decisions without a male relative's consent, and they can receive property in a divorce. The legal standing and rights provided under this legislation give women more security and options to earn a living. The freedom to marry later also means that Mozambican women have more opportunities for education.

This legislation, drafted by a women's coalition with support from Oxfam America, marks a huge step forward for the women of Mozambique. The challenge now is to teach all citizens about the new law and to build respect for it in places governed by a mosaic of local cultures and traditions. Seventy percent of women reside in remote rural areas of the country, and more than two-thirds of these rural women are illiterate.

To find an innovative solution to the challenge of informing women of their new legal rights, the women's coalition turned to traditional leaders like Cecilia Reis to transmit their messages because such leaders are trusted and respected. The approach is to use the very guardians of culture to help change it.

The impact of these interventions is under study, yet lessons learned from the Women's Legal Rights Initiative (sponsored by the U.S. Agency for International Development), which worked in 10 developing countries to shape legislation protecting women's rights, suggest that promoting local ownership of legal reforms and engaging government institutions and civil society organizations results in more sustainable reforms. These lessons, as well as those learned in Mozambique, will be applicable in other countries attempting to improve women's status through legal reform.

El Salvador: Countering Gender Violence

Tomasa Cosme de Lopez, holding her grandson, looks on as her husband samples her *dulce de panela.* Selling bags of these Salvadoran sweets has become a family business, and Cosme's husband now helps in the kitchen preparing the candy. This kind of equity is all too rare in El Salvador, where relationships between men and women can be strained by machismo and a legacy of violence from the 12-year civil war. Violence against women is particularly severe in this male-dominated country of 7 million. In 2003 there were 3,500 reports of domestic violence against women, including at least 25 women killed by their husbands. In a 2004 public opinion survey, more than half of those polled thought it was normal for a man to beat a woman.

Violence against women and girls has huge psychological and economic implications that make it especially difficult for poor women to escape poverty. Domestic and community-level violence may limit a woman's employment opportunities if, for example, her husband refuses to allow her to work outside the home or she is afraid to leave her homestead for fear of sexual harassment. Violence against women also accounts for significant amounts of lost productivity through absenteeism from work, impeding overall economic growth and discouraging investment.

To address the public safety of women and women's rights in El Salvador, a coalition of six organizations, including Oxfam America and local partners, launched a public education and advocacy campaign in 2005: Entre Vos y Yo, Una Vida Differente (Between You and Me, a Different Life). The campaign's goal is to reduce violence against women by increasing awareness of women's rights and calling on local governments and their employees (such as police officers and city bus drivers) to prevent violence against women. The campaign has created innovative ways to call attention to the problem, reaching large proportions of the country's population through the media, street theater, and other types of public demonstrations.

Although violence and poverty are intertwined, programs like this can work to ensure that poor women do not bear the additional burden of gender-based violence. Early studies of the El Salvador campaign show that it has been successful in increasing awareness of gender violence and generating new dialogue about women's status. For example, the campaign organized a series of "debate circles" in which more than 500 public officials participated in discussions about gender violence, women's rights, and public safety. Economic evaluations of interventions to prevent domestic violence suggest that investments like those made in the El Salvador campaign make economic sense because they are less costly than the domestic violence itself.

Conclusion

The efforts described here have a number of features in common. First, they begin with an understanding of the needs of very poor women, which often go beyond "economic" development or a single sector to include safety and the dignity of one's status as well as income and assets. These initiatives are emblematic of the multidimensional approaches needed to improve women's lives. Each case brought together multiple actors to address the complexity of the problems involved. The El Salvador program targeting violence against women relies on coalitions among women's activist groups, politicians, university researchers, law enforcement agencies, and point-of-contact actors such as bus drivers. These coalitions are important because they repeatedly reinforce common messages from different angles and in different ways over time. Entrenched attitudes are difficult to change, but they can be modified through persistent and varied messaging. Similarly, achieving legal change in Mozambique relies on forming coalitions among women's research groups, activist organizations, politicians, jurists, and traditional leaders. Building a consensus around the need for change requires careful facilitation; building consensus around the actions of change requires careful coordination. Expanding girls' schooling in Bangladesh requires a combination of economic incentives, attitude changes, and the provision of basic facilities. Because the problems women face cut across so many dimensions, forming diverse and sustained coalitions and alliances is essential for macro-level change.

Second, change can happen at the micro level—household by household or group by group—when interventions are specifically designed to respond to the needs and capabilities of women. The Saving for Change program in Mali is expanding not only due to the efforts of Oxfam and its partners but also because of the voluntary efforts of women themselves, who extend the methodology to their neighbors, relatives, and friends.

Third, efforts to "saturate the market" are important. Programs that seek total coverage change attitudes and create new societal norms regarding women. The legal changes in Mozambique have been important because they apply to the whole country. In El Salvador, the involvement of politicians and the attorney general's office in social change has had nationwide implications. Bringing the savings-led methodology to all areas of a country like Mali not only expands the movement but also creates a stronger sense that this new way of doing business—women working with women and women working with men—is legitimate. Bangladesh's programs to increase girls' education have led girls to outnumber boys in secondary school (although overall enrollment rates are still low for both girls and boys). When everyone does something, what once seemed strange becomes normal.

Finally, programs to empower women need to be constantly aware of threats that can arise. Those in power may overlook women without money, rights, or a voice; when women begin to gain assets and status, however, a backlash can arise from men and even from other women. The challenge is to help people see that empowered women present an opportunity, not a threat.

For Further Reading

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Chapter 37

Policies and Effects of Poverty Reduction for People with Disabilities in China

Zhang Dongmei

Disability is an evolving concept. According to the Convention on the Rights of Persons with Disabilities, disability is the result of interaction between persons with injuries and disabilities and various attitudinal and environmental impediments that keep them from participating in society on an equal basis with others. According to the Law of the People's Republic of China on the Protection of Disabled Persons, "disabled persons" refers to persons who have lost certain tissues or function or who have serious handicaps in terms of psychology, physiology, or body structure and whose daily life or social activities are under continuous restriction. Persons with disabilities include persons with visual, hearing, language, limb and trunk, intelligence, or mental disabilities, as well as other disabilities or combinations of disabilities.

China is home to 83 million people with disabilities, accounting for more than 6 percent of the total population. According to the Second China National Sample Survey on Disability in 2006, 75 percent of those with disabilities (62 million) live in rural areas. The number of rural people with disabilities living in indigence totals nearly 14 million. This segment of the population with disabilities is included in China's effort to reduce national poverty and is covered by the rural minimum living allowance system, but the combination of disability and poverty poses challenges for poverty reduction.

Causes and Effects of Poverty among People with Disabilities

Low Incomes and High Expenditures

In 2005 the per capita income of Chinese families with members who have disabilities was 4,864 RMB in urban areas and 2,260 RMB in rural areas, less than half of the average for families who do not have members with disabilities. About 67 percent of people with disabilities have multiple disabilities, such as physical, visual, and cognitive disabilities, a situation that creates challenges for poverty reduction. People with severe or extremely severe disabilities total 25 million (30 percent of people with disabilities) and are not capable of engaging in poverty reduction activities involving agricultural production. People whose disabilities are classified as moderate or mild total 58 million, or 70 percent. Because of the disabilities themselves and social prejudices regarding disabilities, employment opportunities for people with disabilities are limited and their employment rate is low. At the same time, the costs of medical care are huge, with the result that diseases cause disability and disability causes poverty.

Lack of Knowledge and Technology

Surveys show that 43 percent of the Chinese people with disabilities over age 15, or 36 million people, are illiterate. Only 63 percent of children with disabilities between the ages of 6 and 14 are enrolled in school nationwide, and only 5 million people with disabilities have graduated from high school. About 85 percent of poor people with disabilities have not been educated past junior middle school. As a result, many people with disabilities have comparatively low qualifications and poor production skills and consequently are reluctant to accept new concepts (including their own potential for self-reliance) and often never have the opportunity to learn new practical techniques. Their exclusion from training and basic education means that they are ill equipped to compete in the market, and this situation prevents them from participating in poverty reduction activities.

Lack of Funds and Lack of Projects

In China, people are geographically dispersed, with 30 percent living in old revolutionary basis areas, ethnic minority areas, remote areas, and extremely poor areas and 70 percent living in nonpoor areas. Funds for supporting people with disabilities in nonpoor areas are limited. Even if funds are available, it can be difficult to get them to people with disabilities because of poor transportation and information and a consequent lack of projects. Moreover, it is difficult to implement poverty alleviation projects for rural people with disabilities with only a small amount of funds and without a conducive external environment, such as adequate markets and technology.

The country implements a system of arranging employment for persons with disabilities pro rata, but this work started relatively late in the central and western provinces, and the funds collected for it are insufficient. Moreover, projects for the poverty alleviation and development of persons with disabilities are not within the scope of expenditure and use of the People with Disabilities' Employment Security Fund.

Low Levels of Economic and Social Development in Rural Areas

Because of the poor natural environment in central and western China, along with the lack of infrastructure, limited production structure, and slow social development, people with disabilities in rural areas lack jobs and social security. The rate of employment of people with disabilities is 59 percent, and they are short of independent economic support. Only 5 percent benefit from the local policies that provide a minimum living allowance, and only 12 percent receive regular or irregular relief funds.

In light of the difficulties people with disabilities face, poverty reduction for them must solve two major problems: (1) their lack of access to food and clothing and (2) the social and economic gap between them and others and a lack of harmony. Poverty reduction for people with disabilities requires building an effective, long-term mechanism that is mainstreamed into the overall plans and policies of central and local governments, the government accountability system, and the rural social security system. Multiple social service measures must be undertaken to unlock the potential of people with disabilities and to achieve the goal of providing and maintaining food and clothing for them.

Successful Poverty Reduction Policies for Poor People with Disabilities

Ensuring the provision of food and clothing for people with disabilities and steadily increasing their income are key components of China's national poverty reduction task. In recent years poverty reduction efforts for people with disabilities in China have yielded results, with support from the central government, local governments, and the China Disabled Persons' Federation. Some 10 million people with disabilities gained access to food and clothing, and the number of absolutely poor people with disabilities was reduced from 20 million in 1992 to 11 million in 2007. Eight million people with disabilities received technical training in agricultural production. Since 2003, the China Disabled Persons' Federation and the government have helped 51,803 rural families with members who have disabilities to rebuild derelict houses, benefiting 63,957 people with disabilities and 150,000 poor people.

The technical training in agricultural production relies on various kinds of social training institutions and organizes persons with disabilities with different technical needs into many levels and forms of training, mainly focusing on practical rural technologies. Henan province, for example, conducts training by relying on scientific and technical people in colleges and universities, technical secondary schools, polytechnic schools, and technical popularization stations to enable persons with disabilities at different levels to obtain practical technologies and skills for planting, breeding, and processing.

The achievements in poverty reduction for people with disabilities have contributed a great deal to accomplishing China's strategic targets for poverty reduction. In the process, some lessons have emerged that fit China's national conditions and the particularities of poverty reduction for people with disabilities.

Mainstream Poverty Reduction for People with Disabilities into Overall Poverty Reduction Planning by Central and Local Governments

The key to mainstreaming people with disabilities is to include them in all policies, plans, and projects. Poverty reduction is an important strategic goal of the central government, and the State Council has always given attention to the poverty problems of people with disabilities. In 1991 the State Council approved the Eighth Five-Year Plan for Supporting Disabled Persons to establish objectives, guiding principles, methods, and measures for reducing poverty among people with disabilities as components of the national plan and for carrying out poverty reduction for them in a planned and organized way. To fully implement the Seven-Year Priority Plan for Poverty Alleviation, the government formulated the State Plan for Poverty Reduction of the Disabled People (1998–2000). This plan adopted more powerful and better-targeted policies and measures and increased financial inputs and efforts to address priorities. In 2001 the government formulated the Poverty Reduction Plan for the Rural Disabled (2001–10) to include the rural population with disabilities in the Poverty Reduction Program for Rural China. This plan currently guides poverty reduction for people with disabilities.

Local governments have also included specific measures and requirements for helping people with disabilities in their local poverty reduction plans. Their plans are designed to help strengthen leadership in organizing the relevant departments, implementing the projects, and providing human resources, funds, and materials.

Maximize Government Leadership, and Increase Policy Support

Since 1992 the central government and its relevant departments have held six conferences on poverty reduction for people with disabilities to improve supportive policies. Local governments have gradually established systems for social security and cooperative medical care in rural areas, along with reforms of rural taxation, and have formulated a series of policies and measures to improve the productivity and life conditions of people with disabilities, such as policies to give them basic medical treatment and rehabilitation services and to give social relief to their families. Local governments have also included poverty reduction for people with disabilities in the government accountability system. In Gansu province, for example, governments at all levels take responsibility for specific tasks, and their performance is regularly appraised.

Mobilize Social Resources to Help Poor People with Disabilities

Poverty reduction is the responsibility not only of government but also of society. It is important to encourage government agencies, the business sector, collective economic organizations, volunteer organizations, Communist Party members, officials, students, and people in neighborhoods to partner with one another or with agencies and households with members who have disabilities. Trade unions, the China Youth League, the All-China Women's Federation, the China Association for Science and Technology, and chambers of commerce all have roles to play. Partnerships between the Communist Party or executive organs and businesses have supported villages; party members and officials have supported households; and volunteers, neighbors, and wealthy households have paired off with families with members who have disabilities. Mobilizing the participation of social sectors has become an effective way to ensure that food and clothing are provided for people with disabilities. For example, beginning in 2002 in Xin County, a county committee and the county government implemented "1+1" Project to help persons with disabilities and give financial assistance to poor people in the county, with responsibilities divided up and assigned to every household. Attention was given to the "four helps": (1) help with establishing correct ideas and building up confidence; (2) financial assistance; (3) technical assistance, such as practical rural technologies; and (4) appropriate projects for poor persons with disabilities in terms of the planting, breeding, and processing of agricultural products. In addition, in Zhejiang province a program known as Thousands of Persons Form Pairs to Alleviate Poverty and Help Persons in Difficulty was formed. The whole province formed a total of 16,403 pairs through which more than 10,000 persons with disabilities emerged from poverty in a year.

Earmark Funds Especially for Poverty Reduction among People with Disabilities, and Build Up Multiple Channels of Financing for Them

The Chinese government earmarks credit funds for poverty reduction. In 1992 the government issued revolving, subsidized-interest loans to be used to reduce poverty among people with disabilities. The amount of these revolving loans increased from 100 million RMB during the Eighth Five-Year Plan (1991–95) to 800 million RMB in 1999 and 7,400 million RMB at the end of 2006. The Agricultural Bank of China formulated rules for managing these funds and avoiding risk. To help the loans reach households and individuals, the China Disabled Persons' Federation, along with the Agricultural Bank of China, set rules for streamlining the system, for helping more poor people with disabilities benefit from the loans and use them effectively, and for ensuring the safe circulation and use of the loans. To date, there have been no cases of embezzlement of the loan funds. By the end of the Tenth Five-Year Plan (2001–05), 80 percent of the loans had been distributed, and more than 5 million poor people with disabilities had been relieved of the problems of having too little food and clothing.

Local governments have also arranged for funds to reduce poverty among people with disabilities. During the Tenth Five-Year Plan, local governments spent 650 million RMB to rebuild the houses of poor families with members who have disabilities. Local governments set up subsidized-interest loans and applied for loans from banks and financial institutions for planting, breeding, and processing activities supporting the enterprises of persons with disabilities. Some local governments strengthened cooperation with domestic enterprises and international organizations to attract funds. Some invested money in employment and training for poor, rural people with disabilities. These methods expanded the channels for collecting funds for poverty reduction among people with disabilities.

Adopt Methods to Ensure That Support Reaches Households

Over the years, the Chinese government has taken several approaches to ensuring that support reaches households with members who have disabilities. In 1992 this principle involved companies partnering with rural households to offer employment and training. In 1998 China promoted microfinance, which offers low costs, rapid results, high rates of coverage and return, and easy access for people with disabilities. Disabled Persons' Federations at the county level and township service agencies put forward development projects in such areas as planting, breeding, and processing, as well as loan applications based on their knowledge of the local situation. The village committee selects the households of people with disabilities to be supported, and the Agricultural Bank of China conducts field investigations and approves or disapproves the applications. Loans are between 2,000 and 5,000 yuan for a term of 1 to 3 years.

In 2000 poverty reduction for people with disabilities stressed industries in areas such as planting, livestock breeding, handicrafts, and household sideline production that could both meet the requirements of the local market economy and help people with disabilities meet their needs. In 2003 the China Disabled Persons' Federation established poverty reduction bases for poor people with disabilities that cover production, pre-job training, and support for households to address the subsistence problems of those with disabilities and to increase their income. At present, China has established more than 2,693 county-level bases to help 275,000 poor people with disabilities climb out of poverty. Practical planting, processing, and breeding projects and a company-to-family approach based on local resources and market demand is proving to be an effective method for solving the problems of providing food and clothing for people with disabilities.

Strengthen the Grassroots Service System for Reducing Poverty among People with Disabilities

Local governments have strengthened efforts to develop the grassroots China Disabled Persons' Federation and to build service centers for people with disabilities. By the end of 2006, there were 16,290 county-level and town-level service centers with 22,699 staff; these initially formed the service system for rural people with disabilities. The service centers deal mainly with the day-to-day work of learning about the actual situation of poor people with disabilities, coordinating revolving loans for them, helping them choose proper businesses, implementing specific measures for them, and coordinating local agricultural and scientific departments to provide them with services before, during, and after agricultural production. More than two-thirds of service agencies and service branch agencies have more than one person with disabilities working in them.

Stimulate the Enthusiasm of People with Disabilities and Enhance the Four "Self-Reliance Spirits"

Poverty reduction for people with disabilities requires help from all over the country and society, but most of all from people with disabilities themselves. It is important to stimulate their spirits of self-esteem, self-confidence, self-improvement, and self-reliance to mobilize their enthusiasm and encourage them to conquer difficulties and participate in production and labor. Local governments have carried out new technical training and drawn on existing training for poor people with disabilities, thereby improving their qualifications and professional skills and in turn stimulating their desire to strive for a good future and strengthening their confidence that they can overcome poverty. People with disabilities have changed society's false view that they can only rely on relief and never develop their capacities.

Difficulties in Reducing Poverty among People with Disabilities

In spite of the progress made in reducing poverty among people with disabilities, their productivity and living conditions remain inadequate owing to unbalanced socioeconomic development, political limitations, lack of funding, and lack of infrastructure serving them, and they face new problems as well. There are many challenges.

First, the total population of poor people with disabilities is still huge. More than 10 million rural poor people with disabilities still have trouble obtaining adequate food and clothing. Even people with sufficient subsistence commonly fall back into poverty. During the Tenth Five-Year Plan, about 400,000 people returned to poverty every year, and coping with this trend is now the most difficult and important task regarding poverty reduction for people with disabilities. The number of poor people with disabilities who are without houses or living in dangerous houses stands at around 1 million, and the basic production and living conditions of these people have essentially not changed.

Second, the difficulty of supporting poor people with disabilities, one of the most vulnerable groups in society because of external barriers and biases, has increased. Because almost 85 percent of poor people with disabilities never receive education beyond junior middle school, they often lack professional skills. As a result, they cannot enjoy the work-for-relief, labor transfer, and other major poverty reduction measures implemented by the government. They are also restricted in choosing businesses because many people with disabilities do not receive the training they need to engage in comparatively high-tech work.

Third, there is a lack of timely and effective services. Along with reforms to the rural economic system and the restructuring of rural industry, the key to reducing poverty for rural people with disabilities is to provide timely and effective services before, during, and after production so their products can enter the market faster. The current rural socialized service system, which offers services related to agricultural pre-production, production, and postproduction, charges for its services, and people with disabilities are too poor to pay. The recently established disabled people's service centers have done much for people with disabilities but cannot meet all of the demand because of a lack of human resources and funds.

Fourth, the shortage of labor and external barriers present difficulties. Rural poor people with disabilities rely mainly on cultivation, and increasing their income requires effective labor. But effective labor is what is absent in a family with a member who has a disability, and the family's lack of labor means it will have a low income. People with disabilities also have difficulties adjusting to changing production and market conditions. Consequently, it will be difficult for poor people with disabilities to gain more income despite improved agricultural conditions.

Adjusting Strategies and Policies for Poverty Reduction for People with Disabilities

Securing the living and development rights of people with disabilities and promoting a harmonious relationship between them and other groups are key components of a well-off and harmonious socialist society. In the future, poverty reduction efforts for people with disabilities should aim to help them receive adequate food and clothing, improve their living standards, and narrow the economic and social gaps between them and other people.

More than 10 million people who are short of food and clothing should be helped to overcome this problem. Those who have enough to eat and wear should be supported in their efforts to make more money. About 1 million poor people with disabilities in central and western China who are able to engage in production should be given skills training. The old houses of 1 million poor rural households with members who have disabilities should be rebuilt.

Poverty reduction targeting people with disabilities requires establishing and improving effective long-term mechanisms and supportive government policies with clear targets and outcomes. Two types of policies are called for. First, all poor people with disabilities should be included in the rural minimum allowance system and relief system, which currently falls short of complete coverage for financial reasons. In the case of people with severe and extremely severe disabilities who have no working capacity and who cannot obtain food and clothing through poverty reduction programs, local governments should include those who are eligible in the minimum allowance system as soon as possible. People with moderate and mild disabilities should be given relief by type and by phase.

Second, supportive policies targeting people with disabilities should be formulated. In rural areas, poor people with disabilities who can engage in production and increase their incomes should be mainstreamed into the overall national poverty reduction plan. They should be included in village-based development projects, subsidized-interest lending, and training for labor transfer. All levels of government should give them special support in terms of earmarked funds and credits. Local governments should ensure that their financial support is really spent on poverty reduction for people with disabilities and reaches the relevant households to help them actually emerge from poverty. For these groups of people with disabilities, the government should produce special supporting policies involving recovery, education, employment, and medical care.

Conclusion

Poor people with disabilities in rural areas are the most difficult population in China to reach with poverty reduction efforts. The China Disabled Persons' Federation, along with relevant government departments, has been working to pursue better methods, policies, measures, and tools to help poor people with disabilities solve the problems of lack of access to food and clothing as soon as possible.

Essay 4

Including People with Disabilities in Actions to Reduce Poverty and Hunger

Charlotte McClain-Nhlapo

According to the United Nations (UN), there are approximately 650 million people with disabilities in the world, and at least 80 percent of them live in developing countries. More often than not, they are among the poorest of the poor. The UN Convention on the Rights of Persons with Disabilities, adopted in 2006, defines such persons as “those who have long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others” (Article 1). Recent World Bank estimates suggest that as many as one in five of the world’s poorest people has a disability. While prevalence is difficult to measure effectively, it appears that about 10–12 percent of the population in developing countries lives with disabilities, 2–4 percent with severe disabilities. Males at all ages have higher levels of disability, and the prevalence increases dramatically across the world in people older than 60. People with disabilities are not a homogeneous group. The following groups are particularly vulnerable:

- *Children with disabilities.* The mortality rate for children with disabilities may be as high as 80 percent in countries where the under-five-year-old mortality rate as a whole has decreased to less than 20 percent. A World Bank study noted that the proportion of children with disabilities in developing countries is generally higher than in developed countries. It is estimated that 6–10 percent of children in India are born with disabilities and that because of their low life expectancy, possibly a third of the people with disabilities are children.

- *Girls with disabilities.* In many countries, girls with disabilities are not sent to school or trained for economic self-sufficiency; as adults they often do not marry and rarely inherit or own property. Consequently, they are disproportionately represented among the poorest of the poor.

- *Women with disabilities.* Women with disabilities are negatively affected by both their gender and their impairments, often resulting in "double discrimination."

- *People with multiple disabilities.* Multiple disabilities compound the difficulties affected individuals face.

