Eradicating Poverty: What is new?

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Eradicating Poverty: What is new?

The period since 1995 has been characterized by an unprecedented fall in the number of poor people in the world (by the international poverty line of $ 1.25 per person per day). We examine why such decline has occurred, and what can be learnt for future policy by developing country government and developed country partners as the world community prepares the post-2015 goals.

This paper has four sections. Section one discusses the progress in reducing poverty since 1995. In addition, it briefly examines emergence of a new literature around the multiple dimensions of poverty, and participatory poverty assessments that emerged in the last two decades. Section two discusses policies of poverty reduction, and how they have evolved since 1995. For each policy intervention, it examines whether the policies that were successful are generally being adopted in most countries, and the implications for future national policies. Section three summarizes the main links between poverty and sustainable development, as discussed in the poverty literature, and again the implications for the national and global policy agenda.. The final section examines the implications of the observed trends for .the post-2015 global development agenda.

1. Progress in reducing poverty

Unlike previous decades like the 1980s (when the poverty rate increased in Africa) and the 1990s (when it increased in Latin America and the former Soviet Union), poverty reduction has been currently taking place in all regions of the world since the late 1990s (See Table 1). Asia has seen the sharpest fall in poverty. East Asia, in particular China, saw a huge fall in poverty between the 1990s and 2005. This trend is continuing. Although there are differences between experts on the extent of the decline (World Bank, WDI, ; Chandy and Gertz, 2011), there is consensus about the trends by region.

Most heartening is the fact that even in Sub-Saharan Africa (SSA), poverty has fallen. Between 1980 and 2005 the region's poverty rate had been around 50 per cent. In fact because of SSA's high population growth the number of poor rose consistently. This situation is changing at least in the World Bank estimate for the poverty head count ratio (HCR)[1] (see table 2 for World Bank estimates on HCR). SSA's population growth rate remains well above that of other regions and hence the absolute numbers of the poor have risen from 330 million in 1993 to 390 million in 2002, thereafter slowing in the rate of increase especially until 2008 (399 million), but rising to 414 million in the next two years (Table 1).

[1]Chandy and Gertz suggest that not only has SSA's poverty rate fallen below 50 per cent but the absolute number of poor in the region is also falling.

Table -1

Absolute numbers of population living on less than $1.25 a day at 2005 international prices in million

	1993	1994	1995	1996	1999	2002	2005	2008	2009	2010
South Asia	632	-	-	631	619	640	598	571	-	507
Sub-Saharan Africa	330	-	-	349	376	390	395	399	-	414
Middle East and North Africa	12	-	-	12	14	12	10	9	-	8
Latin America and Caribbean	53	-	-	54	60	63	48	37	-	32
Europe and Central Asia	14	-	-	18	18	11	6	2	-	3
East Asia and Pacific	871	-	-	640	656	523	332	284	-	251
Brazil	27	-	18	20	20	19	16	12	12	-
Russian Federation	2	-	-	4	3	0.5	0.2	0	0	-
India	-	464	-	-	-	-	469	-	-	394
China	633	712	651	443	446	363	212	173	157	-
South Africa	9	-	8	-	-	-	-	-	7	-

Source: World Bank Poverty & Equity Databank and PovcalNet

Table-2: Poverty Headcount Ratio at $1.25 a day (PPP) (% of Population)

	1993	1994	1995	1996	1998	1999	2002	2005	2008	2009	2010
South Asia	52	-	-	49	-	45	44	39	36	-	31
Sub-Saharan Africa	59	-	-	58	-	58	56	52	49	-	48
Middle East and North Africa	5	-	-	5	-	5	4	3	3	-	2
Latin America and Caribbean	11	-	-	11	-	12	12	9	6	-	6
Europe and Central Asia	3	-	-	4	-	4	2	1	0	-	1
East Asia and Pacific	51	-	-	36	-	36	28	17	14	-	12
Brics											
Brazil	17	-	11	12	11	11	11	9	6	6	-
Russian Federation	2	-	-	3	-	2	0	0	0	0	-
India	-	49	-	-	-	-	-	42	-	-	33
China	54	60	54	36	48	36	28	16	13	12	-

South Africa	24	-	21	-	-	-	-	-	-	17	-

Source: World Bank Poverty & Equity Databank and PovcalNet

However, it is China and India that have shown the most rapid progress in poverty, both in terms of the head count ratio as well as absolute numbers. China is far and away the front runner: it saw the HCR decline from 54% in 1993 to 12% in 2009. The absolute number of poor in China fell from 633 million in 1993 to 446 million in 1999; the number then less than halved by 2005 to 212 million, and falling further to 150 million in 2009.

India too saw the decline in head count ratio from 49 per cent in 1994 to 33 per cent in 2010 (again according to the World Bank poverty line). There was no fall in absolute number of poor between 1990 (464 million) and 2005 (469 million). However, since then there has been a sharp fall by 2010 (to 394 million), despite the impact of the global economic crisis. In fact, national data reveal that between 2009-10 and 2011-12 there was a very sharp decline in the head count ratio and numbers of the poor, much faster than in the period between 2005-2010[2].

What drove poverty reduction?

In the 1980s and 1990s the average annual GDP growth rate of developing countries was just 3.5 and 3.6 per cent, respectively. These rates barely exceeded population growth. However, after 2000 developing economies' growth rate picked up to 6 per cent in every year except 2009, the year following the outbreak of the global financial crisis and the recession. This was the first driver of poverty reduction. Equally importantly, while the developed economies are likely to remain in slow growth mode for an extended period, developing country GDP growth rates rebounded rapidly to above 6 per cent.[3]

A second driver of poverty reduction was that underlying recent rapid poverty reduction is that large countries in a position to alter global poverty figures have experienced unprecedented economic growth. When small countries grow fast it has very limited impact on global poverty reduction. For example, for three decades – 1960s to 1980s – Asian tiger economies grew very fast. Africa also saw rapid growth in many countries (Mauritania, Seychelles, Cape Verde and Comoros). But neither the poverty numbers in Asia nor in Africa were impacted as a result of these countries' growth. Even countries with large populations, but which have a small number of poor people grew fast in the first

[2] Thus, the absolute number fell (by the Tendulkar natural poverty line) from 356 million in 2009-10 to 268 million in 2011-12 (Planning Commission, 2013).

[3] The point here is not to assert that there is a one-to-one relationship between growth and poverty reduction, since there are large differences in poverty rates across countries with similar growth and even similar GDP per capita. The point here is merely to aver that large countries have seen especially fast growth in recent years prior to the global crisis of 2008, and that did impact poverty rates.

half of the 2000s (eg. Russia,Iran) without affecting global poverty numbers. However, growth since the early 2000s is driven by a small number of countries with a large population of poor people: thus China, Indonesia, Nigeria experienced rapid growth and thus contributed significantly to global poverty reduction. Moreover, between 2005-15 India (population 1.2 billion), Bangladesh (169 million), Vietnam (89 million) and Ethiopia (87 million) have all grown by at least 6 per cent per annum, reducing their poverty numbers by a quarter.

A third driver of global poverty numbers could be food prices. Food accounts for nearly half of all consumption expenditure in the consumption basket of the poor. The World Bank had warned that the rise of food prices over 2007-08 increased the number of poor people by 100 million, based on the international poverty line (Ivanic and Martin, 2008). This estimate was based on the simulation for only 9 countries which account for under 10 per cent of the world's poor in 2005, and hence cannot be taken as reliable. There is other literature to suggest that higher food prices are naturally good for producers of food, mainly farmers. This is especially true when higher food prices enable farmers to pay their workers a higher wage rate. Evidence from India and China suggests that this is precisely one reason for the decline in rural poverty in these countries (see Pollaski, 2008; Mehrotra et al, 2014).

Finally, the global financial crisis did impact global poverty numbers adversely. Thus, the World Bank found that the sudden fall in developing country growth was likely to keep an additional 64 million people in poverty. However, growth picked up so rapidly after the economic crisis began, that the momentum of poverty reduction was sustained after the global crisis. For instance, based on the national poverty line (which is comparable to the World Bank's $1.25 international poverty line), in India the absolute numbers of the poor fell from 256 million in 2009-10 to 268 million in 2011-12.