- *People with disabilities who are HIV positive.* HIV is even more challenging to individuals with disabilities.

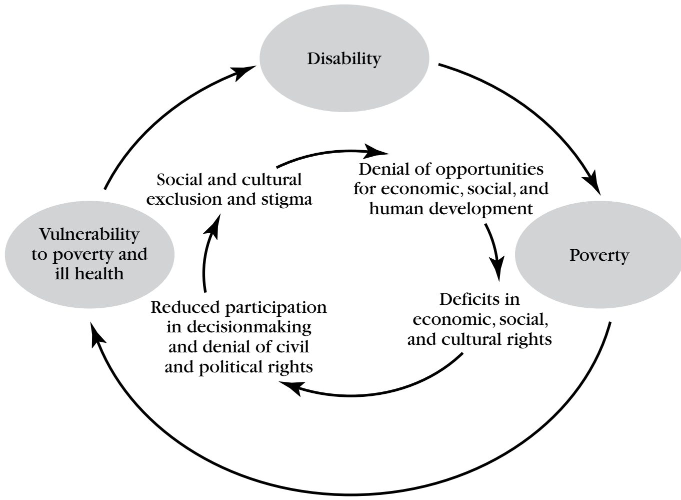
- *People with disabilities living in remote and rural areas.* It goes without saying that lack of access to services and isolation in general are significant issues for people with disabilities.

Though people with disabilities have diverse backgrounds, they all frequently experience discrimination and social, economic, and political exclusion. Discrimination occurs from birth or the time the disability occurs and beyond. And often exclusion causes poverty because it leads to a lack of resources, lower expectations, poor health, and poor education.

Poverty and Disability

Poverty is about vulnerability—being exposed and powerless in the face of risks and shocks to the household. It is also caused by scarce and uncertain levels of private assets and access to services. The relationship between poverty and disability is complex and multidirectional. Poverty contributes to disability through a lack of education, malnutrition, poor health care, polluted environments, occupational and road accidents, and conflicts and disasters. The few services that are available to people with disabilities are often underfunded, poorly managed, and capacity constrained. In tandem, poverty and disability create a vicious circle. Although the nexus from poverty to disability may not be as clear as the nexus from disability to poverty, sufficient evidence highlights the risk factors that those living in poverty experience, as well as how those factors may increase impairment and disability (Figure E4.1). Poverty and hunger are almost inevitably linked to insufficient nutrition, poor housing, and inadequate health care services. These factors lead to an increased risk of impairment, which in turn may lead to disability.

Figure E4.1 The nexus between disability and poverty



Source: Department for International Development (DFID), *Disability, poverty and development* (London: DFID, 2000).

The World Health Organization (WHO) estimates that 100 million people worldwide have impairments caused by malnutrition and poor sanitation. Research shows that in India the percentage of rural and urban people with disabilities is similar. However, given that South Asian populations are predominantly rural, the actual number of people with disabilities in rural areas is nearly double that in urban centers. Although not all people with disabilities are poor, evidence points to a disproportionate number of people with disabilities in all countries who are living in abject poverty.

Disability affects not just the person with a disability but the present and future income of the entire household. Research in India reveals that households with people who have disabilities are worse off than the average household. Similarly, research reveals that in Uganda households headed by an individual with a disability are 38 percent more likely to be poor than are households headed by a person without a disability. Research also shows that per capita consumption among households whose head has a disability is 14–22 percent lower than that of households whose head does not, depending on the region. The incidence of poverty is 15–44 percent higher in households whose head has a disability, and the depth of poverty is greater among people with disabilities as well. Finally, research in Zambia indicates that children living in households with a member who has a disability tend to have somewhat lower school enrollments and higher levels of chronic malnutrition than do other children. So not only are households with heads who have disabilities more likely to be poor but also their degree of poverty is more likely to be greater.

In the developing world poverty is exacerbated by (a) the likelihood that a person with a disability will not be working, (b) the likelihood that another family member will be taken out of work (or school) to care for a person with a disability, and (c) the reality that in households with a family member who has a disability, the cost of health care and other interventions is higher than the same costs for families without a member with a disability. This is what Amartya Sen calls the "hidden costs of disability."

Though the relationship between disability and poverty is obvious, very little reliable statistical information substantiates this point, which makes it difficult to put together a detailed global picture of the linkages between disability and poverty. Poverty statistics for people with disabilities are virtually nonexistent. The information on disability and poverty that does exist is largely based on anecdotal evidence; this situation is beginning to change, however. Based in part on the WHO's recently established International Classification of Functioning, Disability, and Health, a number of countries are upgrading their data collection systems to capture information on disability. The UN has established a group on disability measurement and is currently piloting a series of census questions on the subject, as well as developing an extended survey module. Similarly, the UN Economic and Social Commission for Asia and the Pacific is piloting an extended set of disability questions in several countries in South and East Asia. Major disability surveys have also recently been completed or are under way in Afghanistan, Ecuador, Kenya, Nicaragua, and Vietnam.

Mounting evidence points to the high economic costs of excluding people with disabilities from the development agenda and the productive cycle. It is estimated that the global annual loss of gross domestic product due to the exclusion of people with disabilities from the labor market is between US$1.37 and $1.94 trillion. Research highlighting the importance of taking disability into account in assessing poverty found that in 1999, 23 percent of U.K. households with a member who has a disability earned less than 60 percent of the median income, but when adjustments were made—such as the provision of workplace adaptations, work-related equipment, and support to workers (including readers, communicators, and personal assistants)—that percentage rose to more than 47 percent. This suggests that if people with disabilities had better access to services and opportunities, they could contribute more to growth and development. The 2006 *World Development Report* on equity highlights the importance of eliminating inequalities that limit growth. Preliminary estimates of global gross national product lost due to disability are in the range of 5–7 percent. Inclusive development can harness this potential to the benefit of all and could well pay for its cost. Equitable development and poverty reduction will be achieved only if people with disabilities are included in economic development.

Initiatives to Support the Inclusion of Disability

International and national policymakers have a comparative advantage in raising the issue of disability through such sectorwide approaches as poverty reduction strategy papers (PRSPs) and other overarching national initiatives. It is clear that key development goals, such as the Millennium Development Goals (MDGs), cannot be met unless marginalized groups are included in national development strategies. PRSPs—key government policy instruments for poverty reduction—are seen as operational frameworks for implementing the MDGs. More PRSPs are now mentioning disability, but this represents only partial progress. People with disabilities still remain largely invisible in the PRSPs, resulting in an incomplete policy agenda. Three key constraints hinder the participation of people with disabilities in poverty alleviation activities: people with disabilities are economically excluded from pro-poor growth, they are socially excluded from education and health services, and they have a weak political voice. Disabled people's organizations (DPOs) are consulted in only a few cases (29 percent of PRSPs). An analysis of PRSPs shows that when DPOs do participate in PRSP consultation, the social focus of disability policy decreases and the economic focus increases. DPOs should be involved not only in the preparation of PRSPs but also in policy discussions.

The first MDG, to eradicate extreme poverty and hunger, cannot be achieved without taking into consideration those who are so disproportionately represented among the world's poorest—people with disabilities. Most micronutrient deficiencies primarily affect poor and disadvantaged households whose members cannot produce or procure adequate food, who live in marginal or unsanitary environments without access to clean water and basic services, who lack access to appropriate education and information, or who are otherwise socially disadvantaged. The health and nutritional status of people with disabilities is a case in point, particularly in relation to the quality of their lives and the prevention of secondary disabilities.

Helping to prevent childhood disability through immunization, micronutrient supplementation, and growth monitoring and promotion is essential. Early screening and simple community-based interventions by frontline workers have been shown to be an effective tool for improving the lives and functioning of persons who already have disabilities, including vision and hearing loss and mild cerebral palsy. However, early screening and diagnosis must be linked to the provision of timely and appropriate support and advice to families, combined with the design and orientation of corresponding intervention plans for more complex problems and for developmental delays. Efforts should focus on building the capacity of health workers and others in the community to provide advice and assistance to parents.

The UN convention mentioned earlier in this chapter recognizes the rights of people with disabilities to an adequate standard of living for themselves and their families (including adequate food, clothing, and housing) and to the continuous improvement of their living conditions. It also declares that countries are to take appropriate steps to safeguard and promote the realization of this right without discrimination on the basis of disability. Governments that ratify the convention will be legally bound to provide people with disabilities clearly defined rights. Nevertheless, the convention's full potential will be reached only if there are complementary improvements in the economic well-being of people with disabilities. The entry into force of the convention will likely lead bilateral donor agencies to strengthen their development cooperation in this area.

In many developing countries, policymakers have been slow to consider disability in the context of their national development programs and policies, frequently because people with disabilities have been underrepresented in positions of influence and power and face educational constraints and discrimination. But disability can and should be addressed through legislation focused on creating provisions for nondiscrimination and meeting the special needs of people with disabilities. This policy advocacy should build on the international momentum around the UN convention. Excellent opportunities to advance this agenda and to promote responses that are tailored to the specific needs of people with disabilities include the development of sector strategies for social protection and inclusive education policies, as well as accessible health care.

Toward Inclusive Development

Governments, development agencies, and service providers have tended to either omit people with disabilities from their development programs or create "special disability" projects that effectively exclude or ghettoize people with disabilities from mainstream society. Often these programs are small in scale and reach only those people with disabilities in urban areas. This neglect of disability in development planning reflects a broader tendency to undervalue the capacity of people with disabilities and not see them as full citizens with dignity and rights who can contribute to society. Only when the barriers facing people with disabilities are recognized and addressed programmatically can there be substantive or sustainable change in the marginalization and poverty they experience.

Some dynamics are changing. Disability-led organizations are becoming much more engaged with policymakers and are emphasizing the need to shift paradigms and to more closely examine inclusive approaches that recognize them as having rights as does anyone else. Empowering people with disabilities and increasing resources for them can make a powerful contribution to reducing world poverty and hunger. However, people with disabilities themselves must be part of the process, and even good, inclusive policies must have effective implementation. This will require accountability mechanisms as well as the necessary financial and human resources to ensure effectiveness.

Inclusive Development Program Design

The goal of inclusive development is to create an inclusive society that takes vulnerable and marginalized groups into account. Inclusive development advocates the mainstreaming of disability as a development issue. In the context of reaching people with disabilities who are poor and hungry, this can be accomplished by boosting food production, improving nutrition, and integrating the issue of disability into sustainable rural development policies and programs. Such initiatives should aim to improve income-generating and employment opportunities for people with disabilities in all aspects of work, including agriculture and related sectors. This will require upgrading agricultural production technologies to meet the special requirements of workers with disabilities, fostering accident prevention in the agricultural and forestry sectors, and eliminating nutrition-related disabilities through improved dietary practices and food security interventions.

What Actions Can Be Taken?

The following are suggestions for actions that can be taken to include people with disabilities in actions to reduce poverty and hunger:

- strengthen partnerships and facilitate good coordination with UN organizations such as the United Nations Children's Fund; the International Labour Organization; the United Nations Educational, Scientific and Cultural Organization; the United Nations Population Fund, WHO, and the United Nations Development Programme—all of which are increasingly incorporating disability issues into their programming;

- promote the ratification and implementation of the UN Convention on the Rights of Persons with Disabilities;

- support policy advocacy and legal reform to create an enabling framework for people with disabilities and provide measures to remove barriers that prevent them from accessing services;

- promote community-based support services that address the needs of households with members with disabilities;
- provide livelihood opportunities for people with disabilities through microcredit and income-generating activities;
- develop institutional capacity on issues related to inclusive development;
- ensure access to information and communications technologies for people with disabilities, especially for those living in isolated rural or mountainous areas;
- include disability in PRSPs, using a variety of approaches to ensure equitable participation;
- collect reliable statistics relating to poverty among people with disabilities, given that data are lacking to date;
- include indicators on the inclusion of people with disabilities during the evaluation and monitoring phases of development programs;
- establish effective actions to provide for people with disabilities in situations of conflict, disaster, and displacement; and
- adopt a twin-track approach, including specific projects targeting people with disabilities while at the same time mainstreaming disability considerations into poverty alleviation programs—which is important because an inclusive policy will never be developed with mainstreaming alone.

Disability is moving up on the international agenda, with far greater visibility than before. It is imperative that any action taken on behalf of the world's poor and hungry include the needs of people with disabilities as part of its ultimate goal.

Essay 5

How Can Organizations of the Poorest Best Be Fostered?

Vijay Kumar Thallam

Organizing the poor is an essential element of any sustainable development strategy. Organizations of the poorest do not develop automatically, however. Rather, sensitive support is needed to induce this process. This support can come from government institutions, local governments, or civil society organizations.

Drawing on the experience of the Society for the Elimination of Rural Poverty (SERP) in Andhra Pradesh, India, this chapter considers how organizing poor women can help them to achieve freedom from hunger and poverty and how governments and civil society institutions can help develop and strengthen such organizations of the poor.

SERP is a poverty eradication institution established by the government of Andhra Pradesh in 1995. In the past 13 years, it has organized 8.83 million women into 708,000 self-help groups (SHGs). Box E5.1 provides more details on SERP's work.

The Benefits of Organizing

The core philosophy guiding SERP's work is that all poor individuals have a strong desire and an innate capability to move out of poverty. Acting individually, they often cannot realize this innate capability. However, when poor women are encouraged to come together through a process of social mobilization, their voices are amplified and their ability to access markets and solve their own problems is increased. As members of organized entities they can access markets (such as credit

Box E5.1 SERP's experience in Andhra Pradesh, India

During the past 12 years SERP has been able to achieve the following key impacts:

- Completion of an intensive organizational phase (1995–2000) in which 500 villages and 100,000 rural poor women were organized into groups.
- Scaling up (2000–08 and continuing), in which 8.83 million women have been organized into 708,000 SHGs (covering 90 percent of rural poor households), 34,269 village-level federations, and 1,086 subdistrict federations. Taken together, these groups have
  - accumulated a capital sum of US$748 million;
  - increased the mobilization of finance from banks to SHGs from US$50 million in 2001/02 to US$1.5 billion in 2007/08;
  - achieved comprehensive food security for 2.11 million families, with a plan to reach 3.5 million members by 2009 and 8 million members by 2011;
  - established health and nutrition centers for pregnant women, lactating mothers, and children from 6 months to 5 years of age in 84 villages, with a plan to set up centers in 1,112 villages by 2009, 2,400 villages by 2010, and 30,000 villages by 2014; and
  - effectively tapped into all ongoing poverty eradication programs, especially the rural employment guarantee scheme.

markets) and demand better public services. Individuals may have different capabilities, but with a common vision and a lot of determination they are able to work together to find unique solutions to their problems. As it solves these problems, the collective becomes stronger, and as the collective becomes stronger, it is able to solve larger and more complex problems. Thus a virtuous cycle that empowers organizations and individuals and unleashes their innate capabilities is generated.

SERP's core philosophy is that the development of organizations of poor women is an essential element of a sustainable development strategy. SERP's experience shows that the benefits of working together can be fully realized only through organizations that "belong" to their members and allow them to participate freely and play a key role in all activities. This is essential in ensuring that the organization can take full advantage of the strong spirit of volunteerism among the poor and can design and prioritize the right interventions. Complete ownership by the poorest is a must.

Empowering organizations of the poor may result in outcomes different from those generated by food aid or food-for-work programs, for example. This is because organizations of the poor do not stop at one intervention; they are constantly innovating and adopting new interventions to solve the changing problems of their members. For example, a food security intervention begun by some groups in Andhra Pradesh evolved into an intervention to ensure nutrition security by targeting pregnant women and lactating mothers. Another interesting outcome of organizing the rural poor is that in many villages landless agricultural laborers have been able to secure higher wages from the landlords because they are no longer dependent on the landlords for loans in times of food insecurity.

Supporting the Development of Organizations of the Poor

Governments can foster organizations for the poor by creating an enabling atmosphere for the social mobilization and empowerment of the poor, by exhibiting a high degree of political commitment to this process through the provision of resources and a dedicated institution to support organizations of the poor, and by supporting the scaling up of successful models.

Support from institutions dedicated to fostering organizations of the poor—whether run by the government or by civil society organizations—is essential. The success of these institutions depends on how strongly they believe in the capabilities of the poor and how effectively they build and nurture organizations that are fully owned by the poor. The supporting institutions should be prepared for long-term involvement because there are no shortcuts when it comes to social mobilization and empowerment. The following subsections consider how supporting institutions can best foster organizations of the poor at different stages of their development.

Building and Nurturing Groups

The first role supporting institutions can play in helping to develop organizations of the poor is to initiate the process of social mobilization. This is usually done by engaging the services of dedicated and committed community organizers and activists. After training, these workers spend their entire time in rural areas interacting with the poorest households. By engaging household members in a series of dialogues, the organizers and activists are able to convince the households to come together as a group and fight poverty collectively. Each community worker focuses her efforts on a particular area and group of villages and adopts participatory identification processes to identify the poorest families.

In Andhra Pradesh, women's SHGs were formed as a result of the efforts of dedicated, trained community workers and activists employed by SERP. Each SHG consists of 10–15 women who share a certain "affinity"—common interests and strong bonds. Based on SERP's experience, SHGs that are not formed on the basis of shared interests are likely to be short lived.

The role of the supporting institution remains crucial in the initial stages of a group's existence. Community workers and activists employed by the supporting institution can continuously motivate group member and, among other things, facilitate group meetings, undertake training programs for members, and take members to visit well-functioning groups.

In Andhra Pradesh, SHG members were trained on the importance of consistently saving small amounts and lending to each other based on need. Regular meetings provided a forum for collecting the savings, making loans, and monitoring repayment. In addition, regular meetings provided a forum for members to share their problems and needs and discuss practical solutions. Undertaking these regular collective activities strengthened the SHGs and allowed their members to unleash hidden energies.

Helping Groups Gain Access to and Deliver Services

Once organizations of the poor are established, the supporting institutions can play a crucial role in

- helping groups to access services from the private sector—for example, poverty eradication accelerates when organizations of the poor are able to start accessing larger loans from commercial banks—and

- sensitizing other governmental agencies to the need to be pro-poor and facilitating groups' access to services from all government agencies.

One way supporting institutions can do these things is to encourage the development of SHGs into village federations. One of the reasons for the success of SHGs in Andhra Pradesh is the small number of people involved in each group. When a group is small, each member can properly monitor the savings, borrowings, and repayments of other members and is also able to understand the needs of everyone in the group and speak openly in group meetings. However, the small size limits the activities in which SHGs can engage.

Federating these groups to create a larger group is essential to realize additional benefits. When the poor are organized and federated at the village level, their strength is enhanced severalfold. And unlike SHGs, which are based on affinity, village federations enable poor members from various castes, religions, and occupations to come together. They also facilitate horizontal integration within the village and unleash complementary energies.

In SERP's experience, when about one-third of the poor in a village are SHG members, it is an opportune time for all the SHGs in the village to come together and form a village-level federation. This federation then gradually takes over various responsibilities from the external supporting institution, such as mobilizing poor households into new SHGs, facilitating group meetings, and undertaking training programs for members.

Once a federation is formed, the supporting institution's focus will need to change from organizing SHGs to building the capacities of village federation leaders and their paraprofessionals. The success of a supporting institution depends on how well it is able to devolve existing responsibilities to the organizations of the poor and how well it prepares itself to assume new responsibilities. To be truly effective, a supporting institution must be a learning organization and must continuously reinvent itself to effectively serve the changing needs of the organizations of the poor.

The same logic applies to higher-level federations of the poor. Once village federations are federated at the subdistrict level, subdistrict federations can take over the role of building the capacities of the village federations. The role hitherto performed by supporting institutions like SERP can then be gradually taken over by the subdistrict federation. For example, regular monitoring of village federations is taken over by the subdistrict federation. One important caveat here is that the roles of the federations and member organizations should be clearly demarcated.

Box E5.2 provides an example of how village federations in Andhra Pradesh were able to ensure the delivery of government services and improve the access of members to food markets. Supporting institutions play an important role in helping organizations of the poor to undertake such activities. In Andhra Pradesh, SERP provides intensive day-to-day support to village federations that are piloting this initiative. It provides capacity-building services, facilitates experience sharing among different villages while the pilot is being implemented, and does troubleshooting with banks, government departments, and other external agencies. In this scaling-up phase, the key role is played by best practitioners (SHG leaders, federation leaders, and village paraprofessionals who have been involved in more than six cycles of purchases and recoveries). SERP trains these community resource people and facilitates their visits to villages that have more recently become involved in the process.

Box E5.2 Meeting SHG members' needs: A food security credit model

Because they represent all poor households in a village, village federations in Andhra Pradesh are able to exert pressure on the Public Distribution System (PDS) to deliver the food entitlements of each poor family. However, the PDS accounts for only one-third of a family's monthly cereals requirement, and when wages and self-employment income are uncertain, poor households are unable to purchase the remaining two-thirds of their cereals requirement.

To bridge this gap and to provide other essential commodities, village federations in Andhra Pradesh are implementing a unique food security credit model for 2.11 million households. First, the local SHG prepares a list of 1–3 months' worth of essential commodities based on the requirements of each member. The members enter into a formal understanding with the SHG on repayment terms based on their resources and the timing of income flows. The village federation then gathers all the information from the SHGs and enters into a formal understanding with each SHG specifying the repayment terms. Next the federation mobilizes the finances required—from member contributions, from the government's ongoing anti-poverty program, or from banks—and buys high-quality food in bulk from the nearest wholesale market and supplies it to the SHGs.

SHG members gain in several ways: most important, they are able to eat well and feed their children on time at a cost 10–15 percent lower than the market price. They are also able to benefit from having a 1–3 months' supply of high-quality food and an easy repayment plan. Additionally, they do not have to face the tensions of day-to-day buying or the indignities of borrowing at humiliating terms from local traders. The village federation benefits because it meets all its transaction costs and earns a small profit. It is a win–win situation for the members, the SHGs, and the federations.

Through these interventions the village federation and SHGs develop institutional norms, acquire financial management and supply logistics skills, and generate the capacity to handle complex functions with a high degree of self-management. The bonds between the members and the SHG and between the SHGs and the federation become stronger.

The manner in which these organizations of the poor in Andhra Pradesh have comprehensively tackled the chronic hunger problems of their members is a testimony to their enormous potential for poverty eradication. Because of the success of the food security credit program, it is rapidly spreading, and it is hoped that all 8 million poor households in Andhra Pradesh will be covered within the next 3 years.

Scaling Up

SERP's experience in Andhra Pradesh suggests that it takes about 3 to 5 years of intensive work on the part of a supporting institution to see significant results; that was the case in 200–300 villages covering 30,000–50,000 poor households. The real challenge is in scaling up this effort to cover 500,000 households, then 5 million households, which is the size of a province in India. In SERP's experience, scaling up can be done in 5–10 years, depending on the ultimate size of the population to be covered.

Scaling up can happen only through the dedicated efforts of the organizations of the poor who have benefited in the intensive phase. Only those members whose lives have been significantly transformed in the first intensive phase can be effective resource persons for the universalization of this strategy. Similarly, the leaders of SHGs and village federations who have gained vital experience in setting up and managing institutions are the best resource persons for training leaders in villages and districts more recently involved.

The role of supporting institutions is very different in the scaling-up phase. Rather than replicating the work that they have done in the intensive phase, their main role is to utilize the social capital developed in that phase (namely, the community resource persons drawn from the villages initially participating) to develop the capacities of SHGs elsewhere. In the intensive-phase villages, the role of supporting institutions is to deepen the interventions and tackle other important dimensions of poverty. Once these issues are resolved in intensive-phase villages, the lessons can be taken to scale by the community resource persons. By then these resource persons will have acquired expertise in specific thematic areas such as food security or health interventions.