Multi-dimensional poverty

The human development index emerged in 1990 in response to the criticism of income per capita, as the HDI was perceived to be a multi-dimensional indicator of well being incorporating income, education and health. More recently, since 2010 the UNDP Human Development Report has been publishing a multi-dimensional poverty index. This measure incorporates indicators which are common to the HDI: health, living standard, quality of education and empowerment. The health indicator is derived from two sub-indicators: access to a good health clinic, and body mass index. The living standard indicator also used two sub-indicators: housing quality and employment. The quality of education is also a composite indicator. Empowerment is measured by indicators of autonomy.

Apart from being published in the global Human Development Report, several countries have been using a multi-dimensional approach to measuring poverty such as Colombia, Mexico, Bhutan, China, El Salvador, Malaysia and the State of MinaisGerais in Brazil (Alkire and Foster, 2011). While the use of this multi-dimensional approach to poverty does incorporate a range of indicators to capture the complexity of poverty, it is not entirely clear how it helps expand the policy debate beyond what was achieved by the HDI. The conceptual basis of the new approach is further compromised by the fact that its sub-indicators are a combination of input, output and outcome indicators, and therefore it is very difficult to argue that it is a helpful from a policy perspective, given this conceptual confusion. For people, what matters is outcomes, and their well-being is determined by outcomes, regardless of the improvements in inputs or outputs. However, the multi-dimensional approach hides more than it reveals.

The policy influence of the estimates of multi-dimensional poverty in the 2000s does not extend beyond the fact that, as just noted, a small number of countries are now estimating it nationally. The policy influence of HDI, which emerged in 1990 for the first time in the Human Development Report (UNDP, 1990), was greater in the sense that it led governments to consider non-income dimensions of poverty as a legitimate and important aspect of poverty to be monitored. In fact, till today there is considerable attention within countries to HDI rankings when they are announced each year. However, even in respect of HDI ranking the excitement does not last beyond a day or two within countries, since even the HDI only draws attention to broader dimensions of deprivation than consumption or income, and in that sense has exhortatory value. Thus, the emergence of these new indices does not particularly advance the cause of pro-poor policy making in developing countries.

Participatory poverty assessments

In the early 1990s the World Bank began to conduct poverty assessments to identify the main poverty problems within a country, and link the policy agenda to issues of poverty. These poverty assessments included quantitative data such as poverty lines, social and demographic characteristics of the poor, and their economic profiles. To complement such quantitative data with an assessment of poverty by its primary stakeholders – poor people themselves – the World Bank also developed the Participatory Poverty Assessment (PPA). This involved a participatory research process involving the poor directly and also in planning follow up action. In 1994 only one-fifth of the Bank's country-level poverty assessments included PPA material. However, by 1995 one-third included PPA, while between 1996 and 1998 PPAs were included in half of all bank poverty assessments (Narayan (2000).

The findings of these PPAs were as follows. First, the poor perceived their poverty as constituted by powerlessness and being forced to accept rudeness and indifference when they seek help. Second, women perceived their poverty in conjunction with the fact that within the households they felt like second-rate members. Women noted that men's identity is associated with being the bread-winner and the rule-maker and women's identity is associated with the care-giver of the family. Third, the poor perceived the state not as a protector but as corrupt and ineffective. Fourth, they perceived their relations with the elite also with suspicion because they felt that the elite have no interest in the community, and the community has no voice in relation to the elite.

These PPAs also suggested a strategy of change, based on the perception of poor of their poverty. One recommendation that emerged was to 'start with poor people's realities'. Apparently, poor people do not talk much about income, but rather of the range of assets they use in coping with their vulnerability. Their experiences indicate that there should be widening of poverty measures to include voice, vulnerability, and accumulation of assets.

It also emerged from such PPAs that the poor felt that their weakness lay in not being organized and that there were very few organizations of the poor. So one strategy of change would be that poor people need organization to demand local-level transparency and accountability, but this process will also require protection from punitive actions taken by the local elite. It is not clear why this was seen as a major finding, given that Marxists have argued the same for over a century.

Third, another action that was indicated by the PPAs is that development entrepreneurs among the poor should be supported. For this purpose venture capital funds are needed for development entrepreneurs (Narayan et al, 2000).

Whether or not PPAs had the effect on governments that was desired by the World Bank (which supported such efforts) and their thinking is difficult to determine. However, it does seem to have influenced World Bank thinking sufficiently to have led to some internal debates. It could have possibly impacted the World Bank's own re-consideration of its market fundamentalism characteristic of structural adjustment loans, and examine impacts on the poor of their policies. Of course that re-examination also resulted from the criticism that came from the Bank's Chief Economist Joseph Stiglitz.

As with multi-dimensional poverty, so with the PPAs. The policy implications from the findings of the PPAs are next to impossible to derive. As a result, while PPAs might have influenced some thinking within the World Bank itself, PPAs have largely been driven by the World Bank. An independent observer would be hard put to argue that PPAs could influence policy. However, programme design could possibly be tweaked to take on board the perceptions of the poor, not so much about their poverty, but about their perception about the problems associated with programme design. It is also true that some donors and NGOs have also used them to direct development efforts (e.g. as part of needs assessments before projects start, or as elements of project cycle management). In this sense, PPAs and Participatory Rural Assessments can help better design development programmes, as well as learn and adapt during implementation

However, it is entirely unclear why, for this task objective, rigorous evaluations would not be a better instrument than the findings of PPAs (although their cost can be a forbidding constraint on their being implemented). In fact, one can argue that one of the major new developments post-1995 in development policy-making is the recognition of the value of impact evaluations of government programmes. There is now widespread recognition of the need for effective management information systems (MIS) and for feeding the lessons from programme evaluations back into programme design. One should note, however, that evaluations are rarely directed at assessing policy, and tend to focus appropriately on programmes.

Poverty dynamics

More than PPAs or the concept of multi-dimensional poverty the value of research on poverty dynamics has some policy implications, limited though it may be. Research on poverty dynamics has emerged as an independent new source of knowledge about the standards of living of the same poor families over a period of time through the study of panel data. Until the early 1990s there was very little panel data focusing on the same poor families over a period of time. However, the situation has indeed changed at least in a small number of countries: Ethiopia (rural), Indonesia, Nepal, Pakistan (rural Punjab and Sindh), the Philippines, South Africa (Kwazulu Natal), Uganda, and Vietnam (Chronic Poverty Research Network (CPAN, 2014). However, the vast majority of countries do not have such longitudinal data sets for large group of households. Dercon and Shapiro (2007) report panel data on the poor for some more countries: Bangladesh, Chile, China (Sichuan), Nicaragua, Egypt, Iran, Poland and Russia.

There are two kinds of conclusions of policy significance that can be drawn from such panel studies. The first is that research on poverty dynamics reminds the independent observer that there are issues with the main stream poverty research that had expended a great deal of effort on poverty measurement. The focus of poverty research in the World Bank and in most developing countries remains on measurement, relying still on the headcount measure and based on nationally representative income and/or expenditure surveys. There is also work going on dealing with risk and vulnerability, and aspects of social exclusion, but it seems to be peripheral to the main thrust of World Bank poverty research (Harriss, 2009). [4]

Secondly, drawing on longitudinal data both of qualitative and quantitative kinds, researchers report findings that are significantly different from the main stream work of World Bank researchers. Thus, Barrett et al (2006) draw upon an asset-based approach that shows up the factors influencing movements into and out of poverty and highlight the existence of poverty traps. This work (including PPAs) has helped to change perception that poor are a static group. Instead slowly there has been shift to a ‘life-cycle approach’ which recognises different periods of life as having particular vulnerability associated, meaning people often move in and out of poverty throughout life cycle. The implication is then that true poverty eradication is not just about moving a household/individual above particular income threshold (as they can fall back under next week with income shock), but above enhancing overall resilience to these hazards and shocks. They argue that the possession of assets (land, livestock, human or social capital) greatly influences the capacity of households to withstand shocks

[4] This issue of vulnerability is picked up again later, when the paper discusses those just above the poverty line, but still seen as struggling to keep above it.

such as drought or episodes of ill health. It is true that such work focuses on the structural determinants of poverty, but it is debatable whether even such work has much to say about dynamics of those underlying structural positions. In other words, the possession of assets may or may not be treated as precipitating causes of movements into or out of chronic poverty, but that is not very helpful beyond telling the policy makers that the assets of the poor need to be built up. The objective is laudable, but it begs the question: how? Answering that questions involves complex trade-offs that can only be resolved in a specific national or local context, not in the form of broad generalizations.