Conclusion

By supporting the development of organizations of the poor, governments and civil society organizations can greatly enhance the capacity of those organizations. The success of the interventions undertaken in Andhra Pradesh clearly shows that once they are established and strengthened, these groups can help ensure that the MDGs related to hunger and poverty eradication, gender equality and the empowerment of women, maternal health, and the reduction of child mortality are met by 2015.

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Essay 6

Tackling Social Exclusion: South Asia

Qazi Kholiquzzaman Ahmad

Social exclusion remains a serious development issue in the developing world and in South Asia in particular, hindering the life chances of millions of people. Although authorities often pay lip service to increasing the social participation of excluded groups, talk is rarely backed up by action. A more inclusive, sustainable development pathway is needed to promote the empowerment and well-being of all on an equitable basis to counter the present situation, which accords power and wealth to some and exclusion and vulnerability to the majority.

What Is Social Exclusion?

Social exclusion may be defined as the process through which individuals and groups are wholly or partially excluded from the society in which they live. The exclusion may have economic, social, or political aspects—or a combination of all three.

Economic aspects of exclusion may take the form of a lack of access to land and other physical assets, credit, skills, and labor markets, resulting in the economic impoverishment of those who are excluded and frequently condemning them to undernourishment, ill health, poor housing or homelessness, and unsanitary living conditions. Social aspects of exclusion may involve discrimination on the basis of gender, ethnicity (including belonging to scheduled tribes and castes, particularly in India), social group (specifically, people in "lowly" occupations—as perceived by elite groups—such as street cleaners), mental and physical disabilities, and age. This discrimination effectively reduces the opportunities of the socially excluded to lift themselves from impoverishment. Exclusion may acquire a political aspect when people-centered democratic institutions are not present and when political rights (such as political participation, the right to organize, personal security, freedom of expression, and equality of opportunity) are restricted or nonexistent. The excluded are often deprived of the chance to legally redress violations of their rights and denial of opportunities to them because they cannot afford the costs or they are prevented from doing so by the more powerful perpetrators of these injustices, who can often bend the rules and laws in their own favor.

Social exclusion may be deliberately imposed by a government or by a powerful social group on other communities or groups. For example, immigrants and expatriate workers in many European and Middle Eastern countries are discriminated against with regard to their political rights, terms and conditions of work, and housing. Also, ethnic minorities in South Asian countries generally suffer from discrimination against their culture and from constrained educational and employment opportunities. Social exclusion also occurs through ongoing social processes in the absence of any deliberate attempt on the part of the government or any group of powerful people to exclude people, partially because there may not be any deliberate public or private interventions to reverse social exclusion of this nature. The two types of social exclusion have respectively been designated by Amartya Sen as *active* and *passive* social exclusion.

Social Exclusion in Today's World

The world is becoming ever more complex and increasingly differentiated in the wake of unprecedented advancements in science and technology, particularly information and communications technology, and vast increases in global wealth and trade. Developed countries and multinational and transnational companies are at the forefront of these changes because of their often exclusive access to ever-advancing knowledge, their management capabilities, and their control over wealth, the factors of production, distribution channels, trading arrangements, news and advertising media, and international institutions. The rich in the developing world, including those associated with large national and multinational companies, are also important stakeholders and beneficiaries in these new global developments.

Though relative deprivation and pockets of absolute deprivation exist in developed countries, the majority of the population in developing countries suffers from a high degree of economic and social deprivation and political marginalization. The deprived segment of society in developing countries is highly differentiated due to different economic circumstances, human capabilities, and varying degrees of access to education, health, employment, information, and financial resources as well as different degrees of political marginalization. All these conditions constrain the ability of the deprived to break the cycle. They are in effect socially excluded, albeit to different degrees and in different ways, from the economic and technological advancements and the consequent social and political developments from which elites are benefiting. Hence, the key issue underlying the high levels of poverty, inequality, and deprivation in the developing world is, in the main, social exclusion.

South Asia's Experience

Social exclusion encompasses more than just poverty, although poverty is frequently an inevitable characteristic of most of the socially excluded. About one-third of the population of South Asia live on less than a dollar per person per day (the extremely poor) and four-fifths live on less than two dollars per person per day (the poor), according to data from 2000–04. It is unlikely that there has been much improvement since then given the increasing population pressures and growing social inequalities. In addition to increasing poverty, social exclusion prevents people from having adequate access to food, health, education, and, above all, prospects for a better future.

The socially excluded in South Asia include landless and other assetless laborers, whose ranks include large numbers of unemployed and underemployed persons as well as employed persons who earn very low incomes. Other socially excluded groups include small and marginal farmers, small artisans and informal sector operators, disadvantaged women, ethnic minorities, hill people, scheduled tribes and castes, and people with mental and physical disabilities. Disadvantaged people living on marginal lands such as riverbanks, coastal areas, and *chars* (riverside flood-prone areas and low-lying sandy islands) or arid or semi-arid lands, and hence on the frontline of severe types of natural disasters such as cyclones, floods, and river erosions, also belong to excluded groups. Of these groups, some are more excluded than others. For example, in poor families in male-dominated South Asian societies, women are more excluded than men. If those women also belong to ethnic minority groups, they are further deprived. It is also the case that children who are forced by economic and social circumstances to become child laborers are often condemned to severe social exclusion because they are deprived of education and training and, therefore, of the opportunity for a better life.

Because the ability of the deprived to respond to vulnerabilities caused by natural disasters is virtually nonexistent, they suffer the most as a consequence of natural disasters such as floods, cyclones, storm surges, tornadoes, and droughts. Climate change and projected rises in sea levels will cause such disasters to be more frequent and more severe in the future, which will lead to much more economic and social suffering for the most vulnerable.

Three major concerns affect South Asia's economic development and compound social exclusion in the region. One is the present size and growth rate of the South Asian population. The second is continuing environmental degradation (deforestation, soil quality depletion, air and water pollution, depletion of wetlands, and river erosion) and climate change, both of which threaten human and social development in the region. The third concern is the fact that governance in the region is, in practice, extrademocratic, underpinned by elitism, based on heredity, militarily hegemonistic, or all of these. Even in India, governance remains essentially elitist. This kind of governance, reinforced by adherence to the principles of neoliberalism and globalization, abets and causes social exclusion despite promises by the governing elites to reduce poverty and promote justice. Sometimes powerful groups and politicians respond to local needs and desires simply because they need local people to promote or consolidate their own interests and power.

Toward Social Inclusion and Cohesive Social Transformation

In South Asian countries, palliatives are generally offered to the excluded and deprived majority through various nationally and internationally designed poverty reduction and social development projects and programs, which are implemented by governments and nongovernmental organizations. The stated purposes of many of these programs are good, even laudable. But in most cases the people to be served are treated as target groups or objects and the underlying basic causes of their exclusion are not addressed.

The governing elites often talk (especially during election time) about reorienting the political and economic situation so that people are empowered to take control of their destiny and become equal constituents in an inclusive society. But they do not act on these words, and perhaps they do not meant to. Various motivated citizens' groups are working to empower some of the most deprived segments of the population in South Asia by promoting self-help and highlighting people's abilities within their communities. But these localized efforts remain negligible compared with the size of the population involved and the nature of the problems they need to overcome.

A pathway to the empowerment of all people could be based on the following five key principles, which define the work program of a people-centered South Asian development and cooperation process called Imagine a New South Asia (INSA):

1. freedom from the economic, social, and political deprivation experienced by the socially excluded under the ruling paradigm;

2. empowerment of the socially excluded through quality education, training, basic health services, and access to resources, employment, information, and appropriate technologies;

3. equitably shared economic progress, which requires a reorientation of investment and production patterns toward those sectors in which the excluded can most easily find employment or undertake economic activities;

4. unity in diversity, which means celebrating diversity while promoting unity on the basis of shared goals and aspirations; and

5. participatory democracy at all levels of society, from central to local, so that people can participate in governance and socioeconomic processes.

These principles are essential for an inclusive, equitable, and sustainable social transformation in South Asia.

INSA's goal is to increase awareness among the socially excluded of how their social inclusion can be articulated, organized, and implemented. At the same time, South Asian governments need to realize that the current situation is not sustainable and that new, people-centered action programs based on research and dialogue are key. Once the socially excluded are aware and organized, they can exert their own pressure in support of a shift to an inclusive socioeconomic, political order.

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Essay 7

Policies and Lessons for Reaching Indigenous Peoples in Development Programs

Lennart Båge

Despite great efforts to reduce rural poverty at the national and global levels, many of the poorest groups remain difficult to reach through mainstream development programs. In particular, there is ample evidence that indigenous and tribal peoples and ethnic minorities are disproportionately represented among the rural poor worldwide.[1] Several recent studies show that the poverty gap between these peoples and other rural populations is increasing in some parts of the world. In addition, indigenous peoples and ethnic minorities generally score lower on the Human Development Index than majority groups in their countries, and this is particularly true of women.

Better reaching out to these marginalized groups in poverty reduction efforts is an important policy challenge. Meeting this challenge requires, first, taking into account the heterogeneity of poverty and, second, building on the strengths and values of these peoples, including their capacity to act as stewards of biodiversity.

Taking into account the heterogeneity of poverty involves recognizing that poor people face different forms of disempowerment and marginalization. For ethnic minorities and indigenous peoples, these forms may be different from those of the majority in their respective societies. Their livelihood systems are often especially vulnerable to environmental degradation and climate change, especially because many inhabit economically marginal areas in fragile ecosystems in the countries likely to be worst affected by climate change. They are often disempowered by lack of recognition of their cultural and sociopolitical systems, which undermines their social capital and their ability to shape their futures. With respect to their land, territories, and natural resources, with which they have ancestral bonds and which are the basis of their livelihoods, they are frequently threatened by encroachment, dispossession, and a lack of respect and protection of their rights. In many cases, their governance institutions, notably those concerning natural resource management, have been weakened by socioeconomic changes and by official policies. Finally, ethnic minorities and indigenous peoples are often at a disadvantage in capturing market opportunities. These factors of poverty impact both men and women, but women are often most vulnerable to poverty, disempowerment, and exploitation.

Building on the strengths and values of ethnic minorities and indigenous peoples is about enlarging their opportunities to pursue developmental goals that they themselves value, both collectively and as individuals, and to continue to play their roles as stewards of biodiversity and holders of unique cultural heritages. Listening to these peoples, both women and men, and involving them in decisionmaking about their future are key elements of an effective response. However, ethnic minorities and indigenous peoples are not explicitly targeted by the Millennium Development Goals, they are often marginal players in decision-making about poverty reduction and development, and they rarely have a strong voice in governments' overall poverty strategies. This situation is only slowly changing. There are now several international and national policy institutions that focus on indigenous peoples and ethnic minorities. Within the UN, these include the Permanent Forum on Indigenous Issues and the Inter-Agency Support Group for Indigenous Issues.

In September 2007, the UN General Assembly adopted the Declaration on the Rights of Indigenous Peoples, which affirms, among other things, the collective and individual rights of indigenous peoples over their territories; their institutional, social, economic, and cultural autonomy; and their unique paths to development. Several donor agencies also have policies and strategies to guide their work with these groups. These are important resources to use when formulating policies and programs to expand the capabilities of these peoples. However, much effort is still needed to better understand the complexity of the forms of poverty, subordination, and disempowerment faced by these groups, as well as to work with them to further their own objectives, values, and capabilities.

Lessons from IFAD's Experience

In recent years the International Fund for Agricultural Development (IFAD) has intensified its efforts to reach out to indigenous peoples, tribal people, and ethnic minorities by better understanding the complexity and diversity of rural poverty and by striving to expand the capabilities of these peoples both collectively and as individuals.

A few lessons can be learned from the experience of IFAD and other groups. The first lesson concerns the importance of participatory approaches to the design and implementation of inclusive development policies and programs. A key tool to better deal with complexity and diversity is a strongly participatory approach to designing and implementing programs that are responsive to local problems and to the goals and visions of indigenous peoples and members of ethnic minorities.

The second lesson is that there are promising, reasonably well-tested approaches to work with ethnic minorities and indigenous peoples to help them overcome poverty, including the following:

1. *Increasing incomes by diversifying livelihoods and opportunities.* Many ethnic minorities and indigenous peoples live in areas with difficult climates, poor soils, and high levels of vulnerability to natural disasters. Livelihood diversification is thus key to enhance the economic capabilities of both groups and individuals. This entails crop diversification and intensification, research into and adaptation of productivity-enhancing technologies, microfinance, the provision of support to microenterprises, and the development of alternative opportunities for income generation from natural resources, such as eco-tourism and the processing of medicinal and food products. Experience shows that such interventions have great potential but may face problems of sustainability. These can be mitigated by building on local practices, values, and commitments; on sound gender analysis and the mobilization of both women and men; and on the identification of activities with both cultural value and market potential.

2. *Strengthening both group and individual natural resource entitlements.* Weak resource entitlements are often a major factor in rural poverty. In addition, the distribution of resources plays a key role in local livelihood strategies and in cultural and social practices. Loss of land in particular may not only limit livelihood opportunities but also lead to the disintegration of the social fabric and to the entrenchment of social marginalization. Some programs have boosted the capabilities of marginalized groups by facilitating the recognition or protection of indigenous entitlements to natural resources, for instance via demarcation and titling of ancestral lands, forests, and water sources; supporting gender-equal distribution of entitlements; and advocacy. Such initiatives often entail new forms of natural resource management and new balances between individual and collective entitlements, which raise new challenges and opportunities for development requiring innovation.

3. *Strengthening local and traditional governance institutions.* Several donor-funded initiatives aim to strengthen and reform traditional governance institutions, par-

ticularly in relation to natural resource and conflict management. Strengthening these institutions constitutes both a challenge and an opportunity for development, because it may affect the balance between group and individual goals, practices, and visions in ways that development enablers must be better prepared to address.

4. *Respecting the principle of free prior and informed consent.* This principle is enshrined in the UN Declaration on the Rights of Indigenous Peoples and should guide development interventions with ethnic minorities and indigenous and tribal peoples. Respecting this principle means both addressing the causes of rural poverty among indigenous peoples and nurturing their capabilities in decision-making.

The third lesson is that the application of programmatic and technical solutions developed in other contexts is often not an optimal response to the challenges facing indigenous peoples, ethnic minorities, and other marginalized groups. Solutions are required that are appropriate to these groups. These can be found through the following means:

1. *Engaging indigenous and tribal peoples and ethnic minorities in shaping their futures.* "Development with identity" is an important principle for development enablers working with these groups. This principle affirms that cultural distinctiveness, which includes specific values and perspectives on development, is part of indigenous developmental capabilities; hence it needs to be targeted with initiatives to enhance social and cultural capital and to improve communication and information about indigenous cultures. IFAD-funded programs include initiatives to address cultural marginalization and loss of social capital and to involve indigenous communities in the design of programs to ensure adaptation of solutions to local conditions, cultural and social ownership, and gender equality.

2. *Building on local and indigenous knowledge systems.* Indigenous peoples and ethnic minorities are often stewards of biodiversity and holders of unique knowledge linked to local cultures and identities, which has two main implications for development policies and programs. First, technological packages to improve livelihoods should evolve out of adaptive research and development in order to build on local knowledge systems in the face of new environmental challenges linked to climate change and to enhance local capabilities. Second, certain forms of local and indigenous knowledge (for example, about medicinal plants or underutilized plant species) need to be supported to be integrated into fair, sustainable value chains that may boost local capabilities

and strengthen local cultures while also contributing to the mitigation of climate change and biodiversity.

The fourth lesson is that we need to innovate to find new and better solutions to emerging challenges rather than only to long-standing ones. A case in point is climate change. Although poor people, including ethnic minorities and indigenous peoples, are among the least responsible for the problem, they are among those most vulnerable to it. However, they can also be part of the solution due to their knowledge of how to manage their environments in a sustainable manner. This will require finding ways to help these marginalized groups to continue to manage their lands and to store carbon on them. In this regard, IFAD is discussing with the International Food Policy Research Institute, in the context of their strategic partnership, how to help poor rural people to benefit economically from storing carbon on their lands in the interest of all humanity.

Some Implications for Development Policies and Programs

The challenge of facilitating development among ethnic minorities and indigenous peoples requires better understanding and dealing with complexity and difference, both as they concern factors of rural poverty and as local and indigenous values, capabilities, and visions. However, in order to do so we need to part with some previously held wisdom, beliefs, and visions.

First, the challenge of development for marginalized groups such as ethnic minorities and indigenous peoples is not, as they have repeatedly stressed, one of access to "modernization." Policies and programs driven by this notion tend to ignore the fact that these groups have livelihood systems historically adapted to their environmental circumstances and often well suited to the tasks of climate change mitigation and adaptation. For many of these groups, "modernization" has historically meant pressure to assimilate, abandon their institutions, and accept economic marginality. Blending modern and traditional institutions and technology is the most effective approach in our experience.

Second, building "cultural sanctuaries" around ethnic minorities and indigenous peoples should be avoided, because it may perpetuate their marginalization and stifle change and individual choice. As noted, respect for the capacity of these groups to define themselves, their development strategies, and their future has been sanctioned by the recent UN Declaration on the Rights of Indigenous Peoples, and it should be central to rural development initiatives with these communities. However, this should not lead us to build monolithic understandings of the cultures of ethnic minorities and indigenous peoples or to discount difference and a capacity for change in their societies.

What is needed is an *approach that respects the rights of ethnic minorities, tribal people, and indigenous peoples in line with the recent UN declaration,* which affirms the cultural, economic, political, and civil rights of these groups and of individuals belonging to them.

The main implication of the discussion in this essay for development policies and programs is the need for robust, simultaneous action on three fronts:

1. *Principles of engagement* that include
   - broad-based policymaking and programming;
   - development with identity;
   - free prior and informed consent;
   - engaging marginalized groups, such as ethnic minorities and indigenous peoples, as full partners in development;
   - gender equality;
   - flexibility and sensitivity to context;
   - long-term commitment and perspective; and
   - acknowledgment of the many forms of disempowerment of ethnic minorities and indigenous peoples as factors in poverty.
2. *Policy interventions to address*
   - the legal definition and protection of the natural resource rights of ethnic minorities and indigenous peoples;
   - the cultural, social, and political marginalization of these groups; and
   - factors and circumstances that hinder the participation of ethnic minorities and indigenous peoples in national, regional, and local development strategies.
3. *Program interventions to address*
   - income improvement for marginalized peoples through sustainable livelihood diversification;

- cultural and social empowerment and education;
- research and development and adaptation of technological solutions to local knowledge and livelihood systems;
- building on local knowledge systems and products and their fair and effective integration into broader value chains;
- technological and institutional innovation to address new challenges linked to ecosystemic fragility and climate change; and
- capacity building of local institutions, particularly for natural resource and conflict management.

Note

1. Although there is no universally accepted definition of the term *indigenous peoples,* it is the practice of the United Nations to use the term to include groups that are referred to in different ways in different countries, such as ethnic minorities in China, tribal people in India, and hill people in Bangladesh. The UN Permanent Forum on Indigenous Issues estimates that these groups constitute 5 percent of the world population (or 370 million) and 15 percent of the global poor.

For Further Reading

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Part 5

Strategies and Policies for Effective Action

The introductory chapter of this book, as well as the rest of the volume, has highlighted the importance of addressing three areas of action for improving the welfare of the poorest: fostering growth, inclusion, and targeted action. This part of the book turns to the question of how to bring about these actions, taking on the often overlooked topic of devising effective strategies. Therefore, the chapters here explore the path from developing a strategy, which consists of setting goals and choosing an optimal mix of policies and policy instruments (addressed in Chapters 38–40), to effectively implementing these policies by ensuring adequate funding, adequate capacity, and sound governance (Chapters 41–43).The last chapter looks at strategies that have been used to scale up successful projects, addressing the question of how isolated examples of a program that works in a given community can be scaled up to ensure widespread success.

Setting Goals and Choosing the Optimal Mix of Policies and Policy Instruments

A series of steps can be identified as necessary to bring about welfare improvements for the poorest (von Braun 2005). A critical first step is setting realistic and achievable goals, because such targets provide a focus for the various stakeholders, including the international community and civil society. They serve as a reminder of the need for increased aid and of the moral, efficiency, and security concerns that underpin the need. To that end, as pointed out in the introductory chapter of the book, the international development community has agreed to the Millennium Development Goals (MDGs), a set of targets for the year 2015, as well as a host of other goals, including a world free of hunger by 2020.

As can be expected, setting goals alone is not enough to ensure that effective action is undertaken. The relevant bodies of action, often national governments, need to go from setting goals to making a policy declaration from which policy initiatives can be established. This process is often difficult and mired in complexities. In Chapter 38, Michiel Keyzer and Lia van Wesenbeeck discuss these complexities in the context of the MDGs. They note that although the explicit policy targets underlying the MDGs can be effective in mobilizing public support for action, it is difficult to determine the financial costs of achieving these targets and to measure progress. They thus illustrate the tension between defining separate and simple targets (with associated externally funded projects and financing requirements) and a broader idea of development.

Part of the difficulty has to do with choosing the optimal mix of policies and policy instruments. Indeed, policymakers must make strategic choices in their investments because they have budgetary, political, and administrative constraints, and spending in one sector may not be as effective as spending in another sector in improving the welfare of the poorest and the hungry. Hence, policymakers must decide on the types of policies and investments that would be the most pro-poor while also making sure that these policies are feasible. Chapters 39 and 40 elaborate on each of these areas of decisionmaking in more detail, with Regina Birner focusing on the various feasibility-associated challenges and Shenggen Fan, Joanna Brzeska, and Ghada Shields focusing on policies and investments that would be the most pro-poor.

In her chapter Birner discusses three challenges related to pro-poor policymaking and specifically to the mix of policy instruments chosen: political feasibility, administrative feasibility, and fiscal feasibility. She points out that although analytical tools to assess the combinations of policy instruments have evolved over time, research on feasibility has often been ignored. She then presents examples of strategies to overcome these three challenges.

Given that most of the poor live in rural areas and depend on agriculture for their livelihoods,[1] Fan, Brzeska, and Shields focus their chapter on how investments promoting agricultural growth and rural poverty reduction have contributed to national growth and poverty reduction. To make their point they summarize studies that analyze the experiences of a number of countries and find that despite countries' vast differences in economic systems, natural resource endowments, socioeconomic conditions, and size, investments in agricultural research, education, and rural infrastructure are the three most effective types of public spending.

Such analysis is limited to assessing the impact of different types of investments at one point in time. It is important to note, however, that interactions between simultaneous investments in two different sectors can lead to larger returns than the simple sum of their two separate returns (as suggested by the complementarities of investments discussed by Dasgupta in Chapter 8). Calculating interaction effects and changes in the magnitude of returns across time is therefore important. Investment in irrigation and agricultural research is perhaps a good example. Returns to improved seeds are often higher when the seeds are planted under irrigated rather than rainfed cultivation. Investing in agricultural research and irrigation together, therefore, might result in quite different returns than the simple sum of their individual returns would suggest. As a result, the returns to investments in agricultural research received after widespread investments in irrigation have been made may be quite different from the returns prior to such investments.

These first chapters in this part of the book point to the fact that more needs to be done to understand what approaches work best within specific contexts. Recent increases in the number of randomized evaluations have helped provide some of this understanding (Banerjee 2005),[2] but the number of such evaluations needs to be increased and the results combined with other information and analyses to better answer the question of what will work in a given context at a given time (Bardhan 2005; Basu 2005; Mookherjee 2005).

Ensuring Adequate Funding, Capacity, and Governance

Many of the policy proposals discussed in previous parts of the book require significant financing, although it is worth noting that the financial costs of some of these programs, such as social protection, are not as great as might initially be believed (Barrientos and Holmes 2008). To reach the poorest and the hungry, additional funds are needed. In Chapter 41, Shenggen Fan, Anuja Saurkar, and Ghada Shields review strategies to increase public funds for poverty-reducing programs. The chapter touches on some of the points made in the two chapters on fiscal policy presented earlier in the book, Chapters 18 and 19. The authors outline the different possible funding mechanisms, including the reform of tax systems, adjustments in domestic nontax revenues (such as user fees), and increases in foreign sources of finances (such as borrowing, aid, and foreign direct investment). Each of these financing options has different implications for efficiency, poverty reduction, and distributional outcomes. Financing options affect the poorest not only because they determine the total budget for poverty-reducing investments but also because different taxation systems can have very different effects on the ultra poor. Indirect taxation is much more regressive than direct income taxes.