Although the list of longitudinal panel data based study of poverty dynamics has grown in the last two decades, Dercon and Shapiro (2007) point out many methodological issues with such panel data, which undermines the policy utility of many of these studies. One concern is well known: the disappearance of households between baseline and follow up data – attrition may bias estimates of poverty mobility and its determinants. However, the problem is more complicated than that. Households change every time: adults leave and set up new households, couples get married and people die. People move out of or into poverty. So there is no stable household unit that can be followed over a period of time. In fact, if panel surveys, Dercon and Shapiro (2007) point out, only look for original households in the original community then an important part of poverty mobility – moving elsewhere in response to opportunities or pressures of destitution – gets neglected. We argue in the next section (consistent with development economic theory), within the development processpeople leave work in agriculture because other sectors are creating work; this process is consistent with poverty reduction. Unfortunately, few if any studies take this dimension of attrition into account. Nevertheless, panel data has given rise to several findings that have policy significance.

We discuss the findings from those panel studies on poverty which provide some policy conclusions.One finding, reported by Beegle et al (2006b) for Tanzania (Kagera) is that poverty decreased in their sample, but to a very different extent across the different locations to which people moved. Those who remained in the village saw the poverty headcount fall from 36 to 32 per cent only. However, those who moved to a nearby village had an 11 percentage point decline, those moving elsewhere in Kagera show a 13 percentage the decline, and those moving outside Kagera experienced a poverty fall by 23 percentage points. This evidence suggests strongly what is already very well known, that spatial mobility along with non-agricultural employment, enhances income and hence would reduce poverty.

Another finding from panel data is that household and community endowments, such as assets and infrastructure, matter for enabling people to exit from poverty, while shocks and risks trigger movement down into poverty (Dercon and Shapiro, 2007). In other words, as Quisumbing (2007) notes, the implication for public policy is that the state must enable the poor to accumulate assets over time; provide mechanisms to maintain the poor's asset base in case of negative shocks; enable the poor to make investments in the next generation's human capital; and enable the poor to transfer assets to the next generation through legally sanctioned and transparent mechanisms.

2. Contributors to poverty reduction since 1995 and implications for national policy post-2015

As we noted in the previous section, rapid GDP growth is a pre-condition for rapid poverty reduction. However, how responsive poverty is to growth is itself determined by the nature of growth and the policies that influence the initial conditions ofa) inequality, and b) poverty. So what were the policies that contributed to poverty reduction post-1995 (as opposed to the structural determinants of poverty reduction discussed in the previous section)?

We have noted in the previous section that prior to 1995 growth was relatively slow in developing countries, and not much higher than the population growth; therefore, prospects for poverty reduction were limited. Thus, in the three decades from the end of the Second World War (1945-1973), despite GDP growth rates, populations in the South were growing at a rate rapid enough to preclude a decline in poverty. Hence, the period of rapid poverty decline since mid-1990s has been unprecedented in the post-colonial history of the South. Given this historical perspective the rapid poverty reduction since the turn of the millennium should offer important insights into what enhances, or conversely reduces the elasticity of poverty reduction to GDP growth.

Agriculture's role

The antecedent of the industrial revolution in Europe and North America, as well as Japan, was an agricultural revolution, which preceded the industrial revolution of the 19th century. The experience of the East Asian economies from the 1960s to the 1980s was similar, in that these 'miracle economies', showed rapid growth in agricultural output and productivity before and simultaneous with industrial growth. This was true of South Korea, Taiwan and Malaysia. The most recent period of rapid poverty decline in China has only reinforced that literature related to the earlier generation of newly industrialized economies (NIEs). The sequence in China was consistent with the experience of the NIEs. Reforms in the agricultural sector from 1978 restored farmer incentives through a new household responsibility system (that went hand in hand with de-collectivisation of all land), in allocation and prices in China. These agrarian reforms put China on a sustainable pro-poor development path, as had been the case in the NIEs.