There is a vibrant debate on the effectiveness of foreign sources of financing, particularly aid. For those who view the main development problem as one of asset- and human capital–based poverty traps, the solution, as outlined by Sachs (2005), is a massive increase in aid focused on investments in education, health, and asset creation. The extent to which foreign aid has been able to “buy growth,” however (Easterly 2001), has been limited and will likely continue to be.

This is not to say that aid is not needed. As Collier (2007) points out when discussing the problems faced by most of Sub-Saharan Africa, although financial assistance can play an important role in breaking the cycles of poverty, assistance in improving governance and conflict prevention activities would be more critical in certain contexts. Indeed, many countries in Africa are resource-rich, ethnically diverse countries and are prone to rent-seeking behavior and conflict. More than aid, these states require assistance from the international community to build the necessary checks and balances on government power. Additionally, in different contexts other forms of assistance can make significant contributions to poverty reduction. For example, granting preferential trade access to developed-country markets could enable resource-poor coastal countries with a comparative advantage in certain sectors to compete on the world stage and, in so doing, improve the welfare of the poor working in those sectors.

Further, there is a role for more and better-targeted development finance from richer countries. Indeed, although the MDGs have provided an incredibly useful tool for focusing attention among donors, they have not clearly resulted in increased financing for development or increased attention to the poorest countries in the world. Since 1970 Sub-Saharan Africa—where 75 percent of the world's ultra poor live—has received only about 25 percent of official development assistance (Shah 2008). Aid flows are still biased toward countries that have strong political, historical, colonial, and economic ties with donors. The Organization for Economic Cooperation and Development (OECD) found that poverty reduction is not an overarching goal for France, the International Monetary Fund, Portugal, and the United States. Dollar and Levin (2004) found that the four largest donors (the European Community, France, Japan, and the United States) are not very selective in either the policy or the poverty dimension. Although the extent to which aid can facilitate development is under debate (see, for example, the recent debate between Sachs and Easterly in Easterly 2001 and Sachs 2005), aid carefully financed and targeted to the poorest through programs that have been shown to work does bring about change.

Beyond funding considerations, improving the underlying conditions in which policies are formulated and implemented is also essential to devising and undertaking action. Regina Birner in Chapter 42 and Suresh Babu and Per Pinstrup-Andersen in Chapter 43 consider some of these issues, focusing particularly on how to improve governance and capacity in poor countries. Birner presents a conceptual framework for identifying and assessing strategies that aim at improving governance and discusses both demand-side and supply-side strategies to improve governance. Demand-side strategies include ways to increase the political voice of the poor, whereas supply-side strategies are designed to increase the capacity and incentives of public administration and other service providers to perform their functions. In their chapter Babu and Pinstrup-Andersen supplement this material by arguing that social entrepreneurship has a role to play in improving capacity and should therefore be encouraged. They suggest that, given the need for new ideas and approaches to promote poverty reduction, social entrepreneurs, with their innovative ideas about program design, implementation, and monitoring and evaluation, can enhance capacity at local, national, and international levels.

Scaling Up Successful Projects

Scaling up projects is complex and involves answering difficult questions about what to scale up, how far, how long, and in what dimensions. Some of these issues were raised in Kathy Spahn's chapter on Helen Keller International's experience in implementing nutrition interventions (Chapter 24). In Chapter 44 Arntraud Hartmann and Johannes Linn address these questions through a review of the literature and give an overview of the types of decisions involved when considering whether to scale up a successful pilot. Additionally, they outline how, once the appropriate scale is decided, a number of elements need to be in place for the scale-up of the program to be successful. A number of the elements they note correspond to the discussion in Chapter 39. These elements include

1. strong and accountable leadership that can drive the agenda, as well as a clear vision for scaling up from the start;

2. strong political support;

3. strong capacity and well-designed incentives to bring about the change required; and

4. continual evaluation and monitoring, especially at the pilot stages of the project.

The model discussed by Hartmann and Linn is the expansion of a successful pilot project undertaken in one location to other parts of the country. It is important to note here that scale-up strategies need to be context specific. For example, China has successfully expanded a successful pilot project undertaken in one location to other parts of the country, but many countries may not be able to undertake this form of scale-up because it is politically complex. Indeed, countries that comprise federations of different peoples with central governments whose stability depends on a careful balance of power between regions cannot undertake such a strategy. For these countries, the appropriate model may be to start with a simple project targeting few people and then scale up by increasing the number of modalities through which the project works or by increasing the number of people targeted.

In sum, in today's world of plenty it is unacceptable that extreme deprivation still exists on such a scale. We all lose from the limits placed on millions of people's lives by ultra poverty and hunger. Given the increasing knowledge and easier movement of peoples and ideas we now enjoy, the global inequality that is the focus of this book can be addressed more easily today than ever before. The intensity of need and increased availability of tools make it imperative that we take effective action for the world's poorest and hungry people in the areas of growth, targeted action, and inclusion.

Notes

1. See Chapter 1 and the introduction to Part 2 for further discussion on this point.

2. As already stated in the introductory chapter of the book, such evaluations have increased the knowledge base about what works and what does not, but they should not necessarily be considered the "gold standard" (see Deaton 2009).

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Chapter 38

The Millennium Development Goals: How Realistic Are They?

Michiel Keyzer and Lia van Wesenbeeck

In its Millennium Declaration of September 2000, the United Nations (UN) adopted the Millennium Development Goals (MDGs), to be reached in 2015 through concerted efforts worldwide. According to UN calculations, the estimated costs in terms of additional development aid of meeting the MDGs in all countries vary from US$121 billion in 2006 to US$189 billion in 2015.[1] It appears that while Asia is well on track to achieving the goals, essentially through its own efforts, Africa is lagging behind. But how realistic are these levels of funding? And regarding the goals themselves, are the necessary mechanisms in place to monitor their realization, and do the proposed measures promote sustainable development? These questions are the focus of this chapter.

The UN's 2005 MDG report does not focus on replacing all other development efforts. It typically aims to send a can-do message to the developed world that calls not for fundamental change but rather for a modest additional financial contribution of US$48–74 billion annually until 2015. There is undoubted merit in widely circulating the message that the world's most serious problems can be solved at relatively low cost. In this regard, the MDG process has been instrumental in putting development back on the international agenda. Furthermore, agreeing on a list of targets has practical value in helping to keep donors dedicated to a common development agenda, facilitating the coordination of aid among donor countries to promote economies of scale, and providing a well-defined list of regu-

This chapter is based on M. A. Keyzer and C. F. A. van Wesenbeeck, The Millennium Development Goals: How realistic are they? *The Economist* 154, no. 3 (2006): 443–66.

larly monitored targets to encourage public support for development cooperation. Nonetheless, creating hope is one thing; generating unfounded expectations is another. The MDG process asks the public for funds that eventually will have to be repaid in terms of success. Hence, there is a definite need to consolidate the process by focusing on realistic aims that are well cast in an overall development perspective by reliable monitoring and, obviously, credible funding assessments.

United Nations Financing Estimates

Various figures have been circulated on the amount of funding needed to achieve the MDGs in 2015: the UN report mentions an additional US$50 billion annually. Although it concedes that this estimate is crude at best, the UN report expresses a firm belief that it provides a good indication of the order of magnitude of the funding required. Starting from a "shopping list" of targets, the 2005 UN Millennium Project provides an independent assessment based on costings of target quantities at assumed prices for a handful of countries. The actions identified and costed lead to a funding budget generally rising from US$77.50 per capita in 2006 to US$140.50 per capita in 2015—half of which is to be obtained from household contributions and domestic government expenditures. The last step in the estimation of the total financing requirements is to use the per capita investment needs to compute the total investment required to achieve these goals worldwide, totaling the amounts obtained after multiplication of the average per capita need by the relevant segments of the population in low-income countries. Furthermore, an estimate is presented of the financing needs for middle-income countries and for some actions at the global level. The resulting financing gap to be covered by official development assistance (ODA) amounts to US$135 billion in 2006, US$152 billion in 2010, and US$195 billion in 2015, which would imply an increase in ODA over existing commitments of US$48, $50, and $74 billion, respectively.

An important element of the costing is the assumption that there is a committed, well-organized public sector. The calculation of total ODA even includes an "adjustment for countries not qualifying due to inadequate governance,"[2] by which US$21–25 billion are deducted from the total requirements to reflect the exclusion of some countries—implying that other countries should contribute more to MDG attainment. The report suggests that in assessing the quality of governance, a clear distinction can be made between deliberate unwillingness on the part of those in power to act in the best interest of the country and failures caused by poverty and lack of institutional capacity. Only countries in the first category are excluded; hence, many countries remain, especially in Africa, where improved government reach and quality requires major investments.

What Is Overlooked in the Estimates?

The MDG report expresses its cost assessments in per capita terms and points to the striking similarity of the estimates for the five countries (Bangladesh, Cambodia, Ghana, Tanzania, and Uganda) that serve as benchmark cases, suggesting that this warrants generalization to other countries. This section looks at the calculations of MDG investment needs in health, transport infrastructure, and education (close to 60 percent of the total investment needs stated in the report) primarily to highlight that although the report mentions most of the possible items, the actual budgeting omits many items and scale-independent costs and makes optimistic assumptions about the quality of governance. Moreover, the report tends to neglect the upward cost push of up-scaling services resulting from intensified use of scarce skills and material resources.

Health

The MDGs on health cover a broad range of topics, such as reducing the under-five mortality rate by two-thirds and the maternal mortality rate by three-quarters and halting and having begun to reverse the spread of HIV/AIDS, malaria, tuberculosis, and other major diseases. The report estimates that per capita investments of US$13.00–25.00 in 2005, $19.00–33.00 in 2010, and $30.00–48.00 in 2015 will be sufficient to achieve these goals.

In the book *Millions Saved* the Center for Global Development ranks a number of successful projects with respect to the eradication of diseases through vaccination campaigns or treatment programs. Treatment of malaria and leprosy—two important diseases in developing countries—is not included in the list of successful projects. Estimates on the costs of malaria treatment vary from US$0.10 to $9.00 per treatment, depending on the resistance of the disease to cheaper drugs in the area considered. For the treatment of leprosy, estimates of treatment costs per patient vary from US$20.00 to $30.00. Factoring in the costs of treatment of these diseases, the total annual per capita health cost already equals half the average need for 2006 and more than a quarter of the estimated average investment need in 2015. In addition, there are also diseases for which no adequate therapy is available at present and for which the costs of therapy and/or vaccination are as yet unknown.

Because meeting the MDGs on health also requires the development of a well-functioning health system in general, costs of achieving this should also be factored into the total. A further complication in the treatment of many of these illnesses is that treatment should start almost immediately after the disease has been contracted and often involves extended regular visits to clinics. These considerations require that health services be located near patients, which is especially costly in view of the dispersed nature of settlements in many parts of Africa. HIV and AIDS obviously require special attention. In Africa 25.8 million people were estimated to be HIV infected in 2005, of which 3.2 million represented new infections that year while 2.4 million people were estimated to have died from AIDS the same year. Additional resources are needed for treatment and prevention, including training teachers and strengthening systems of distribution for preservatives, establishing outreach programs, and training health care workers to provide advanced treatment. Furthermore, degree training should be included for health personnel. Finally, infrastructure should be expanded to offer a larger percentage of the population access to schools and health facilities. In the case of Thailand, a densely populated country with a well-functioning health care system to start with, the annual costs of addressing AIDS are already almost US$6.00 per capita, suggesting that any cost estimate for AIDS treatment and prevention in Africa should be far above this average.

In short, judging by the cost of the items explicitly listed, the shopping list neglects certain diseases, the cost of developing the health delivery system and providing surrounding infrastructure, and, more generally, the cost of scaling up the present activities to the required levels.

Transport Infrastructure

Poor infrastructure is often mentioned as one of the most important bottlenecks inhibiting growth and development in Africa. Although the UN Millennium Project refers to several such items, there is no separate entry for investment in telecommunications. For roads, the estimated per capita investment needs are in the range of US$11.00–13.00 in 2006, US$10.00–21.00 in 2010, and US$10.00–31.00 in 2015 for the cost of maintaining and expanding road networks only. The report does state, however, that "a more comprehensive assessment must factor in the costs of improving access to transport services as well as expanding ports and other transport infrastructure" (243–44). Suffice it to say that the financial implications of this statement would definitely not be minor.

Furthermore, the construction of physical infrastructure is only one of the many steps needed to arrive at a well-functioning transport system. Ensuring security along the roads is at least equally important. The cost of achieving security on transport infrastructure, especially in Africa, is particularly high due to the widespread rural population, the low intensity of road traffic, and the pressing need to monitor the police force itself. As an admittedly special point of reference, it should be noted that the 2006 UN intervention in Sudan budgeted almost US$1 billion to help 6.1 million people. Even for transport proper, costs are only to a limited extent proportionate to scale. The World Food Programme (WFP) budget for the 2005–06 food aid operations primarily for the Darfur region shows the cost of providing 730,000 metric tons of food. The current costs of procurement and transport are about US$163 million (US$27.00 per capita). The total estimated costs for WFP are 4.5 times as high (US$746 million) and include many items that are independent of the scale of the operations, such as assistance in maintaining tertiary roads that are normally considered unsuitable for commercial transport, emergency road repairs and mine clearance, rehabilitation of river assets, emergency upgrading of infrastructure, creation of storage facilities, and expansion of field offices.

Reference to the costs of food aid operations is of special relevance in Africa because of the large number of people who depend on it. On average, during the period 1985–2000, some 30 million people in Sub-Saharan Africa were partly or fully dependent on food aid that, for more than three-quarters, had to be obtained via seaports. Of these, about 5–6 million people were fully dependent on food aid, and of them, 2.5 million—and the numbers are rising—were living in refugee camps due to the many conflicts, which might eventually strain the MDG resource. In 2000 Sub-Saharan Africa harbored around 90 refugee camps with populations numbering from a few hundred to more than 350,000 people. To give an indication of the logistics involved, the average distance of the seven largest camps, with populations of 100,000 or more, to the nearest seaport is 3,300 kilometers by road, and the Sudan operation mentioned earlier is not unique in the scope of the activities required to transport food.

In 2000 the Food and Agriculture Organization of the United Nations (FAO) provided an Africawide overview showing the investment needed from 2003 to 2015 to upgrade rural infrastructure. The total per capita investment of US$11.00–15.00 annually already covers the lion's share of the estimates made in 2005 by the UN Millennium Project, and given that the investment reported covers rural infrastructure only in a narrow sense, it is clear that the total costs will be much higher. The inclusion of irrigation schemes, for example, increases the annual per capita costs for 2006, 2010, and 2015 to US$16.00, $25.00, and $32.00, respectively.

Education

The MDG on education is to achieve universal primary education for boys and girls by 2015. The estimated per capita requirements mentioned in the report also include secondary education: "Our education estimates build upon the Education for All estimates by also including secondary school education" (243). The estimated annual per capita investments needed to achieve this goal are US$11.00–17.00 in 2005, $13.00–19.00 in 2010, and $17.00–25.00 in 2015. The estimates seem particularly low because achieving universal primary education in many countries requires a major scale-up of the number of teachers. Although the UN Educational, Scientific and Cultural Organization estimates that about US$7.00–8.00 per capita would be required to pay the salaries of the additional 18 million teachers, the costs of educating these teachers should also be taken into account. Calculating these costs is not straightforward, because it is clear that the additional demand for education will put more pressure on the already fragile system, but even a low estimate of the costs of training only new teachers results in figures in the range of US$10.00 per capita. In addition, expanding the education sector also requires investments in buildings and educational materials.

Measuring Progress

A primary goal in defining the MDGs was to create a list of objectives that could be quantified and then monitored for progress. Measuring the number of undernourished people is particularly problematic, however: in 2005 the FAO estimated that approximately 204 million people are undernourished in Sub-Saharan Africa, but comparable estimates using body weight measurements in demographic and health surveys result in a much lower figure of approximately 120 million people. Such discrepancies cast doubt on the accuracy of MDG 1 yardsticks and, consequently, on the assessment of subsequent progress.

Conclusion

Setting up clear lists of explicit policy targets such as the MDGs can be effective in providing general background on the magnitude and importance of the task at hand and in mobilizing public support. The cost calculations associated with the MDGs generally convey the message that achieving the goals is a matter of goodwill and that a relatively minor financial effort over the next 15 years will suffice. If the MDGs are primarily intended to rally taxpayer support for increased development aid, the accuracy of the cost calculations is of lesser importance; what counts are the achievements realized with the tax money spent.

The Millennium Village initiative of the Millennium Projects seems to focus on this aspect of achieving the MDGs and aims to show that with good management and adequate investments, African communities throughout the continent can flourish. The underlying idea is that success will breed success—locally because the good practices will be emulated by other villages and globally because the donor agencies and commercial investors will become less shy once they see positive and tangible results. Small rural villages included in this initiative, however, can at best become showrooms of progress; they will often be no more than classic Potemkin villages visited by television crews during special campaigns, as well as by rich individuals in search of a philanthropic project. Moreover, the international community cannot neglect the moral implications of selecting a happy few to receive medical care, education, sanitation, and the like while leaving the large majority outside the fence.

The shopping-list approach pursued by the Millennium Project carries, among other factors, the danger of omission. In the case of health, it is the omission of a host of nonmajor diseases and the requirement to build a network of skilled staff to monitor medication intake and effects on patients. For transport infrastructure it is the scale-independent cost of delivery related to police surveillance and the improvement and maintenance of tertiary roads. For education it appears that neglecting the teachers needed to teach the teachers and the requirements for construction and adequate maintenance of schools has led to serious cost underestimation. Furthermore, shopping lists treat prices as given, whereas development experience indicates that targeted efforts tend to generate local scarcities of trained personnel and other inputs that trigger price increases. More generally, establishing adequate government institutions to provide security and justice in addition to health, education, transport, and irrigation facilities involves high levels of scale-independent costs.

In addition, if the targets are actually meant to be reached rather than functioning as mere symbolic reflections of moral concern and public relations tools, they should be defined in detail and adequate measurement procedures should be agreed upon to monitor progress in meeting them. Indeed, by making the concepts clearer and by agreeing on them internationally, the MDG undertaking has made significant steps in this direction, but greater efforts are needed to arrive at reliable indicators.

Finally, it seems remarkable for the UN to define its own agenda for development at a time when Asia (China and India in particular) is teaching the world at an unprecedented scale and pace what development is about. Asia is convincingly demonstrating that growth is indeed the solution to poverty but equally that an MDG time horizon of 15 years may be too short for results to become visible. Asia also demonstrates that growth from urban agglomerations absorbs labor from the surrounding areas and gradually spreads via labor migration from less favored or less well-governed areas, followed by gradual industrial expansion to these areas. In this process trade liberalization is important as fuel for growth, but government has its role in keeping up physical and social infrastructure, in providing social safety nets, and in spreading progress across the territory.

All this illustrates the tension between defining separate and simple targets with associated externally funded projects and financing requirements and the broader idea of development. The MDG approach appeals to a public tired of stories about how the complexity of development makes it difficult, if not impossible, to implement simple policies with clear effects. But the Asian experience also teaches that development is organic: given proper general guidance from government, it finds its own way through the markets without central control of every detail or ideal circumstances in all cases. For Africa this would suggest identifying potential winners, with South Africa—and, we can hope, Nigeria and its West African neighbors—as a natural candidate. For development cooperation with Africa, this would amount to betting on such winners in terms of trade concessions and industrial development rather than focusing on the least developed countries that lack the capacity to deliver substantial quantities anyway—notwithstanding the need to maintain humanitarian aid flows and to help achieve basic levels of infrastructure in less promising areas. At the same time, it should be recognized that the eventual spatial configuration of African regional partnerships remains unclear. In the meantime, Europe might choose to act as a growth pole, but for this it would have to relax its restrictions on labor migration, which seems unlikely at present. Above all, the Asian experience is relevant to Africa insofar as countries that only 30 years ago were commonly portrayed as the basket cases of the world have almost simultaneously—and despite rising dependence on imported energy and other mineral resources—shown an incredible capacity to reduce poverty and hunger.

Notes

1. Unless otherwise stated, all estimates are based on the OECD/DAC deflator to rebase estimates on 2003 U.S. dollars.

2. To adjust for nonqualifying countries, an aggregate governance indicator was constructed by calculating the mean of five variables measuring control of corruption, government effectiveness, quality of institutions, regulatory quality, and the rule of law (as in D. Kaufmann, Daniel, A. Kraay, M. Mastruzzi, Governance matters III: Governance indicators for 1996–2002, World Bank Policy Research Working Paper 3106, World Bank, Washington, DC, June 30, 2003). Then a simplified assumption was made that countries need to score within 1 standard deviation below the mean of this indicator to qualify for ODA for direct MDG support.

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Chapter 39

Choosing Policy Instruments to Reduce Hunger and Poverty: Is It Possible to Overcome the Feasibility Dilemma?

Regina Birner

So far in this first decade of the 21st century, more than 1 billion people are subsisting on less than a dollar a day,[1] and more than 800 million people are suffering from hunger. Many countries, most notably in Asia, have had spectacular success in reducing their overall rates of poverty and hunger, but these countries still have regions where poverty remains widespread. And despite its high rates of poverty reduction, South Asia still has the greatest prevalence of underweight children in the world. In Africa, the number of poor people increased during the past two decades as poverty reduction failed to keep pace with population growth.

Poverty and hunger persist throughout the world, even though their eradication has held prominence on the international agenda for more than half a century. The Food and Agriculture Organization of the United Nations was one of the first global institutions created at the end of World War II because the international community recognized the need to ensure adequate food for all as a precondition for security and peace. Political declarations have continued voicing the goal of reducing poverty and hunger, most notably in the Millennium Development Declaration adopted by more than 190 nations in 2000. Given the billions of dollars invested and the commitment of the international community, why has overall progress in eradicating poverty and hunger been inadequate?

Policy instruments that could be useful in reducing poverty and hunger are not in short supply. They include public investments aimed at promoting pro-poor growth, redistributive policies, and social safety nets. Thinking and practice on the appropriateness of various policy instruments have changed over time; some instruments have reappeared in different forms, such as community-oriented development, and new ones have been invented, such as microcredit. Choosing the appropriate mix of policy instruments to reduce poverty and hunger is at the heart of nearly every country's effort to define its development strategy. In view of trade-offs and the need for value judgments, the choice of policy instruments is inherently political, and views on the right mix of growth-promoting, redistributive, and environmentally sensitive instruments differ across the political spectrum, especially between the right and the left. The analytical techniques used to assess the combinations of policy instruments have evolved in past decades—for example, computable general equilibrium models. Yet analysts often ignore the reality that every option for reducing poverty comes with at least one of three major challenges: political feasibility, administrative feasibility, and fiscal feasibility.

The challenge of political feasibility implies that a policy instrument is politically contested and provokes political opposition. Instruments that face this challenge, such as land reform, are either not adopted at all or are implemented half-heartedly. The challenge of administrative feasibility points to the need for a well-functioning and effective public administration to implement the respective policy instruments. Policy instruments that are technically complex or create scope for corruption, such as large-scale infrastructure projects, are particularly vulnerable to this challenge. The fiscal feasibility challenge especially affects policy instruments that require a constant flow of financial resources and are difficult to maintain over time, especially after donor funding ends; agricultural advisory services fall into this category. Likewise, policy instruments that require high investments, such as large-scale infrastructure, face fiscal feasibility issues. The fiscal feasibility challenge can lead to political challenges: if the poor lack political voice, the financial resources needed to provide services or infrastructure are either not invested or not directed toward the poor.

Types of Policy Instruments and Their Challenges

Various types of policy instruments and their associated challenges are presented in Table 39.1. Any assessment of policy instruments must consider country-specific conditions, political beliefs, and values, as mentioned previously. Thus, the table is not exhaustive but serves to illustrate what can be called a feasibility dilemma: policy instruments that are not politically contested tend to involve the challenges of fiscal feasibility, and vice versa; almost all policy instruments face the challenge of administrative feasibility; and every type of policy instrument involves at least one of these challenges.

Table 39.1 Feasibility challenges of various types of policy instruments to reduce poverty and hunger

Type of policy instrument (example)	Political feasibility	Administrative feasibility	Fiscal feasibility
Redistribution of assets (land reform)	Low	Low	Low/neutral
Investment in public infrastructure (roads, irrigation)	Low/high	Low	Low/neutral
Investment in public services (health, education)	High	Low	Low
Investment in technology (agricultural research, extension)	Low/neutral/high[a]	Low	Low/neutral/high[a]
Social safety nets (food-for-work or other public works, insurance schemes)	High	Low	Low
Subsidies, trade protection (regulating producer and consumer prices, input subsidies for agriculture)	High	Low	Low
Market liberalization policies (switching to targeted subsidies, trade liberalization)	Low	Low/neutral/high[b]	Low/neutral/high[b]
Pro-poor fiscal and tax policies	Low	Low	High
Affirmative action	Low	Low/neutral	Neutral

Source: Devised by the author and informed by discussions with the authors of *World Development Report 2008: Agriculture for Development* (Washington, DC: World Bank, 2007).

Notes: The table does not include an assessment of the appropriateness of the respective policy instruments with regard to reducing poverty and hunger. Policy instruments are rated "high" on political feasibility if they are not confronted with major political opposition. However, it may be difficult to create sufficient political support for the respective instruments.

[a]Depending on the type of technology.

[b]Depending on the type of market liberalization policy.

The Political Feasibility Challenge

Redistributive policy instruments are almost always politically contested because, by definition, they create winners and losers. The political feasibility challenge is particularly pronounced if the losers are politically powerful and well connected, as is usually the case with redistributive land reform. Not surprisingly, successful reforms are typically linked to special political situations, such as major regime changes, as in Taiwan. Making tax policies more pro-poor by reducing tax evasion, for example, is politically difficult because the losers are politically powerful. The same applies to affirmative action policies, such as reserving positions in public administration or in the education system for socially disadvantaged groups. India's reservation policies are an example. Likewise, market liberalization policies are politically contested because they create losers. Hence, market liberalization policies typically are implemented only under the pressure of conditionalities, as was the case with structural adjustment lending, or under the obligations of international trade negotiations, most notably those within the World Trade Organization.

Investment in infrastructure may be politically contested for environmental and social reasons, as in the case of large-scale infrastructure projects like dams. However, developing or improving small-scale infrastructure, such as rural roads and irrigation facilities, often has a positive political payoff. In addition, investments in social services, such as health, education, and agricultural advisory services, rarely face political contests. As indicated previously, the political challenge of these instruments is not opposition but the weak political voice of the poor, especially the rural poor, which stifles their ability to convey their needs and preferences for public infrastructure and services. The same applies to social safety nets. Nontargeted subsidies and trade protection are typically promoted politically by special-interest groups. They do not face general political opposition but are confronted with criticism from international financial institutions, donor agencies, and the domestic policy circles that promote market liberalism.

Most public investments in new technologies are not politically contested because they have the potential to increase the income of the poor while avoiding the political opposition inherent in redistributive instruments. However, some new technologies are politically contested, either because of environmental concerns, as in the case of agricultural biotechnology, or because they are expected to have negative effects on the poor, as in the case of agricultural mechanization in labor-abundant economies.

The Administrative Feasibility Challenge

Almost all policy instruments are accompanied by the challenge of administrative feasibility (see Table 39.1). This challenge is particularly pronounced if policy instruments are transaction intensive, implying that they require frequent activities across a variety of locations. At the same time, instruments that are discretionary or specific are difficult to standardize. Further, the transaction costs of monitoring and supervising such activities are very high. Services, such as primary education or agricultural extension, fall into this category: they must be provided every day, all over the country, and they require dedicated staff to meet the specific learning needs of children or the specific knowledge demands of farmers.

Other factors that contribute to the administrative feasibility challenge are scope for corruption and technical complexity. Large-scale infrastructure projects are affected by both factors. Many irrigation projects in Africa failed because they were not well designed for the specific hydrological conditions and because corruption in procurement lowered the quality of their construction. State intervention into markets—for example, restrictions on the marketing of agricultural products—

typically creates scope for rent seeking and corruption, even if such interventions are not technically complex. Accordingly, policy instruments that reduce the level of state intervention in the economy, such as market liberalization, are among the few policy instruments that have advantages in terms of administrative feasibility. However, in areas in which market failures are inherent, such as electricity utilities, privatization can foster corruption because it requires effective regulation to prevent corruption. Likewise, the move from general price supports to targeted subsidies involves an administrative feasibility challenge. Targeting subsidies, such as those for foodgrains, to individual households is a complex process subject to corruption, as India's Public Distribution System has shown.

The Fiscal Feasibility Challenge

Policy instruments that require a constant flow of budgetary resources, such as social services and social protection programs, are typically confronted with problems of fiscal feasibility. Teachers and health facility staff, for example, often do not receive their salaries regularly, which results in high absentee rates and low service quality. If extension agents lack operational resources, such as transportation to get to the field, they cannot be effective. Large-scale infrastructure projects are also confronted with fiscal feasibility challenges, but they are more easily financed by donor funding. In the case of infrastructure such as roads, drinking water facilities, and irrigation, maintenance is particularly susceptible to the fiscal feasibility challenge. Market interventions differ widely with regard to their fiscal feasibility implications because some, such as import tariffs, generate budgetary resources, while others, such as input or export subsidies, require financial resources.

Overcoming the Feasibility Dilemma

Each type of policy instrument faces at least one of the three feasibility challenges, and many are confronted with two (see Table 39.1). Current efforts to formulate development strategies often include assessing the fiscal feasibility challenge, because it is the focus of international financial institutions and donor organizations. In contrast, the challenges of political and administrative feasibility often receive less attention. Although this chapter provides some guidelines, in practice the limitations of policy instruments depend on context-specific conditions. Having experts and stakeholders participate in assessing feasibility challenges may foster a realistic country-specific appraisal. The assessments could be integrated into the participatory processes of developing poverty reduction strategy papers or other development strategies or sectoral policies.

An assessment of feasibility challenges is useful in devising strategies for dealing with them. Three strategies are possible: (1) selecting an instrument that is "second best" from an economic perspective but involves fewer feasibility challenges than the "first best" instrument, (2) adjusting the design of the policy instrument or its implementation modalities to reduce the challenges confronted, and (3) improving the political, administrative, and fiscal conditions. Although the first and second strategies can be applied in the short term, the third strategy requires a longer time commitment. The second and third strategies are summarized in Table 39.2.

Strategies to Deal with the Political Feasibility Challenge

For redistributive policy instruments, one important strategy to improve political feasibility is to compensate the losers. In the case of land reform, for example, the state could compensate landowners. However, this leads to the fiscal feasibility challenge. Packaging popular policy reforms with unpopular ones can also reduce the political feasibility challenge. Some policy reforms can be introduced "by stealth" ("below the radar" of public attention). The Mexican program of poverty alleviation, Programa de Educación, Salud, y Alimentación (PROGRESA, now Oportunidades), which introduced direct cash transfers, was piloted in a remote area to avoid possible opposition until policymakers could prove its effectiveness. Policymakers can also use "windows of opportunity," such as those arising after a change of government. One way to promote the introduction of targeted subsidies is to improve transparency about the extent to which nonpoor people benefit from untargeted subsidies. For example, increasing transparency on the extent to which better-off farmers benefit from agricultural input subsidies and from price supports can help to promote pro-poor reforms.

Table 39.2 Strategies to overcome the feasibility challenges of policy instruments to reduce poverty and hunger

Adjusting policy design and implementation	Improving the underlying conditions
Political feasibility challenge	
Compensating the losers; packaging unpopular measures with popular ones	Strengthening the political voices of poor people
	Democratization
Using "windows of opportunity," stealth	Political decentralization
Increasing transparency	Social mobilization / political organization
Administrative feasibility challenge	
Reducing technical complexity	Supply-side reform strategies
Reducing the scope for corruption	Increased capacity and incentives
Working with nongovernmental organizations	Administrative decentralization
	Demand-side reform strategies
	Social audit
	Citizen report cards
	Right to information
Fiscal feasibility challenge	
Recovering costs	Reform of the budgetary process
Targeting	Reform of tax system

Source: Devised by the author.

A major challenge to reducing poverty and hunger is the lack of political voice of poor and food-insecure people. The problem is most severe for the rural poor, as emphasized by "urban bias" literature. The social and political mobilization of the rural poor is undoubtedly an important factor—perhaps the most important factor —in overcoming the political feasibility challenge. The type of political regime affects the opportunities that rural poor have to develop their voice. Democracies have a better record in avoiding famines, as Amartya Sen has shown, but the relationship between the type of political regime and success in reducing poverty is complex. A range of nondemocratic regimes had remarkable success in reducing poverty. These regimes had a strong development orientation, in some cases combined with an egalitarian ideology, as in China. The emphasis on political decentralization in recent decades is associated with the hope that bringing government closer to the people will strengthen the voice of the rural poor. However, whether it is easier to prevent local elites than national elites from capturing development resources depends on country-specific political and socioeconomic conditions.

Strategies to Deal with the Administrative Feasibility Challenge

One short-run strategy to deal with the administrative feasibility challenge is reducing the technical complexity of policy instruments and their scope for corruption. For example, the pumps now promoted for supplying drinking water in rural Ghana are technically less complex than those used earlier, enabling community members to maintain and repair the pumps themselves. Offering public works programs at a wage below the market is a targeting strategy that eliminates the need to identify target households and reduces the scope for corruption. In so-called failed states—where public administration is virtually absent in large parts of the country—working with NGOs may prove an important strategy. In the agricultural sector, producer organizations can play a major role in providing services. In India, dairy cooperatives provide livestock services to more than 12 million households, benefiting poor households, women in particular, who may not otherwise be reached by public or private service providers.

In the medium and long terms, the most promising option for overcoming the administrative feasibility challenge is to improve the quality of public administration. Efforts to improve public-sector management have a long history. Early efforts focused on the "supply side" of public administration by providing training, promoting merit-based recruitment and promotion, adjusting the pay scales of civil service employees, and strengthening the systems used in managing procurement, auditing, and public expenditures. More recent approaches have targeted demand-side reforms, strengthening the capacity of citizens to demand public services and hold service providers accountable. Examples include citizen report cards, social auditing, public-service delivery surveys, and participatory planning and budgeting.

Civil society organizations play an important role in these strategies, as exemplified by India's "right-to-information" campaign.

Donor policies can contribute to overcoming the administrative feasibility challenge in several ways. Donor coordination, as agreed in the Paris Declaration on Aid Effectiveness, reduces the administrative burden caused by fragmented development assistance. Administrative feasibility is also enhanced by avoiding externally imposed solutions at odds with local institutions, needs, and practices. Another important strategy is avoiding "blueprinting," instead choosing flexible and adaptable approaches that provide opportunities for learning.

Strategies to Deal with the Fiscal Feasibility Challenge

Among the strategies available for coping with the fiscal feasibility challenge are cost recovery approaches, including charging user fees for drinking or irrigation water or for agricultural extension. These approaches have their own political feasibility challenges. Moreover, making them pro-poor may require special provisions, such as exempting the basic consumption of the commodity from user charges. The targeting of subsidies is another strategy, even though this approach is confronted with both political and administrative feasibility challenges, as indicated previously.

Strategies to promote fiscal feasibility at the system level include reforms of the budgetary process and the tax system. Increasing tax revenues makes it possible to expand public spending for poverty reduction without jeopardizing macroeconomic stability goals. In many countries, the tax system is far from pro-poor, because wealthier households are in a much better position to avoid paying taxes. Increasing the contribution that better-off citizens make to a country's tax revenues could go a long way toward meeting the fiscal feasibility challenges of pro-poor policy instruments, even though the political feasibility challenge of this strategy has to be met.

Conclusion

Progress in achieving the first Millennium Development Goal—to halve hunger and poverty by 2015—has proved difficult, but reaching the "other half" of the poor and food insecure is an even greater challenge. Nevertheless, freeing the world of hunger and poverty is possible. Focusing on the three types of feasibility challenges discussed in this chapter is an important step toward this goal.

Note

1. $1.08 at 1993 purchasing power parity.

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Chapter 40

Investment Priorities for Economic Growth and Poverty Reduction

Shenggen Fan, Joanna Brzeska, and Ghada Shields

Public investments have contributed significantly to agricultural growth and rural poverty reduction in rural areas and also to urban poverty reduction through growth in the national economy and lower food prices. Without such investments, agricultural and national economic growth would have been much slower, and many more rural and urban people in developing countries would be poor. Yet despite these successes, the poor still number about 1 billion,[1] and many governments of developing countries still face severe budget constraints. Thus, public resources need to be more effectively targeted to the sectors and regions that can generate the largest amount of economic growth and poverty reduction. This chapter presents a synthesis and review of several case studies conducted by the International Food Policy Research Institute and its national collaborators to quantify the effects of government spending on both growth and poverty reduction in India, China, Vietnam, Thailand, and Uganda—countries representing different stages of economic development and, hence, the need for different spending priorities.

The Impact of Public Spending in India

Using state-level data spanning 1970–1993, the India study clearly shows that additional government expenditure on roads has the largest poverty-reducing impact, as well as a significant impact on productivity growth (Table 40.1). For every 1 million rupees spent on roads, 124 poor people could be lifted above the poverty line—the largest rate of poverty reduction among all types of investment. Furthermore, 1 rupee invested in rural roads would generate more than 5 rupees in returns from

Table 40.1 Returns to agricultural research in India, state-level analysis, 1993

Sector	Returns in rupee-per-rupee spending	Numbers of poor reduced per million rupees
R&D	13.45	84.5
Irrigation	1.36	9.7
Roads	5.31	123.8
Education	1.39	41.0
Power	0.26	3.8
Soil and water conservation	0.96	22.6
Health	0.84	25.5
Anti-poverty programs	1.09	17.8

Source: Calculated by the authors from S. Fan, P. Hazell, and S. Thorat, Government spending, agricultural growth, and poverty in rural India," *American Journal of Agricultural Economics* 82, no. 4 (2000): 1038–51.

agricultural production, which is the second-largest production growth effect after agricultural research and development (R&D). Additional government spending on agricultural R&D and extension has the largest impact on production growth, with a cost–benefit ratio of 13; it also leads to large rural poverty reduction benefits, second only to rural road investment. Additional government spending on education has the third-largest impact in reducing rural poverty, largely because of the increases in nonfarm employment and rural wages that it induces. Finally, public investment in irrigation has an impact on agricultural productivity similar to that of education investment and only a small impact in reducing rural poverty.

Another study found that for every type of investment, the greatest marginal impact on agricultural production and poverty alleviation occurs in rainfed lands, while that in irrigated areas ranks second or last. Moreover, many types of investments in low-potential rainfed lands yield some of the highest production returns, and all investments except those in education have some of the most favorable impacts on poverty. These results strongly suggest that more investment should be channeled into less favored areas.

The Impact of Public Spending in China

The Chinese case studies indicate that government expenditure on education had the largest impact on reducing rural poverty and regional inequality and had a significant impact on production growth (Table 40.2). Increased rural nonfarm employment was responsible for much of this poverty- and inequality-reducing effect. Government spending on agricultural R&D had the largest impact on agricultural production growth. The benefits of agricultural production growth also trickled down to the rural poor, with the poverty reduction effect per unit of additional

Table 40.2 Returns to public investment in China, 2000

Investment	Coastal	Central	Western	Average
Returns to total rural GDP		Yuan-per-yuan-expenditure		
R&D	5.54	6.63	10.19	6.75
Irrigation	1.62	1.11	2.13	1.45
Roads	8.34	6.90	3.39	6.57
Education	11.98	8.72	4.76	8.96
Electricity	3.78	2.82	1.63	2.89
Telephone	4.09	4.60	3.81	4.22
Returns to agricultural GDP		Yuan-per-yuan expenditure		
R&D	5.54	6.63	10.19	6.75
Irrigation	1.62	1.11	2.13	1.45
Roads	1.62	1.74	1.73	1.69
Education	2.18	2.06	2.33	2.17
Electricity	0.81	0.78	0.88	0.82
Telephone	1.25	1.75	2.49	1.63
Returns to nonfarm GDP		Yuan-per-yuan expenditure		
Roads	6.71	5.16	1.66	4.88
Education	9.80	6.66	2.43	6.79
Electricity	2.96	2.04	0.75	2.07
Telephone	2.85	2.85	1.32	2.59
Returns to poverty reduction		Number of poor reduced per 10,000 yuan		
R&D	3.72	12.96	24.03	10.74
Irrigation	1.08	2.16	5.02	2.31
Roads	2.68	8.38	10.03	6.63
Education	5.03	13.90	18.93	11.88
Electricity	2.04	5.71	7.78	4.85
Telephone	1.99	8.10	13.94	6.17
Poverty loan	3.70	3.57	2.40	3.03

Source: S. Fan, L. Zhang, and X. Zhang, Investment, reforms, and poverty in rural China, *Economic Development and Cultural Change* 52, no. 2 (2004): 395–422.

agricultural R&D investment ranking second after the effect of investment in rural education. Government spending on rural infrastructure (roads, electricity, and telecommunications) had a substantial impact on poverty and inequality, mainly through improved opportunities for nonfarm employment and increased rural wages. Investments in irrigation had only a modest impact on agricultural production growth and an even smaller impact on rural poverty and inequality.

For all types of government spending, the poverty-reducing returns to investments were highest in the less developed western region, while returns from agricultural production growth were the highest in the more developed central region for most types of spending. Furthermore, investments in the western region led to the greatest reductions in regional inequality of all types of government spending, while investments in either coastal or central regions exacerbated large regional inequalities.

Another study found that low-grade (mostly rural) roads have cost–benefit ratios for national gross domestic product (GDP) that are about four times larger than the cost–benefit ratios for high-grade, mostly urban, roads. Even in terms of urban GDP, the cost–benefit ratios for low-grade roads are much greater than for high-grade roads. In terms of agricultural GDP, high-grade roads have no statistically significant impact, while low-grade roads are not only significant but also generate 1.57 yuan of agricultural GDP for every yuan invested. Investment in low-grade roads also generates high returns in rural nonfarm GDP. Every yuan invested in low-grade roads yields more than 5 yuan of rural nonfarm GDP. Equally important in terms of poverty reduction, low-grade roads raise far greater numbers of rural and urban poor above the poverty line per yuan invested than do high-grade roads.

The Impact of Public Spending in Vietnam

The results from Vietnam reveal that government investment in agricultural R&D has the largest poverty-reducing impact, followed by investments in roads and education (Table 40.3). Investment in agricultural R&D also has the largest return to agricultural growth, followed by that in roads. Investment in irrigation has the smallest impact on both agricultural growth and poverty reduction. The large poverty impacts resulting from investment in education and roads are derived from improved nonfarm employment opportunities, which accounted for 89 percent of the total education impact on poverty. The remaining gains resulted from improved agricultural production. For roads, improved nonfarm opportunities accounted for 67 percent of the total effect of road investment.

The Impact of Public Spending in Thailand

The Thailand case study found that additional government spending on agricultural R&D improves agricultural productivity the most and has the second-largest impact in reducing rural poverty (Table 40.4). Investments in rural electrification have the largest impact on rural poverty and the second-largest impact on growth. These two investments dominate all others. Road expenditure has the third-largest impact in reducing rural poverty but only a modest and statistically insignificant impact on agricultural productivity. Government spending on rural education has only the fourth-largest impact on poverty but a significant economic impact through improved agricultural productivity. Irrigation investment has the smallest impact both in reducing rural poverty and in improving agricultural productivity. Disaggregating the investments shows that additional investments in the northeast —especially in electricity and roads—contribute more to reducing poverty than do investments in other regions. Because the growth impacts of many investments

Table 40.3 Returns to public investment in Vietnam, 2000

Region	Irrigation	Roads	Education	Total agricultural R&D
		Dong-per-dong spending		
Northern uplands	0.21	1.87	0.95	
Red River delta	0.40	3.26	2.08	
Central north	0.22	3.27	1.01	
Central coast	0.21	2.44	1.23	
Highlands	0.28	3.09	1.97	
Southeast	1.33	3.30	4.66	
Mekong River delta	0.37	3.40	2.08	
Vietnam total	0.42	3.01	2.06	12.22
		Number of poor reduced per billion dong		
Northern uplands	12.03	153.04	65.60	
Red River delta	7.93	91.38	49.40	
Central north	14.90	311.57	81.28	
Central coast	12.99	215.58	92.31	
Highlands	8.37	130.54	70.14	
Southeast	27.85	98.64	117.64	
Mekong River delta	5.68	74.14	38.24	
Vietnam total	12.93	132.34	76.40	338.96

Source: S. Fan, Pham Lan Huong, and Trinh Quang Long, Government spending and poverty reduction in Vietnam, project report prepared for the World Bank–funded project Pro-Poor Spending in Vietnam, International Food Policy Research Institute, Washington, DC, 2004. Blank cells indicate that regional analysis was not possible for the particular item of expenditure.

Table 40.4 Returns to public investment in rural Thailand, 1999

Investment	Northeast	North	Central	South	Thailand
			Cost–benefit ratio (bhat/bhat)		
Agricultural R&D	n.a.	n.a.	n.a.	n.a.	12.62
Irrigation	0.76	1.11	0.55	0.62	0.71
Roads	1.23	1.23	0.44	1.24	0.86
Education	1.26	2.92	2.89	2.51	2.12
Electricity	8.66	8.04	2.59	5.48	4.89
Phone	n.s.	n.s.	n.s.	n.s.	n.s.
			Number of poor reduced per million bhat		
Agricultural R&D	n.a.	n.a.	n.a.	n.a.	138.10
Irrigation	21.05	5.22	1.74	4.53	7.69
Roads	483.39	82.71	19.48	130.12	126.25
Education	34.74	13.71	9.08	18.53	22.75
Electricity	1,253.02	198.57	42.79	211.99	276.07
Phone	n.s.	n.s.	n.s.	n.s.	n.s.

Source: S. Fan, S. Jitsuchon, and N. Methakunnavut, *The importance of public investment for reducing rural poverty in middle-income countries: The case of Thailand,* DSGD Discussion Paper 7 (Washington, DC: International Food Policy Research Institute, 2004).
Note: n.a., not available; n.s., statistically insignificant.

are also greater in the northeast than in other regions, there is no evident trade-off between investments for growth and investments for poverty reduction.

The Impact of Public Spending in Uganda

All types of public spending in Uganda were found to reduce poverty while increasing agricultural production (Table 40.5). Sizable differences, however, resulted in production and poverty reduction gains across expenditure items. For the country as a whole, government expenditure on agricultural R&D has the highest return to labor productivity and poverty reduction, followed closely by investments in feeder roads. Investment in education ranked third in terms of productivity and poverty-reducing effects, whereas that in health had the smallest impact. For all types of investments except those in health, returns in terms of increased agricultural productivity were highest in the relatively well-developed western region, while returns to agricultural productivity from agricultural extension were lowest in the eastern region. The central and northern regions have the lowest returns from education and roads, while the eastern region ranks in the middle. The northern region is Uganda's poorest, with 67 percent of its residents classified as poor. In terms of poverty reduction, this region has the highest returns (except for health), with the poverty-reducing effects of spending on infrastructure and education particularly high. For all types of investments, the poverty impact was the smallest in the central region.