The counter factual in this context is the case of India, which has experienced slower industrial and total GDP growth, but also slower agricultural growth. The contrast between China and the NIEs on the one hand, and India on the other, is noticeable. The growth rate of agriculture in India has rarely exceeded 3 per cent per annum between 1950 and 2005. On the other hand, India's growth rate of GDP, which average 8.4 per cent per annum between 2003-4 and 2011-12, went hand-in-hand with an agricultural growth rate which was somewhat higher than that (3.4 per cent per annum) over the

11th Five Year Plan (2007-12). **Clearly, the role of agriculture in sustaining pro-poor growth, already reasonably well established from the East Asian experience has only been reinforced by the experience of the last two decades of China and India. This experience should be seen as a salutary lesson for Africa and Indian policy-makers**in the future. Current policies in these regions do not reflect what we know about the role of agriculture in reducing poverty in the East Asian countries.

Implication for national policies in agriculture

One of the important sources of domestic demand is to increase the growth rate of agriculture. This is not only the lesson from the experience of the NIEs and China but has acquired greater validity since the collapse of external sources of demand after the global economic crisis.There are several kinds of action required to achieve this increase in agricultural growth rate. First, this has clear implications for bilateral and multi-lateral assistance for developing countries especially in Africa that are more dependent upon external concessional resources. The focus on social sector goals in the MDGs for 2015 may continue beyond 2015. However, **aid to agriculture has tended to be de-emphasized up until now, after attention of international donors, including the World Bank, shifted to the social sectors. This neglect of agriculture by the donors is a chronic problem** that has existing for two decades and this de-emphasis needs to be corrected radically. This emphasis on agriculture in international assistance is also an imperative arising from the very significant changes in climate that have occurred over the last decades. Climate change is causing havoc to the lives and agricultural outputs of the poor many developing countries that are still are home to a large proportion of the global poor.

Second, international support for agriculture alone will not suffice to increase the growth rate of agricultural output in SSA.. Domestic policy will need to do more. **The use of fertilizer per unit of land in Sub-Saharan Africa is much lower than in Asian countries.** There may be need for domestic production of fertilizer from imported feed stock, though such manufacturing industries should consider meeting sub-regional needs for fertilizer in a group of African countries. This would be necessary perhaps because of the size of the domestic fertilizer market in a typical African country may well turn out to be too small to make manufacturing facilities competitive. Increasing fertilizers use would be necessary to increase the productivity of Sub-Saharan agriculture.

Third,,**water use in dryland agriculture (in both Asia and SSA) has to become more efficient**. This requires action of many kinds. First, drip irrigation and spray irrigation needs to be adopted on a vast scale to conserve scarce water resources in such regions. Second, water-harvesting methods have to be used to a much greater extent. Third, watershed management methods in dry-land agriculture have to become much more widely used in such areas. South-South cooperation in such fields have to be facilitated by countries more experienced in these methods (e.g. India should support such activities in SSA).

Fourth, raising food output in Sub-Saharan African countries is only addressing part of the problem. Many Sub-Saharan African countries, even decades after independence from colonial rule in the early 1960s are still food-deficit and dependent upon imports. Even worse, there is no system of maintaining national cereal stocks to respond to food shortage domestically. Hence, African countries remain not only dependent upon international markets for feeding their populations, they are subject to the vagaries of international commodity price fluctuations. Since they are relatively small economies they are price takers, leaving themselves and especially poor households extremely vulnerable to exogenous shocks. There is a clear lesson to be learnt from the experience of over 40 years of maintenance of a food stock in India, based on a system of domestic procurement of grains by the Food Corporation of India (FCI), on the basis of minimum support prices guaranteed by the FCI. Sub-Saharan countries should have replicated this model many decades ago, if not at the national level (on account of viability concerns) then **grain stocks could be maintained on a sub-regional basis by a small group of countries contributing to the stocks in proportion to their requirements (based on the size of their respective population).**