Conclusions and Implications for Spending Strategy

Increasing public rural investment significantly is difficult—if not unlikely—so countries must use their public investment resources more efficiently. This requires improved targeting of investments to achieve growth and poverty alleviation goals, as well as improved efficiency within the agencies that provide public goods and services. Reliable information on the marginal effects of various types of government spending is crucial for governments to be able to make sound investment decisions. Despite the countries' vast differences in economic systems, natural resource endowments, socioeconomic conditions, and size, these case studies offer some important lessons:

1. Spending on agricultural research, education, and rural infrastructure are the three most effective types of public spending for promoting agricultural growth and reducing poverty.

2. Limited evidence from China and Uganda indicates that it is often the low-cost types of infrastructure that may have the highest payoffs in terms of growth

Table 40.5 Returns to public investment in rural Uganda, 1999

Investment	Central	East	North	West	Uganda
		Cost–benefit ratio (USh/USh)			
Agricultural R&D	12.49	10.77	11.77	14.74	12.38
Education	2.05	3.51	2.10	3.80	2.72
Feeder roads	6.03	8.74	4.88	9.19	7.16
Murram roads	n.s.	n.s.	n.s.	n.s.	n.s.
Tarmac roads	n.s.	n.s.	n.s.	n.s.	n.s.
Health	1.37	0.92	0.37	0.96	0.90
		Number of poor reduced per million USh			
Agricultural R&D	21.75	66.31	175.52	48.91	58.39
Education	3.57	21.60	31.38	12.62	12.81
Feeder roads	10.51	53.85	72.82	30.49	33.77
Murram roads	4.08	11.88	14.80	9.77	9.70
Tarmac roads	2.59	13.12	62.92	9.39	9.73
Health	2.60	6.15	5.95	3.46	4.60

Source: S. Fan, X. Zhang, and N. Rao, *Public expenditure, growth, and poverty reduction in rural Uganda,* DSG Discussion Paper 4 (Washington, DC: International Food Policy Research Institute, 2004).
Note: n.s., statistically insignificant; USh, Ugandan shillings.

and poverty reduction per unit of investment. In the case of China, rural road investment contributes not only to rural growth and poverty reduction but also to urban growth and poverty reduction.

3. Regional analysis conducted for China, India, Thailand, and Vietnam suggests that more investments in many less-developed areas not only offer the greatest poverty reduction per unit of spending but also lead to the highest economic returns. In Africa, however, such regional trends are not as prevalent, with most regions having comparably high returns in terms of poverty reduction regardless of development status. This implies an overall underinvestment of public resources in Africa.

4. Government spending on anti-poverty programs generally has only a small impact in reducing poverty, mainly due to inefficient targeting and misuse of the funds. Although many governments have realized the seriousness of the problem, it is essential to improve the targeting of funds to the poor or otherwise use the investments to improve rural education and infrastructure, which promote long-term growth and hence a long-term solution to reducing poverty.

5. Government spending on irrigation played an important role in promoting agricultural growth and reducing poverty in the past, but today this type of

spending provides smaller marginal poverty and growth returns to many Asian countries. Instead of increasing investment in irrigation, the efficiency of the current public irrigation system should be improved by reforming public institutions and governance.

The case studies also indicate that different spending priorities are needed during different stages of development; "one-size-fits-all" strategies do not work. During the first phase, strategies should focus on reducing widespread poverty through broad-based economic growth that reaches rural areas. In subsequent phases, more direct attention should be focused on lagging sectors and regions, as well as on poverty at the community and household levels, in order to reduce the poverty and income inequalities that arise and persist despite reform.

Most Sub-Saharan African countries are still in the first phase of development. Investments in support of economic growth remain central to the reduction of their mass poverty. In these countries, governments have the central responsibility to forge a well-sequenced and coherent growth strategy and determine what public investments are required. Infrastructure and agriculture are the main areas needing attention in terms of public investment. In recent years, some African governments have started to make progress. For instance, Ethiopia and Nigeria recently increased their public investments in agriculture and rural areas.

Countries such as China, India, Vietnam, and Thailand have successfully completed the first phase of poverty reduction and now need to begin to address regional inequities and poverty issues at the household level. China has traditionally favored a sectoral and regional targeting approach (such as employment programs) to deal with rising inequalities but has recently expanded to more household- and community-targeted programs. India, in contrast, has concentrated on targeting specific sections of the population and has recently expanded to employment programs, too. India's experience shows that the use of a variety of targeted programs directed to specific sections of the poor can help improve targeting compared with the broader income- or area-based approaches.

Note

1. Using a poverty line of US$1.08 at 1993 purchasing power parity.

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Chapter 41

How to Mobilize Public Resources to Support Poverty Reduction

Shenggen Fan, Anuja Saurkar, and Ghada Shields

Although the role of public investment in promoting economic growth and poverty reduction is widely recognized, it is not clear how governments can mobilize these resources and use them efficiently and effectively. Exploring these issues in the context of agricultural and rural development and poverty reduction, this chapter looks at current trends in public expenditures, strategies to raise public funding, and prospective reforms to increase public spending efficiency.

Government Spending in Developing Countries

Over the past two decades, 44 developing countries reported overall growth in total government expenditures in real terms (measured in 2000 international dollars). Expenditures increased from US$981 billion in 1980 to US$1,562 billion in 1990, at an annual growth rate of 4.8 percent. In the 1990s government spending power increased by 7 percent per year. By 2000 total government expenditures rose to US$2,969 billion, reaching US$3,988 billion by 2004, at an annual growth rate of 7 percent between 2000 and 2004. Growth in government expenditures in developing countries has clearly accelerated.

Total government expenditures as a percentage of gross domestic product (GDP) measures the amount a country spends relative to the size of its economy. For countries in this study, the spending increased from 20 percent in 1980 to 22 percent in 2004. On average, developing countries spend much less than developed countries. For example, total government outlays as a percentage of GDP in the countries of the Organisation for Economic Co-operation and Development ranged from 27 percent in 1960 to 48 percent in 1996, compared with 13–35 percent in most developing countries.

Among the three regions, Sub-Saharan Africa spent the most as a percentage of GDP—roughly 28 percent over the past two decades, 7 percentage points more than Asia and Latin America. For Asian developing countries, the percentage increased from 19 percent in 1980 to 21 percent in 2004. Latin America experienced no discernible spending pattern.

Equally important is the composition of government expenditures, which reflects government spending priorities (Table 41.1). The top three expenditures for Sub-Saharan Africa in 2004 were for education, health, and defense. That Africa and Latin America spend so little on transportation and communications is discouraging: the share gradually declined in Africa from 11 percent in 1980 to 6 percent in 2004. The decline was even sharper in Latin America, from 7 percent in 1980 to 2 percent in 2004.

Agriculture is the largest sector in many developing countries in terms of shares of GDP and employment. The majority of the world's poor live in rural areas and depend on agriculture for their livelihoods. Therefore, expenditure on rural public goods is one of the most important government instruments for promoting

Table 41.1 Percentage composition of total expenditures, 1980–2004

	Sub-Saharan Africa				Asia				Latin America			
Sector	1980	1990	2000	2004	1980	1990	2000	2004	1980	1990	2000	2004
Agriculture[a]	7.00	5.48	3.57	5.31	14.93	12.34	7.43	7.41	8.04	2.09	2.51	2.48
Education	14.41	14.46	14.11	15.53	13.83	17.41	14.20	11.58	10.36	7.94	14.79	14.19
Health	4.85	4.45	6.67	7.12	5.31	4.29	4.37	3.58	5.85	6.09	7.55	8.00
Transport and communications	11.00	4.49	4.66	5.83	11.71	5.21	3.80	3.97	6.78	2.65	2.56	2.29
Social security	2.86	2.51	4.95	2.76	1.89	2.43	3.14	3.08	23.65	21.81	36.38	35.81
Defense	19.72	17.06	8.84	6.72	17.58	12.86	8.43	8.19	6.08	4.98	4.60	3.87
Other[b]	40.15	51.54	57.20	56.71	34.75	45.45	58.63	62.19	39.23	54.44	31.62	33.37
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Sources: Calculated by the authors using data from International Monetary Fund, *Government finance statistics yearbook* (Washington, DC: International Monetary Fund, various years).

Notes: The countries were selected largely based on data availability. They include, from Sub-Saharan Africa—Botswana, Burkina Faso, Cameroon, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Kenya, Malawi, Mali, Morocco, Nigeria, Togo, Tunisia, Uganda, Zambia, and Zimbabwe; from Asia—Bangladesh, China, India, Indonesia, Korea, Malaysia, Myanmar, Nepal, the Philippines, Sri Lanka, and Thailand; and, from Latin America, Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Uruguay, and Venezuela. In 2004 these countries accounted for more than 80 percent of both total GDP and agricultural GDP in developing countries.

[a]Includes agriculture, forestry, fishing, and hunting.

[b]Includes fuel and energy; mining, manufacturing, and construction; and general administration.

Table 41.2 Agriculture expenditures, 1980–2004

	Billion 2000 international dollars				Percentage of agricultural GDP			
Region	1980	1990	2000	2004	1980	1990	2000	2004
Sub-Saharan Africa	2.97	3.64	4.01	6.91	4.05	3.73	3.47	5.78
Asia	71.14	103.00	147.90	206.60	9.57	8.63	9.13	10.93
Latin America and the Caribbean	31.47	12.19	18.93	23.65	14.72	5.77	9.12	8.24
Total	109.94	123.03	177.14	244.48	10.37	7.93	8.85	10.35

Source: Calculated by the authors using data from International Monetary Fund, *Government finance statistics yearbook* (Washington, DC: International Monetary Fund, various years).

economic growth and alleviating poverty in rural areas of developing countries. Agricultural expenditures increased at an annual rate of 3.4 percent between 1980 and 2004 (Table 41.2). During the same period, the rural population grew by approximately 1 percent per year and agricultural GDP by 4.2 percent. That is, agricultural expenditures per capita of rural population increased slightly, and expenditures per unit of agricultural GDP decreased.

In Sub-Saharan Africa, government expenditures on agriculture increased gradually at an annual growth rate of 3.6 percent. Agricultural expenditures in Asia more than doubled between 1980 and 2004 at an annual growth rate of 4.5 percent, the highest rate among the three regions. Latin America was the only region that reduced its spending in agriculture, with an annual reduction of 1 percent. Seven of the 16 Latin American countries included in the dataset reduced their government expenditures in agriculture.

Agricultural expenditures as a share of total government spending indicate the level of priority a country gives its agricultural sector. For all regions, the shares declined between 1980 and 2004: in Latin America the share declined from 8.0 to 2.5 percent, in Asia it declined from 15.0 to 7.4 percent, and in Africa it declined from 7.0 to 5.3 percent. Africa's rate is well below the 10 percent target established by the Comprehensive African Agricultural Development Program.

Agricultural expenditures as a percentage of agricultural GDP measure government spending on agriculture relative to the size of the sector. Agricultural spending as a percentage of agricultural GDP is extremely low in developing countries (less than 10 percent on average) compared with developed countries (more than 20 percent on average). During 1980–2004, Asia remained relatively constant at 10–11 percent. Africa spent only half as much as Asia (4–6 percent) and only one-third as much as Asia spent during the Green Revolution period. For Latin America, agricultural spending as a percentage of agricultural GDP decreased from 15 percent in 1980 to 8 percent in 2004.

Mobilizing Resources to Support Poverty Reduction Efforts

Finance for public spending has a number of sources. The different financing mechanisms have important implications not only for efficiency but also for poverty reduction and distributional outcomes. The financing options include domestic sources, such as savings, tax revenues (from income and corporate taxes, value-added taxes, and so on), and domestic nontax revenues (such as user fees), and foreign sources, such as foreign direct investment, borrowing, debt relief, and foreign aid (such as official development assistance, or ODA).

The most effective way to boost a country's resource mobilization effort is to improve its tax system. The ratio of tax revenue to GDP is only 18 percent in developing countries, while it is 38 percent for industrial countries. An efficient tax system finances the necessary level of public spending in the most efficient and equitable way. It increases revenues by eliminating exemptions, deductions, and loopholes and by effectively enforcing the tax laws. However, in most developing countries it is a challenge to establish such a system due to the predominant agrarian structure of the economy (largely informal) and the limited capacity of the tax administration. Traditionally, tax reforms have emphasized indirect taxes such as the value-added tax rather than the more progressive direct taxes on income or wealth that would generate higher tax revenues. Evidence also shows that taxes on agriculture should be minimized or even eliminated, particularly in largely agrarian economies, so the poor—who derive their livelihoods mostly from agriculture—will not be adversely affected. No single taxing system is best: each system has to be designed to fit the country's economic, social, legal, and cultural context. The recent tax reform in Ghana introduced a system increasing the direct income tax, reducing the indirect tax, and decreasing reliance on import and export duties, which has increased the total tax revenues and made taxes more amenable to the poor.

Subnational entities also raise revenues by levying taxes on personal income and corporate profits, as well as on customs and excise duties, nonagricultural wealth, and interstate trade. The management of these revenue streams is often divided between the central government and its state and municipal counterparts. Decentralization of government powers has been shown to improve revenues because local authorities have better and more detailed knowledge of local conditions than the central government. However, in this sharing mechanism there should be an incentive structure for the subnational entities to raise more revenues by receiving a certain percentage for local public provision and administration. For example, in China subnational entities have an incentive to raise more taxes because if they increase revenues, they receive a larger share of the pie.

Domestic nontax revenues, such as user fees, are another source of public revenue, although user fees in some sectors can have a negative effect on the poor.

For example, introducing user fees in the health sector can reduce public subsidies, resulting in more inequity in access to health services and in health outcomes. The same applies to education, where fees for books or uniforms may deter the very poor from sending their children to school. However, for public utilities such as electricity and irrigation, from which nonpoor households benefit more, a user fee is more efficient and equitable.

Foreign aid, such as ODA, can boost public investment programs but cannot replace domestic resource mobilization in the long run. Debt relief is another way of boosting the expenditures of poor countries by diverting expenditures from debt payments toward sectors such as infrastructure, health, and education. But foreign aid and expenditures from debt relief have to be used carefully. First, the allocation of aid among different sectors has to be aligned with national development priorities. Strong programming strategies have to be developed in accordance with a country's socioeconomic and political dimensions for foreign aid programs to be successful in reaching the goal of reducing poverty and hunger. Careful analyses must be conducted to provide evidence-based knowledge and information for policymakers and political institutions to determine what allocations to make. Second, too much foreign aid can lead to other dangers. Scarce local human resources can be used up quickly servicing multiple development programs that simply serve individual donor interests. As a result, fewer people are employed in productive activities. Moreover, there is always a danger that governments will spend more time being accountable to donors than to their own people, thus spending less money and time addressing the needs of the rural poor. Finally, when policy design, analysis, and management skills are inadequate, development activities will continue to have a high price tag as countries resort to hiring expensive foreign expatriates or consultants to do the job. Many donors have moved their aid from project or program support to budget support. This is a good way to ensure that donor support will align with the priorities of the national development strategies. Again, national capacity in setting spending priorities is crucial to improving the effectiveness of budget support. Donors may need to earmark special funds to build up the long-term capacity for formulating and implementing national development strategies and public spending programs.

Public–private partnerships are another critical instrument for mobilizing private investment to promote economic growth and poverty reduction. The public sector is the dominant supplier of health, education, infrastructure, and technology services in many developing countries. Inefficiencies are widespread and arise from endemic problems with poor staff incentives and a lack of financial autonomy, accountability, and transparency. Privatization can be an effective way to improve efficiency. Private firms have a stronger incentive to build and run infrastructure industries in cost-effective ways and to be more responsive to the needs of end users as long as privatization goes hand in hand with the development of market institutions and contracting mechanisms that exert competitive pressure on the private firms. The extent to which such institutions can be put in place will also vary with the types of services and infrastructure to be provided: for example, the ability to recover costs differs by the type of service or infrastructure. Privatization also encourages and facilitates the imposition of cost-covering tariffs or user fees, thus addressing the problems of underpricing that have afflicted many publicly provided infrastructure services. Greater efficiency and cost recovery allow firms to make investments and provide services that might not otherwise have been possible. They simultaneously improve efficiency and the government's fiscal condition by making available the same quality and quantity of services with smaller budgetary subsidies. But privatization is not a panacea. Policymakers should consider both efficiency and equity implications when deciding what and how to privatize.

How to Improve Public Spending Efficiency

Public expenditures, regardless of their benefits and distribution, impose a cost on society, diverting resources from private use and resulting in deadweight losses associated with distortional taxation (that is, the "marginal cost of public funds"). For example, one study estimated that each unit of public expenditure raised in Africa had, on average, a social cost of US$1.17. If the social return of a project is smaller than the marginal cost of public funds, it is not worth investing in that project.

Efficiency of public spending is defined as achieving the maximal outcome given the same unit of spending. It can be further disaggregated into allocative efficiency and technical efficiency. Allocative efficiency reaches a maximum when the spending outcome is maximized by reallocating public spending among different sectors or functions. To do this, information is needed on the relative returns to different expenditures. In assessing their effects, two issues are particularly worth noting. First, it is critical to assess the impact of spending through all channels. For example, investment in rural infrastructure may affect agricultural productivity, rural nonfarm sectors, rural–urban migration, and food prices, and all of those, in turn, will contribute to overall economic growth, poverty reduction, and income distribution among different population groups. Second, more spending items should be included and assessed jointly so that their returns can be compared and their complementarities and interactions can be considered.

To improve allocative efficiency, public spending needs to be reallocated from low-return sectors and regions to ones with high returns (see Chapter 40 in this book). To improve the technical efficiency of public spending, the efficacy of spending in sectors where returns are low needs to be improved by reforming public institutions and governance. Simply increasing the amount of resource flows into poor sectors is insufficient without adequate checks and balances to ensure that resources and investments are effective. In other words, are governance structures and institutions sufficient to ensure that the planning, implementation, and monitoring of development processes are transparent and that policymakers are highly accountable? Because good governance also means having in place institutional incentives for private-sector growth, are there well-established and transparent "rules of the game" to encourage economic activities with domestic, regional, and international markets? Uganda, for example, has reduced its poverty and hunger rates rapidly over the past decade thanks to an improved governance and policy environment, improved bureaucratic and management structures, greater transparency in decisionmaking, and an environment that overall is conducive to private-sector growth. The quality of the governance structures and existing institutions in each country will determine how well policies and development strategies will ultimately reduce poverty. For example, the service delivery mechanisms may work far more efficiently at a decentralized level and through traditional institutions. However, centralized systems will be more cost effective and efficient for the delivery of large public works such as roads, electricity, and irrigation.

Social security expenditures are important to the development process, particularly in protecting the welfare of the most disadvantaged and vulnerable groups. This type of spending can also help achieve long-term growth and poverty reduction by improving the productivity of the poor. There are synergies between social protection and pro-poor agricultural growth.

Another important reform that can increase the public resources available to invest in more productive sectors is to reduce government subsidies on inputs and output. In India, initial subsidies on credit, fertilizer, and irrigation helped farmers, especially smallholders, to adopt new technologies. Small farms are often losers in the initial adoption stage of a new technology because the increased supply of agricultural products from large farms benefiting from the new technologies pushes prices down. In India these initial subsidies helped small farmers to access the new technologies and therefore also to gain in this initial stage. Eventually, however, these subsidies will yield low marginal returns in both agricultural growth and poverty reduction, despite their large impact in earlier decades. To sustain long-term growth in agricultural production and therefore achieve a long-term solution to poverty, government should cut subsidies and increase investments in agricultural research and development, rural infrastructure, and education.

The Way Forward

Many developing countries have committed to poverty reduction by developing national strategies and by committing financial resources to these efforts. How can governments mobilize these resources and use them efficiently and effectively? First, developing countries need to increase their tax revenues by reforming their tax systems so their dependence on foreign aid can be reduced. A simple, transparent, and direct taxing system is often more efficient and equitable than a more complex, indirect system. Second, the government should cut subsidies on inputs and output and increase investments in agricultural research and development, rural infrastructure, and education. Third, reforms in institutions and governance related to public spending are urgently needed. A decentralized, participatory, evidence-driven governance structure is necessary for efficient, pro-poor government spending.

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Chapter 42

Improving Governance to Eradicate Poverty and Hunger

Regina Birner

Why has eradicating hunger and poverty proved difficult despite its being a declared goal of the international development community for more than half a century? Why has the number of hungry people increased in recent years? Why is poverty particularly persistent in Sub-Saharan Africa? Why do economically successful developing countries in Asia and Latin America have regions lagging in eradicating poverty? Over time, the answers to these questions—the basis of development strategies—have changed. With the emergence of a more comprehensive understanding of the challenge of development, various constraints have been identified: adverse ecological conditions, inadequate technology, lack of capital and education, cultural factors, and institutional failures. In analyzing the challenges of eradicating hunger and poverty, governance has attracted particular attention in the past decade. As Kofi Annan, then secretary-general of the United Nations (UN), told world leaders in 1998: "Good governance is perhaps the single most important factor in eradicating poverty and promoting development."[1]

Governance is the exercise of economic, political, and administrative authority to manage a country's affairs at all levels. Different definitions of good governance have been proposed by development organizations. The definition offered by the UN Development Programme highlights participation, accountability, transparency, consensus, sustainability, the rule of law, and the inclusion of the poorest and most vulnerable people in making decisions about allocating development resources. A widely used set of aggregate data from a broad range of sources compiled by the World Bank Institute measures the following dimensions of good governance: political stability and the absence of violence, the rule of law, voice and accountability, regulatory quality, government effectiveness and control of corruption, and environmental governance. As I explain in this chapter, each of these dimensions of governance is important for eradicating hunger and poverty. Overall progress in improving governance, as measured by these dimensions, has been slow in the past decade. This is alarming because the poorest and most food-insecure people live in countries with weak governance. However, encouraging trends are evident in some countries—including some African countries—that are making considerable progress in improving governance.

Relations between Governance and Poverty and Food Security

The dimensions of governance affect hunger and poverty in numerous ways:

- *Political stability and the absence of violence.* A stable environment is a fundamental precondition for food security and development. A study of Uganda shows that there is a threshold of security below which public investments in infrastructure and education have little impact on development.

- *The rule of law.* Poor and disadvantaged groups, especially the rural poor and women, often lack access to justice. The transaction costs of accessing the formal juridical systems are typically high, and the system is often captured by elites who have few incentives to serve disadvantaged groups. Poor people thus have few prospects to defend their land or labor rights or to take action against violence, which contributes to inequalities.

- *Voice and accountability.* The extent to which a country's citizens can participate in selecting their government is a measure of the people's voice and the public sector's accountability, as is freedom of expression, association, and the media. The relations between this dimension of governance and development outcomes are complex. Famines are less likely to occur in functioning democracies with a free press. Even in democratic systems, however, poor people often struggle to make their voices heard. They need to form organizations and compete in political processes, which is particularly challenging for the rural poor.

- *Regulatory quality.* Policy instruments and government regulations that create macroeconomic stability and foster economic growth are obviously important for poverty reduction. However, regulatory and policy instruments cannot benefit the poorest and most disadvantaged groups unless equity—including gender equity—is considered in choosing those instruments.

- *Government effectiveness and control of corruption.* These dimensions of good governance are important for the implementation of every policy instrument that the state can use to alleviate poverty and ensure food security. The impact of increased public spending and donor funding is limited when the level of government effectiveness is low and corruption is widespread.

- *Environmental governance.* Because most poor people depend on agriculture for their livelihoods, the governance of natural resources, such as water, soil, rangelands, and forests, requires special attention to ensure that hunger and poverty reduction strategies are sustainable in the long run.

Strategies to Improve Governance: A Conceptual Framework

Figure 42.1 presents a conceptual framework for identifying and assessing strategies that aim at improving governance. The major types of strategies are, first, demand-side strategies intended to aid poor people in communicating their demands for services and infrastructure from public-sector institutions and to hold them accountable and, second, supply-side strategies designed to increase the capacity and incentives of public administration and other service providers to fulfill their functions. Some strategies directly involve users in the provision of public services; these can be classified as mixed strategies.

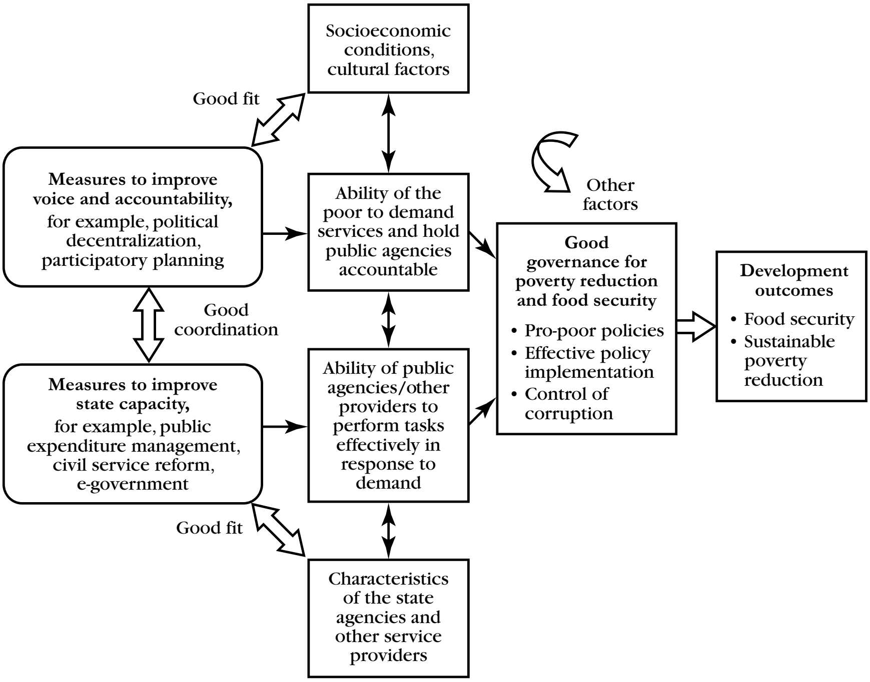
Figure 42.1 shows that both demand- and supply-side strategies must fit with context-specific conditions (as indicated by the "good fit" arrows). For example, in communities with hierarchical power structures and social exclusion, special provisions for disadvantaged groups can help tailor demand-side strategies to those conditions. In India, seats on local councils, including chairperson positions, are reserved for women and for scheduled castes and tribes. Studies show that the reservations can be effective in improving service provision for women and disadvantaged groups. On the supply side, approaches to reforming public administration are more effective if they tailor responses to the specific problems that public agencies face.

While governance is an important factor in achieving food security and sustainable poverty reduction, other factors also matter. These include agroclimatic conditions, weather events, and international commodity prices.

Demand-Side Strategies to Improve Governance

Demand-side strategies thus focus on the voice and accountability dimension of governance. These approaches include strengthening the capacity of poor people

Figure 42.1 Framework for improving governance: Demand and supply-side approaches



Source: Devised by the author.

and disadvantaged groups, including women, to demand better services and creating institutional arrangements that help them channel their demands to public agencies and hold them accountable.

The route to accountability can be either long or short. In the case of the short route, citizens or citizen groups are empowered to provide direct feedback to public agencies. In education, parent–teacher associations can help to reduce teacher absenteeism, which particularly affects poor rural areas. The representation of farmers' organizations on the management boards of agricultural research and extension organizations can make those organizations more responsive to the specific needs of poor and food-insecure farm households. Participatory planning and budgeting methods also increase voice and accountability. In the well-known case of Porto Alegre, Brazil, participatory budgeting led to an increased share of public investments that benefited the poor. Experience shows that such approaches can fail if no provisions are made to avoid elite capture and ensure the participation of disadvantaged groups, including women. In Porto Alegre, for example, citizens attending budget meetings can spontaneously form groups, which has proven an effective strategy to limit the power of established organizations. The Community Water and Sanitation Agency in Ghana ensures that women are members of the village-based water and sanitation committees. In cases in which such provisions are absent, women and the poor may be excluded from important decisions that affect their livelihoods, as the experience of forest user associations in South Asia has shown.

In the case of the long route to accountability, poor people can use lobbying and voting to induce political decisionmakers to take steps to improve the performance of public services. Experience shows, however, that even in democracies, where this long route of accountability is available to the poor, they may still receive poor services because of failures of the political system. Efforts to reduce vote buying and promote political competition—through, for example, public awareness campaigns—can play an important role in making this route more effective. Democratization also allows parliamentarians to play a stronger role in improving the accountability of public agencies to the poor. Political decentralization is attracting increasing attention because it can bolster accountability by bringing government closer to the people. Nonetheless, political decentralization, like the short routes to accountability, can fail owing to local elite capture, especially in societies with very hierarchical local power structures. India and Pakistan have a policy of reserving seats for disadvantaged groups on local councils to address this problem. India reserves seats for members of scheduled castes and tribes, Pakistan reserves seats for agricultural laborers, and both countries reserve seats for women. Experience shows that efforts to build the capacity of elected representatives who hold reserved seats can play a crucial role in making this strategy work.

The short and long routes to accountability benefit from increased transparency in the performance of service providers. The citizen report card approach developed by the Public Affairs Center, a nongovernmental organization (NGO) in Bangalore, is a prominent example. This method uses surveys to find out how satisfied users are with the services they receive. Experience shows that this strategy works best if it is combined with public action to disseminate the results and with dedicated efforts to ensure the collaboration of the service providers. In Ethiopia, NGOs assess farmers' satisfaction with agricultural and irrigation services using report cards, and development agencies use the method to benchmark district-level performance in providing public services. Additionally, national statistical bureaus increasingly conduct service delivery surveys. An example is Uganda's National Service Delivery Survey, which has been conducted on a national basis since 2000. If proper sampling approaches are used, the citizen report cards and national service delivery surveys provide equal opportunities to the poor and to disadvantaged groups to report their access to and satisfaction with public agencies. More could be done, however, to report the results of such surveys by income group and gender, thereby making the instruments more effective for disadvantaged groups. Increasing transparency requires an enabling policy environment. In India, the Right to Information Act was an important step toward empowering citizens, including the poor, to demand information from public agencies.

Supply-Side Strategies and Mixed Approaches to Improve Governance

Efforts to improve citizens' ability to demand better services and hold service providers accountable have little impact if the providers do not have the capacity to respond to the demand and deliver better services. Therefore, demand-side strategies to improve governance should be coordinated with appropriate supply-side strategies.

One strategy on the agenda for decades is public administration reform, and various models have been tried. Training, introducing merit-based recruitment and promotion, and creating incentives by adjusting payment structures have been central elements in most approaches. The New Public Management approach has introduced private-sector management techniques into public service and emphasizes the role of the citizen as a customer rather than as an obedient subject. Experience has shown that in spite of good intentions, such approaches often fail, especially if they are driven by donor initiatives and led by foreign consultants, with limited "buy-in" from the members of the public agencies to be reformed. Moreover, past approaches have often failed because they focused on changing the institutional structure of public agencies rather than on changing bureaucratic culture and attitudes, which would require an institutional learning approach.

Administrative and fiscal decentralizations are other supply-side approaches. Unfortunately, these types of decentralization often lag behind their corresponding demand-side approach: political decentralization. Public officials at the central level resist the loss of influence and transfer to locations outside the capital city. Yet the effectiveness of political decentralization remains limited as long as local governments lack fiscal and administrative resources.

In the past decade, some interesting institutional and technological innovations have emerged that can help make supply-side approaches more effective. For example, El Salvador, Malaysia, and Mexico subject government agencies to the ISO 9000 management certification of the International Organization for Standardization. Certification is based on performance orientation and client satisfaction. E-government also holds promise for developing countries under certain conditions. In the Indian state of Karnataka, computerizing land records under the Bhoomi program has enabled the rural poor to gain access to land records and has limited opportunities for bribery by increasing transparency.

Another set of supply-side reforms aims at improving public service provision by involving private-sector agencies, user organizations, and NGOs in the provision of public services.

- *Outsourcing.* Contracting, or outsourcing, is suitable for functions that require public finance but not necessarily public provision. For example, in Uganda's new National Agricultural Advisory Services system the provision of agricultural advisory services is contracted to private-sector enterprises, individual consultants, and NGOs that compete for the contracts. The approach is combined with a demand-side strategy, giving farmer organizations a say in awarding the contracts. There is evidence that the program has in fact improved the provision of agricultural advisory services. At the same time, the program shows that this approach involves important challenges, such as overcoming corruption problems in the awarding of contracts and ensuring political support.

- *Public–private partnerships.* Going beyond outsourcing, public–private partnerships create joint responsibilities for financing and provide services and infrastructure. Urban water and electricity supply and irrigation infrastructure projects have been implemented using this approach. Not all such programs are suitable for targeting the poor, but they can free up public resources, which can then be focused on the poor under other institutional arrangements.

- *Privatization.* For services that are not confronted with market failure, privatization is well suited. Creating an enabling investment climate for the private sector is essential to make this strategy work. If market failures result from natural monopolies and other causes, as in the case of water and electricity supplies, privatization needs to be combined with regulation. In these cases, regulation is important for ensuring that the poor, especially the rural poor, have access to such services. Regulation can be combined with demand-side approaches, for example, by making regulatory decisions subject to public consultations, as they are for electricity regulation in India. Experience has shown, however, that political interests can be an important obstacle to creating independent regulatory institutions that defend the interests of the poor.

A range of reform strategies represents mixed demand- and supply-side approaches because they involve citizens directly in public functions such as service provision and regulation.

- *Public–private people partnerships.* These partnerships involve civil society organizations, such as farmer organizations, along with public-sector agencies and private business enterprises. This strategy can be important in linking smallholders to new markets, as in the Sustainable Uptake of Cassava as an Industrial Commodity Project in Ghana. In this project more than 100 stakeholders from public, private, and civil society organizations have been organized to develop a value chain for cassava. The challenge of this strategy is creating a sustainable institutional basis that continues to function after external support is withdrawn.

- *Collaborative management.* This strategy involves the partial transfer of authority over resources or services to user groups that then engage in a joint management arrangement with the public agency concerned. This approach is widely applied in the management of natural resources, such as fisheries, protected areas, and forests. This strategy has also gained increasing importance in irrigation management around the world. As in the case of the demand-side strategies discussed earlier, collaborative management requires measures against elite capture to ensure that poor and disadvantaged groups are reached. The Indian state of Madhya Pradesh, for example, introduced voting rights for women in water user associations to foster their participation.

- *Service cooperatives.* Formed and owned by producers, including smallholder farmers, service cooperatives can be important in providing pro-poor services. In India dairy cooperatives provide livestock services to more than 12 million households, benefiting women particularly because of their large role in dairy farming.

The extent to which any of these governance reform strategies improves the quality and accessibility of public services for the poor depends on how the approach "fits" the specific problems of the public agencies to be reformed. It also depends on the capacity of the private sector, NGOs, user groups, and others to be involved in service provision.

The Political Economy of Governance Reforms

Governance reforms typically confront political challenges because they change power dynamics and affect vested interests. Reforms of public administration are particularly difficult if they retrench staff and switch from seniority-based remuneration systems to performance-based ones. When general reforms are politically too difficult, "unbundling" public administration reform and pilot reforms in key government agencies is often advisable. Whatever path is chosen, reforming governance requires vision and leadership. For example, the Bhoomi program in Karnataka would not have been possible without the leadership of Rajeev Chawla, a committed member of public administration, and India's right-to-information movement has been driven by the leadership of social activist Aruna Roy.

Policy Implications

Governance reforms are high on the political agenda, but making them work for food-insecure and hungry people requires specific action. As mentioned earlier, overcoming the political economy challenges of governance reforms is often the most difficult task, because even if promising reform options are identified, they are often considered too costly or too contentious. Although there is still much to learn about improving pro-poor governance, several policy implications can be derived from current reform experiences.

- *Moving from "one-size-fits-all" to "good-fit" approaches.* Governance reforms work only if they are tailored to country- and sector-specific conditions. There is a wide range of demand- and supply-side strategies to help improve governance, but the combination of approaches to be applied must be based on a careful analysis of the opportunities and challenges for reform available in a particular context.

- *Promoting experimentation and learning.* Because reforming governance is complex, it is useful to provide scope for experimentation and learning and to use approaches that are flexible enough to allow for adjustments over time. Strengthening the analytical capacity to evaluate reforms based on evidence can contribute to learning processes. China, for example, first introduced a major local governance reform—the election of village heads—on an experimental basis. Subsequently the policy was adjusted based on the emerging experience. Evidence about the positive impact of village-level elections on local governance also helped to overcome intraparty opposition to this reform.

- *Combining demand- and supply-side approaches.* Various strategies to reform governance can reinforce each other. Particularly promising is combining demand-side approaches that give the poor more voice with supply-side approaches that give public administration the capacity and incentive to respond to the needs of the poor. For example, the reform of agricultural extension in India led to the creation of agencies for agricultural management technology that foster collaboration among different government agencies to better serve farmers' needs. At the same time, the reform promoted the formation of farmers' groups to strengthen their voice.

- *Creating an enabling environment.* Both demand-side and supply-side approaches to governance reform depend on an enabling policy environment. Private enterprises require a conducive investment climate. Likewise, cooperatives depend on a legal framework that prevents undue state influence and creates access to financial and other services. Civil society organizations are better able to hold government agencies accountable if they have the right to free association and the right to information and if freedom of the press is guaranteed.

- *Strengthening leadership.* Governance reforms require leadership from political decisionmakers, members of public administration (supply side), and civil society (demand side). Investing in people's leadership capacity is thus an important dimension of governance reform. Experience with promoting women's self-help groups in India shows that these groups provide an important opportunity for future leaders to emerge.

- *Coordinating and aligning donors.* Although governance reforms, as political and social processes, are ultimately driven by a country's citizens and their leaders, donors can play an important role. Coordination of donor activities and alignment with country-owned strategies and programs, as foreseen in the Paris Declaration on Aid Effectiveness, is particularly important in promoting governance reforms. In Ghana, for example, donors are coordinating their efforts to support the country's decentralization process through a donor working group and joint policy reviews.

- *Mainstreaming poverty in all governance reforms.* Mainstreaming a focus on poverty in all types of governance reforms is necessary to prevent the poor from losing out in the reform process. Supply-side strategies that aim at making public administration more efficient—for example, through outsourcing and cost recovery—require special provisions for the poor. Likewise, demand-side or mixed strategies may not give more voice to the poor unless strategies to avoid elite capture, such as quota and capacity development programs for women and disadvantaged groups, are applied.

Note

1. United Nations, Annual Report of the Secretary General on the Work of the Organization, Document A/53/1, United Nations, New York, 1998, paragraph 114.

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Chapter 43

Social Innovation and Entrepreneurship: Developing Capacity to Reduce Poverty and Hunger

Suresh Babu and Per Pinstrup-Andersen

Social entrepreneurs—individuals with business acumen who are on a social mission—can provide the new approaches needed to hasten the process of reducing poverty and hunger. By combining innovative ideas from individuals and investments from public, private, and civil society organizations, such entrepreneurs can guide complex global food systems and rural institutions toward their goals. Often, however, inappropriate and stifling bureaucratic processes, along with insufficient understanding of how food systems and rural institutions function, slow the identification and implementation of innovative solutions. As a result, potential social entrepreneurs lack the motivation to take action, and their potential contribution to the global goals of reducing poverty and hunger is lost.

Social innovation—meaning new strategies, concepts, ideas, and organizations that meet social needs—and social entrepreneurship—a drive for social missions that combine business principles and motivations—are emerging as promising approaches to international development. Recent experiences have shown that introducing an entrepreneurial spirit into the development process can improve the effectiveness of intervention programs. World history shows that every society produces its own social entrepreneurs to solve its problems. Yet until recently, organized efforts to develop and promote the capacity for social innovation and entrepreneurship have been limited. This is in sharp contrast to the private sector, where entrepreneurship has been and continues to be a major force driving development.

Unfortunately, social entrepreneurs are in short supply in the arena of policymaking. Expanding their number and improving the environments within which they operate effectively would greatly enhance the capacity at local, national, and international levels to address developing-country poverty and hunger problems through planning, policymaking, program design, implementation, and monitoring and evaluation of interventions. It is high time for the public sector—in particular the social sector—to remove the barriers to creative action and provide incentives for social entrepreneurs.

This chapter reviews existing paradigms for strengthening the capacity for social entrepreneurship and innovation to reduce poverty and hunger. It identifies various approaches for increasing the number of social entrepreneurs at various levels and highlights the challenges developing countries face in building such capacity.

Increasing the Capacity for Social Entrepreneurship and Innovation

Social entrepreneurs are needed in adequate numbers in different spheres of development—that is, at global, national, and community levels—to enable the effective design and implementation of poverty and hunger reduction programs. Expanding the benefits of social innovation to reduce widespread poverty and hunger, however, will require a plethora of social entrepreneurs who function as change agents by innovating, inspiring, and implementing new ideas at various levels.

At the global level, it is highly unlikely that the Millennium Development Goals (MDGs) related to poverty and hunger will be achieved with "business-as-usual" approaches. The current approaches to reducing poverty are based on several assumptions: that programs designed to address poverty should operate effectively, markets should function and deliver, poor people should have the same opportunities as others in society, and they should have equal access to public and financial services. Social entrepreneurship and innovation are particularly useful when these assumptions break down, as they often do in developing countries. Many are concerned that the MDGs may not be reached through poverty reduction programs led by the public sector alone. Social entrepreneurship and innovation do not replace public-sector interventions, but they can make them more effective and enhance their impact on the ground.

At the national and local levels, several success stories document how social entrepreneurs in different countries have responded to social challenges with innovative solutions. For example, the seemingly simple social innovation of helping poor rural women in Bangladesh to access small-scale, group-based loans through microfinancing continues to be a major poverty reduction strategy in rural Bangladesh. It was the removal of regulatory barriers in the banking sector that allowed individuals to form microfinance groups. In Tanzania's Iringa region, an innovative idea about identifying village volunteers and training them to monitor child growth—as part of an integrated nutrition program—helped to reduce infant mortality and child malnutrition substantially. Although successful, many of these advances are largely isolated, typically developed as local interventions that target a limited geographic area.

While such interventions make a difference in people's lives, their impact may not be sufficiently great to lift millions of poor people out of poverty and hunger. Such endeavors are simply not supported by the necessary capacity to scale up and scale out. Furthermore, most successful social entrepreneurs operate outside the public sector, partly because they need the freedom to innovate and to implement their ideas rapidly. Yet the publicly funded intervention programs also require innovation, change agents, and entrepreneurial approaches to enable them to have a greater impact with fewer resources. The current challenge is to identify cost-effective methods of developing a large number of social innovators and entrepreneurs who can contribute to the process of reducing poverty and hunger.

Three Roles for Social Entrepreneurs

Social entrepreneurs can contribute to reducing poverty and hunger in many ways and at different levels within a country. At the macro level, social entrepreneurs could help formulate and implement policy; at the business level, they could use their business skills to address social issues; and at the community level, they could help solve specific local problems. Three kinds of social entrepreneurs are needed, based on their roles and working environments: policy, program, and business entrepreneurs. The abilities required by each type of entrepreneur vary, although several traits are common to all.

Policy Entrepreneurship

Social entrepreneurs well versed in policy processes are needed to expand successful local programs into large-scale national programs with a wider poverty impact. Bringing about significant changes in policy at the national or global level, however, requires change agents at the highest levels of decisionmaking. At the global level, policy entrepreneurs could influence policymaking by multilateral aid agencies. At the national level, they could guide national systems toward specific strategies, through either innovation or adoption of ideas that have succeeded in other places and contexts. At the local level, although their influence is limited, they could help create a policy environment that enables other types of social entrepreneurs to be effective. Developing an adequate number of policy entrepreneurs in developing countries with the knowledge and expertise needed is essential for solving hunger and poverty problems.

Program Entrepreneurship

Program entrepreneurs are instrumental in designing and implementing innovative programs to reduce poverty and hunger funded by development partners, national governments, and nongovernmental organizations (NGOs). It is essential that program managers and implementers have the entrepreneurial skills needed to address local problems with global ideas. With improved capacity for identifying innovative solutions, local authorities, elected officials, and leaders could become effective initiators of grassroots change.

Youth and youth leaders are increasingly seen as partners in development. Their active participation in solving development problems could have a profound impact on reducing poverty and hunger. On the one hand, many youth are engaged in community affairs, have a high level of commitment, and are well connected through information and communications technologies. On the other hand, the growing number of educated but unemployed youth in many countries increases the risk of social instability and armed conflict. Given appropriate skills, mentoring, recognition, and support, these individuals could become effective social entrepreneurs, and their engagement and collective action could be transformed from negative to positive action.

Business Entrepreneurship

Applying the principles of business development to social problems could be another way of solving the challenges of poverty and hunger in developing countries. Social business entrepreneurs use business principles to implement social innovations. At least three types of such entrepreneurs can be identified. The first category encompasses business leaders who are successful in their own field and bring their business acumen to bear in solving social problems—for example, a commercially successful physician who organizes fellow doctors to provide health services to the rural poor at no cost or minimal cost. The second group views poor people as a business opportunity. Instead of seeing poor people as victims or a burden to society, these entrepreneurs recognize them as potential consumers of their products and services. Recent attempts by corporations to devise strategies that combine business objectives with social concerns are good examples of social innovation within the business sector.

The third group of social business entrepreneurs is a subset of poor people, who—although they all fall below the poverty line—still have different levels of income, resource ownership, social capital, and entrepreneurship. Some have become business-oriented social entrepreneurs with little financial help or training. Microfinance programs enable poor and otherwise vulnerable people to organize themselves and develop businesses, thus addressing their own social challenges in innovative ways. For example, the private schools that have emerged in the slums of India, Kenya, and Nigeria in response to poorly run government schools indicate that poor people can address their own social needs. Moreover, futures markets for goods and services are to be found among the poor. Building the capacity for social entrepreneurship among poor people themselves and connecting them with financial markets could transform poor societies.

Developing Social Entrepreneurship through Education

To achieve the MDGs, adequate social innovative capacity is needed at various levels in public, private, and NGO sectors. Existing systems of higher education must gear up to be able to develop the capacity for problem solving. Although social entrepreneurship is a relatively new area for capacity development, considerable progress has been made in several spheres.

Universitywide Approaches

Increasingly, many developed-country universities and selected institutions of higher learning are adopting an entrepreneurship approach to education. Education in entrepreneurship supports students in becoming leaders, innovators, and creative problem solvers because it blends real-world experience with conceptual learning in the classroom. It seeks to develop entrepreneurial characteristics in students and to simulate reality by bringing actual policy, program, and business cases into the classroom and by employing a participatory, hands-on approach.

From the perspective of reducing poverty and hunger, universities can help students gain a better understanding of the complexities of the global food system and how government policy and actions by the private and civil sectors can influence it. Courses are being developed to provide students with a social entrepreneurship approach to the analysis, design, and implementation of actions aimed at improving the global food system. Such an approach could enhance undergraduate and graduate training in policy analysis with the overall purpose of reducing poverty and hunger in developing countries and promoting sustainable development (Box 43.1).

While the trend toward universitywide programs in entrepreneurship education is increasing in developed countries, programs specifically addressing international development issues are still few in developing countries, where the need to build such programs and to make higher education relevant to meeting social needs and challenges is enormous.

Business School Approaches

In recent years, business schools in both developed and developing countries have approached the problems of poverty and hunger from the perspective of large-scale entrepreneurship for and among poor people. This approach to business education

Box 43.1 Teaching food policy analysis through participatory social entrepreneurship

An example of this new educational style is a recently created program at Cornell University that teaches a social entrepreneurship approach to solving issues of poverty and hunger. The Cornell program attempts to instill in students a social entrepreneurial mindset with which to analyze and design policy. The program uses case studies from real life, developed through collaborative arrangements with several institutions and individuals, to emphasize the characteristics of social entrepreneurship.

During the program, students are presented with a set of guidelines with which to analyze the case studies in question. The social entrepreneurs (in this case, the students) are urged to make policy recommendations aiming to change the underlying causes of problems rather than the symptoms. They are encouraged to make innovative use of new developments in modern science and technology, including molecular biology and digital technology, as well as new knowledge in the social sciences and the opportunities presented by globalization.

The program, integrating social entrepreneurial thinking into analysis of the global food system, has also been applied in courses at the University of Copenhagen in Denmark and at Wageningen University in the Netherlands. The program and its applications were demonstrated in workshops held during the first half of 2009 in Bangladesh, China, and Uganda, with participation by 70 professors and instructors from Africa and Asia. Many of them reported that they had begun to use the social entrepreneurship approach and related case studies at their home universities.

goes beyond the concepts of philanthropy and corporate social responsibility to business management teaching that applies the energy, resources, and innovations of good business practices to solving the problems of poor people. It emphasizes that poor people can be active, informed, and involved customers and that poverty can be reduced as a result by co-creating a market around the needs of the poor. Students are encouraged to develop case studies of social entrepreneurship that address poverty, health, and other social challenges.

Some business schools offer courses on social entrepreneurship (see, for example, social entrepreneurship programs at Duke and Stanford universities and the Universities of Michigan and Oxford). Programs are designed to enable students to integrate strategies for social change into their business and entrepreneurial careers.

These programs help students to recognize and address opportunities to create social values. Educational programs at the postgraduate level offer specialization in social entrepreneurship—they specifically develop the skills, knowledge, and perspectives necessary for efforts to have a social impact. Such focused programs are designed to develop the capacity of students to become social entrepreneurs, program managers, and executives in cause-based organizations or volunteers in their communities.

Developing Local Leadership

The success of poverty reduction programs depends on the skills and capacity for innovation of the program managers and local leaders who deliver them. As a trend toward decentralization emerges in many developing countries, the need to strengthen the capacity of local leaders becomes paramount. Approaches for developing the skills needed to address local problems for a new generation of leaders should be expanded. One example of a program that focuses on a specific sector is the Leadership for Environment and Development Program, which has developed a global network of more than 1,600 individuals from various sectors and professional backgrounds with a strong commitment to sustainable development causes.

NGOs also need a cadre of social entrepreneurs to bring innovation to bear on local problems. Multiplying the success of one NGO or local leader requires an organized way of transferring contextual skills and knowledge to others who are implementing similar programs. For example, the Panchayat Academy in India, which offers a capacity development program for village leaders, has been successful in improving the social entrepreneurial skills of a large number of local leaders. Similarly, the Songhai Center in Benin is training African youth to become social entrepreneurs and change agents for African agriculture.

New approaches to developing social entrepreneurs include young people as development partners. Recognizing the ability of young people to see old problems in new ways, these approaches target youth as potential social innovators. Their energy and idealism, propelled by their connectedness through information technologies, can be effective in addressing the poverty and hunger challenges of their communities. The recent launching of Youth Institutes by the International Youth Foundation in several developing countries aims to develop youth as social entrepreneurs through leadership training and mentorship.

Conclusion

In sum, achieving the poverty and hunger reduction goals of the MDGs and beyond requires new approaches and skills that social innovation and entrepreneurship may well be able to provide. Social entrepreneurs and their innovations for reducing poverty should not replace large-scale public-sector poverty intervention programs but rather enhance them with improved effectiveness.

The emerging models of capacity development for social innovation and entrepreneurship need to be scaled up and mainstreamed. Social entrepreneurs should not be limited to the elite and highly educated who have the influence and resources to implement their ideas. Rural volunteers and youth leaders could be trained as social entrepreneurs. Although the criteria for successful entrepreneurship vary contextually, individuals with qualities such as creativity, self-motivation, social values, and willingness to share credit with others are likely to succeed as social entrepreneurs.

Publicly funded development interventions could benefit from implementers and managers who have learned social skills. Professionals with such skills can improve the social impact of business enterprises. Considering the crucial need for social entrepreneurs at policy, program, and business levels, skills related to social innovation and entrepreneurship should be mainstreamed into education programs. Without new approaches and skills in regions where poverty and hunger are chronic, strategies and programs will continue to fall short of their intended goals.

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Chapter 44

Scaling Up: A Path to Effective Development

Arntraud Hartmann and Johannes F. Linn

The global community has set itself the challenge of meeting the Millennium Development Goals (MDGs) by 2015 as a way to combat world poverty and hunger. In 2007, the halfway point, it was clear that many countries would not be able to meet the MDGs without undertaking significantly greater efforts. One constraint that needs to be overcome is that development interventions—projects, programs, and policies—are all too often like small pebbles thrown into a big pond: they are limited in scale and short-lived and therefore have little lasting impact. This may explain why so many studies have found that external aid has had a weak development impact or none in the aggregate, even though many individual interventions have been successful in terms of their project- or program-specific goals.

Confronted with the challenge of meeting the MDGs, the development community has recently begun to focus on the need to scale up their interventions. Scaling up means taking successful projects, programs, or policies and expanding, adapting, and sustaining them in different ways over time for greater development impact. This emphasis on scaling up has emerged from concern over how to deploy and absorb the substantially increased levels of official development assistance that were promised by the wealthy countries at recent G8 summits. A fragmented aid architecture complicates this task; multilateral, bilateral, and private aid entities have multiplied, leading to many more—but smaller—aid projects and programs and increasing the transaction costs for recipient countries. In response, some aid donors

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have started to move from project to program support, and in the Paris Declaration official donors committed themselves to work together for better-coordinated aid delivery.

The current focus on scaling up is not entirely new, however. During the 1980s, as nongovernmental organizations (NGOs) increasingly began to engage in development activities, scaling up emerged as a challenge. NGO interventions were (and are) typically small in scale and often applied new approaches. Therefore, the question of how to replicate and scale up successful models gained prominence even then, especially in connection with participatory and community development approaches. Indeed, the current interest among philanthropic foundations and NGOs in how to scale up their interventions is an echo of these earlier concerns.

In response to this increased focus on scaling up—and its increased urgency—this chapter takes a comprehensive look at what the literature and experience have to say about whether and how to scale up development interventions.

To Scale Up or Not to Scale Up?

The first question to ask is whether a project, program, or policy should be scaled up at all and, if so, by how much, for how long, and in what direction or dimension. Dams and flood protection works have natural physical or environmental limits. Replication or scaling up beyond those limits makes no sense. On the other hand, attaining universal school enrollment in quality primary schools and providing clean water to all are explicit targets under the MDGs, and most countries' efforts are way below the scale needed to achieve these goals. It is not surprising, then, that it is especially in the areas of social policy—education, health, poverty reduction, rural and urban community development, and so on—that scaling up is of particular concern.

A decision to scale up a program (or project or policy) requires reflection on its optimal size. Should the program operate on a national, provincial, or only a local level? Diseconomies of scale, quality versus scale trade-offs, and institutional versus organizational constraints might limit the scaling-up path. Therefore, scaling up does not necessarily mean national coverage. On the other hand, scaling up also may entail going beyond national borders. To be effective, some programs need to be expanded to a regional scale. This is typically the case for regional infrastructure and for water, energy, and environmental programs—especially for small countries in Africa, Central America, Central Asia, and southeastern Europe. Some interventions must operate on a global scale, such as programs to combat global epidemics (HIV/AIDS) or global environmental threats (global warming).

Considerations about desirable size are particularly important for programs based on participatory processes. Because these programs are highly contextual and depend on the trust and processes established in a community, the scope for expansion might be limited. If greater outreach is sought, it might be suitable to use a "franchise model" whereby basic principles are transferred to another environment but ample room is left for the establishment of context-specific decisions and interactions among community members. Good examples of organizations that successfully transferred activities are BRAC and the Grameen Bank—microcredit programs in Bangladesh that are replicating some of their programs in African countries. In a very different field, Transparency International, the global anticorruption NGO, scaled up across several countries via a franchise model.

Scaled-up interventions should not always last indefinitely. Some interventions have a natural limit. For example, privatization has a limit in terms of both extent (how much to privatize) and duration: once all requisite firms and assets have been privatized, the process needs to be wound down. Scale limits and sunset provisions are especially important where public action is taken to correct for what are at best seen as temporary private market failures (those of state banks, state marketing boards, and so on). In these cases, the critical issue is to ensure an effective enabling environment for private initiatives rather than to provide large-scale, long-term public interventions.

Finally, there has been a lively debate in the literature about the dimensions of scaling up. It helps to distinguish among horizontal, vertical, and functional scaling up. Horizontal scaling up refers to the expansion of coverage of a project, program, or policy across more people and greater space. Vertical scaling up refers to creating the organizational and political framework needed to permit moving to a larger scale. Functional scaling up means moving beyond one function (for example, health or education) to include others. The key here is that usually horizontal and vertical scaling must go hand in hand: expanding programs to cover more people across wider geographic areas inevitably requires working with higher-level (provincial, national, regional, and even global) institutions and political forces. Functional scaling up is more of an optional dimension, but functional stovepiping can be a serious threat to the long-term success of development interventions. These are the risks now faced by the new global "vertical funds," such as the Global Fund to Fight Aids, Tuberculosis, and Malaria, as they intervene in countries with weak overall health systems. Mexico's conditional cash transfer (CCT) program, Oportunidades (formerly Programa de Educación, Salud, y Alimentación, or PROGRESA), which gives cash benefits to millions of poor families provided they use certain public services, clearly benefits from combining health, education, and nutrition interventions.

The Building Blocks of Scaling Up

The answers to the questions of what to scale up, how far, how long, and in what dimension cannot be set in stone. It is important to be aware of the questions and address them systematically and continuously when proceeding with implementation. At the same time, it is important to consider how to scale up. Scaling up takes time, often 10–15 years or more. This long time horizon poses great challenges: donors shift priorities; governments change; NGO funding increases or wanes, driven by fashion; and agency managers and staff move in and out. The long time horizon requires that scaling up be perceived as a systemic effort, not a short-term fad. Experiences with successful scaling-up programs have shown the importance of long-term commitment on the part of institutions, donors, and individuals. External partners need to stay the course. At the same time, programs have to be designed in such a way that they will survive changes in government. This requires a systematic strategy for scaling up. At a minimum, it requires a basic set of institutional values and incentives to ensure that key actors are continuously searching for ways to build on successful interventions, which, in turn, will ensure that they are replicated, expanded, transferred, and adapted in other settings.

There are three building blocks for designing scaling-up strategies and instilling them with the basic values and incentives: vision, drivers, and space to grow.

Vision

Ideally, a vision for scaling up should be developed as the first phase of a program, frequently called a pilot, is being put into place. Pilots should be designed in such a way that they can be scaled up if successful. However, such a vision for scaling up rarely exists when programs are first designed and initiated. Far too frequently, donors and governments design operations as one-time interventions. Projects that are "expensive boutiques" that have high unit costs and require high-intensity management and human skills may be successful on a limited scale, but they generally cannot be replicated on a larger scale and are not. Because not every project or program could or should be scaled up, the question of whether scaling up is appropriate should be explicitly factored into the decision of whether and how to implement the intervention in the first place. If the program designers believe that their interventions eventually should be taken to a larger scale, they need a vision and a strategy for how to proceed beyond the first phase or the pilot project. Oportunidades is a good example of a program whose designers had a clear vision of the appropriate scale of intervention; although it started with a pilot phase, from the very beginning it aimed to eventually provide CCTs to all of Mexico's poor.

Drivers

Scaling up is a dynamic process that requires a force—or driver—to propel it forward. First, there has to be an idea, an innovation that meets a need or creates a demand among people. Second, there has to be a leader or champion. All successful programs that have expanded from small beginnings have benefited from charismatic leaders who are endowed with a vision, are persistent in their efforts, are often well connected to major stakeholders and constituencies, and have the ability to command respect and guide people. The innovative idea that micro-credit could help poor entrepreneurs was propelled by the vision and leadership of Mohammed Yunus and Fazle Hasan Abed to achieve the tremendous scale and impact of the Grameen Bank and BRAC, respectively. Similarly, the notion that an NGO can combat global corruption required the inspired leadership of Peter Eigen, which led to the establishment of Transparency International. Finally, external catalysts can serve as drivers of change and scaling up. They might be crises such as natural disasters or economic melt-downs. Or they can be agendas introduced by outside actors. In central and southeastern Europe, the prospect of accession to the European Union has been a driver of sustained change, reform, and scaling up for more than a decade.

Space to Grow

Ideas, champions, and external catalysts are not enough, however. For interventions to be scaled up, they need space in which to grow. Sometimes such space already exists, but more often than not it has to be created. A number of interrelated spatial dimensions must be available if interventions are to be replicated and scaled up successfully. These are discussed in turn in the following subsections.

Fiscal Space. In most cases, increased capital costs can be covered only by determining what other expenditures can be reduced or what additional revenues can be raised. In Mexico, for example, the social programs that existed were very transparently phased out to make room for Oportunidades. However, because most budgetary decisions need endorsements by parliaments or other bodies, creating fiscal space also involves determining whether there will be political support for curtailing certain activities.

Political Space. Scaling up requires political commitment. Political dynamics often change as programs grow. Small programs tend to be watched benevolently and with appreciation by those in power. But as the programs expand, building constituencies around them and replacing other activities, they can be perceived as threatening and evoke negative reactions. Creating political space is a long-term process that must be started early in the scaling-up journey. It requires advocacy and the legitimization of the programs. This goes beyond simply informing decision-makers about the benefits of the program. It requires creating constituencies and mobilizing stakeholders who are willing to place the expanded programs on their political platforms. For this to occur, win-win solutions need to be forged, and at times second-best outcomes must be accepted. Advocacy, political engagement, leadership formation, and participation in the political process need to be integral parts of programs hoping to become larger and be politically sustained. In China's many successful scaling-up experiences, the political space created and sustained by the Communist Party clearly played a significant role.

Economic Space. Scaling up requires that there be sufficient demand for the services offered by the larger program or that this demand be readily created. Insufficient demand is often an issue for preventive health and family planning services and sometimes, albeit less so, for education programs, for which cultural factors, earnings opportunities for children, or previous poor service provision might inhibit demand. Many agricultural innovations have not been able to be scaled up because farmers have been unable to accept the risks inherent in new crop varieties, inputs, or technologies. In the case of programs to substitute new crops for illicit drugs, substitute crops have not been able to compete with higher-value drug production. A realistic assessment of demand and of the factors needed to create it is therefore an essential step in scaling up successfully.

Capacity Space. Institutions that are unwilling or unable to operate a larger program are perhaps the single biggest constraint to scaling up. The problem is typically twofold. First, institutions lack the human resources, skills, and processes necessary to manage the enlarged program. Second, they are unwilling to support the process of change needed to scale up. The inertia of institutions, especially in the public sector, is a significant impediment. Therefore, it is essential to provide incentives for change, as well as to build a constituency favoring change within the institution—not only at the highest level of management but also at the middle-management and staff levels. The standard view of development practitioners that training will create the capacity required is inadequate. Training is one important component, but it is by no means sufficient. Improving organizational capacity, incentives, and commitment is equally important. In some cases, existing organizations have been bypassed for successful scaling up, as was the case with Indonesia's Kecamatan Development Program to support community-driven public service provision. And setting up separate donor-supported project implementation units is often likely to harm the chances of scaling up and sustaining interventions in the longer term, as the World Bank has learned the hard way.

Cultural Space. It is particularly important for participatory programs and for programs that deliver culturally sensitive services (such as education, health, and family planning) to determine whether the expanded or replicated program will fit the extended area culturally. Programs often need to be adjusted as they are being extended or replicated to accommodate other values or social interaction patterns, especially in multicultural communities and countries or when successful interventions are transferred to another country or continent.

Partnership Space. It is also essential to determine whether external and internal partners will continue to support the program or whether new partners will be required. In most successful scaling-up operations, partners were a key factor in helping to maintain the program's momentum and focus. They can support the drivers and provide financial support in the scaling-up process. Successful programs such as BRAC and the Grameen Bank in Bangladesh have readily cooperated with partners despite being clearly in the driver's seat. The long-term partnership among international drug companies, international donors, and national health agencies was essential for the success of the River Blindness Eradication Program in Africa. And even as China has chosen its own way of scaling up and sustaining its highly successful development programs, it has frequently sought the technical and financial input of outside partners (as in the case of the Loess Plateau Watershed Rehabilitation Project supported by the World Bank). Effective cooperation among aid agencies remains a special challenge, even though official agencies have pledged to coordinate their activities under the Paris Declaration.

Space for Learning. Scaling up is not a linear process; it extends over many years and navigates much uncharted territory. Though a solid process must be laid out, it also needs to be adjusted regularly. Monitoring, evaluation, and feedback loops are important for learning and adaptation. BRAC and Oportunidades effectively used monitoring systems to provide learning opportunities, while China's ability to adapt its policy reforms and program implementation has been one of its greatest assets.

Five Lessons

Pulling together the various elements of the scaling-up story, five key lessons emerge for scaling up most development interventions.

1. Scaling Up Needs Leadership and Values

More than anything else, scaling up is about political and organizational leadership and values. If leaders do not drive the process of scaling up, if institutions do not embody a clear set of values that empower managers and staff to continuously challenge themselves to scale up, and if individuals within institutions do not have any incentives to push themselves and others to scale up successful interventions, the current pattern of pervasive "short-termism" and fragmentation will continue to characterize national policies and programs as well as the policies and approaches of donors. No scaling-up manual, no checklist, and no compilation of case studies will make a lasting difference.

2. Scaling Up Needs Political Constituencies

Social change needs to be embedded in a society and needs to be supported by political constituencies. These constituencies generally do not emerge by themselves; they need to be created. Far too often, development practitioners believe that the message that programs are good will be sufficient to secure support. Building a political constituency involves more than providing information about a successful program. Political constituencies need to become actively engaged in the process, and political leaders need to find that it is in their interest to place the concerns to be addressed by the scaling-up process on their agendas. Often "second-best" solutions have to be accepted in order to be supported politically. Scaling up is not only a technical process but also a political one—it moves an agenda into the public domain and stirs political debate. But care needs to be taken to ensure that the agenda will not be partisan. Political parties move in and out of power, but scaling up is a long-term process, and the agenda needs to be broadly anchored in a political system.

3. Scaling Up Needs Incentives and Accountability

Institutions work best with appropriate incentives, and accountability is the best way to ensure that incentives are aligned between the goals of the individual and the goals of society. Scaling up is a change process, but changes are often stalled by unwilling players. In social delivery programs these players are often public bureaucracies in which inertia, combined with inadequate skills and human resources, prevents change from happening. Scaling-up processes thus need to include incentives for the key actors. One important tool for creating incentives is to plan incremental steps that will yield early results rather than building the perfect program to be rolled out after a long preparation time without intermediate results.

Accountability is important for pilot projects, but its importance increases as programs are taken to scale, systems become larger, and the visibility of and political attention to the programs increase. Accountability is often directed upward toward the organizational and political leadership. But a particular concern related to expanding programs is "elite capture." As programs' size increases, political interests become more pronounced and the risk that particular elites will "capture" programs for their specific interests increases. Therefore, accountability downward toward programs' beneficiaries and participants is equally important. Large organizations are often not able (or willing) to exercise top-down controls effectively. Downward accountability provides for corrective mechanisms and systemic controls. Citizen report cards, beneficiary surveys, and results-based monitoring are all ways to ensure accountability. Good leaders make sure they ground their efforts in constant reality checks at the base.

4. Scaling Up Needs Systematic Monitoring and Evaluation

It therefore comes as no surprise that effective evaluation and monitoring are critical for a sustained scaling-up process. Monitoring and evaluation will be necessary on two levels: first, for the original limited-scale or pilot operation and, second, for the scaling-up process. The successful scaling up of the BRAC operation in Bangladesh depended crucially on regular feedback from monitoring and evaluation systems. This allowed the programs to be adjusted as they expanded. One of the secrets of PROGRESA's success was the existence of credible impact evaluations undertaken with randomized samples. The evaluations clearly demonstrated the impact of the program and thus played an important role in convincing politicians to maintain and build it through successive electoral cycles. But even simple evaluations can play an essential role in providing feedback on whether scaling up is embedded in the institutional and managerial values of an organization, as in the case of recent evaluations of the United Nations Development Programme's country programs. Unfortunately, this type of evaluation practice remains the exception rather than the rule.

5. Scaling Up Benefits from an Orderly and Gradual Process

The literature on the diffusion of innovations focuses on the spontaneous spread of innovations and observes that some ideas or innovations can spread very quickly, especially when they are market driven (for example, the diffusion of information and communications technologies). However, social process innovations—which rely on political processes, on public-sector bureaucracies, and often on participatory, bottom-up community engagement—generally do not spread instantaneously or spontaneously. An orderly and gradual process, careful logistical planning, a clear definition of partners' roles, and good communication are important ingredients in scaling up development interventions.

Scaling up is a complex and long-term challenge, and it may seem from the literature that it is almost impossible to get right. But many examples of successful scaling-up initiatives show that it is indeed possible—though such examples should be far more numerous. If, for starters, the aid agencies and private foundations were to seriously put scaling up on their agendas, there would be hope for a significant improvement in aid effectiveness. There would also be many more demonstrations of what can and must be done to achieve serious progress toward the MDGs and thus toward reducing global poverty and hunger.

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"This valuable book provides deep insight into the nature of the poverty trap for the ultra poor who live on less than 50 cents a day. It is admirably clear in identifying the policies, actions, and political and institutional changes if they are to be helped to escape from this poverty trap."

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"This is a valuable addition to IFPRI's many publications on food policy, poverty, and development. Like most other IFPRI publications, the 51 articles assembled in this book are based on high-quality research by well-known policymakers or professionals covering a wide range of countries. The insights and lessons presented here will be of considerable value to all stakeholders pursuing the Millennium Development Goal of halving poverty by 2015."

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—Michael Lipton, Research Professor, Poverty Research Unit, University of Sussex, UK

"Countries that have over the last generation made great progress in reducing hunger and poverty are those that decided to pursue their own destiny and take charge of the future on their own terms. This book underscores that it is not just economic policies that matter for the poorest, but also social policies and inclusion underpinned by political and institutional change."

—Peter McPherson, President, National Association of State Universities and Land Grant Colleges, USA

"Although a lot of research initiatives on poverty reduction have been undertaken by national governments and development partners over the last forty years, it is only recently that ultra poverty has become an area of focus. This book investigates and describes the nature and causes of ultra poverty in its many dimensions in a comprehensive and insightful manner. More importantly, it outlines a road map for addressing the challenges. I hope that all development practitioners and donors read this book."

—Harris Mule, former Permanent Secretary, Ministry of Finance, Kenya

"The findings of IFPRI's latest work are significant to the Asia and Pacific region and to the Asian Development Bank (ADB) in fulfilling its vision of Asia and the Pacific free of poverty. This book advocates that a new approach is needed to address persistent ultra poverty, through supporting inclusive growth, addressing the perverse dynamics of the ultra poor, and removing political barriers. Deeper knowledge and understanding about the ultra poor, who exist even in the growing economies of Asia, and the political economy that surrounds them, are essential for a multilateral finance institution like the ADB to address the complex challenges of eradicating ultra poverty."

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—Huqu Zhai, President, Chinese Academy of Agricultural Sciences, China

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