The employment elasticity of growth

The evidence from the most successful cases of poverty reduction comes from large countries. Rapid agricultural growth and rising incomes from agriculture were important determinants of poverty reduction in China. However, equally if not important was the growth in employment in industry, both manufacturing and construction industries. Export-oriented manufacturing absorbed a large number of the educated workforce that was leaving agriculture, as did construction work in the very large infrastructure projects and real estate development that followed agricultural growth. China captured international markets on the strength of its low wages drawing upon its reserve army of labour leaving agriculture.

In India the absolute numbers of the poor were not in decline until 2004-5. The absolute number of workers in agriculture had been rising in India until 2004-5. However, post-2004-5 as non-agricultural growth picked up, employment also grew in manufacturing, construction and services. Real wage growth has already been triggered by the introduction of MNREGA in early 2006, which had a ratchet effect on urban wages. Demand for labour also grew on account of significant increases in infrastructure investment, which pulled labour away from rural areas into construction activity. Rising wages led to rising consumption and falling poverty. This process was similar to the one that caused poverty reduction in China as well, though in China the demand for labour was significant from export-oriented manufacturing as well. In India too, export-oriented manufacturing grew, but in recent years it is domestic-oriented manufacturing growth in small enterprises that has generated jobs.

Although the elasticity of employment growth to manufacturing output has been falling globally over the last few decades, the growth of manufacturing output in China and India has continued to generate significant increases in manufacturing employment.

Implications for national policies and Institutions

Poverty reduction in neither China nor India would have been possible nor as rapid, but for significant increases in non-agricultural employment growth, which was necessary to absorb the rapidly growing labour force that both China and India faced.One implication of the demographic dividend is that there is a rising share of the working age population in the total population. Generating sufficient non-agricultural employment when not only is the size of the working age population growing rapidly, but people are also leaving agriculture for non-agricultural work, is a serious challenge. The policy implication is that **non-agricultural output growth alone should not be the objective of GDP growth; equally important is that non-agricultural employment growth must at least exceed the numbers of those looking for non-agricultural work.** This is a challenge for all developing countries attempting a structural transformation in their output and employment structure. In Africa, this trend has barely begun, and there is a clear lesson here for most of Sub-Saharan Africa from the Indian and Chinese experience.

However, in this regard, there is an important difference between the period before the global economic crisis of 2008 and the period thereafter. The growth rate of GDP in Europe has not revived significantly after 2008. Although the growth rate of the US economy has begun to pick up, there is no expectation that the sustained growth rate that industrialized countries experienced for over a decade before 2008 is likely to return soon. **Given that demand from international markets for developing country products is going to remain relatively lower than before, the sources of growth must in the near future remain domestic in developing countries**. For those countries that still account for a significant share of the global poor – India and the Sub-Saharan Africa – this concern is of overwhelming importance. Thus, instead of relying upon international sources of demand, as was the case until 2008, countries with large poor populations must ensure that nothing is done to dampen domestic demand. The role of minimum wages in Brazil and the state's role as employer of resort in many other countries in sustaining domestic demand has been demonstrated in the last decade.

In Brazil there have been two sources of falling poverty and declining income inequality over the last decade. The first is conditional cash transfers (which we discuss later), and the second is rising minimum wages legislated by the state. However, it must be noted that Brazil has only 15 per cent of its total workforce engaged in agriculture and the rest of its workforce has been employed in industry and services for a very long time. Thus, unlike countries in South Asia and Africa, where half or more than half of the work force is still in agriculture Brazil has no reserve army of labour waiting to move out from rural agriculture to urban industry and services. In other words, the Lewisian shift of labourof agriculture is already nearly complete in Brazil, unlike in South Asia and Sub-Saharan Africa. **While state-determined minimum wages may be effective in such circumstances in an upper-middle income country like Brazil, there is enough evidence to suggest that in the regions of the world that account for the vast majority of the poor the legislation of minimum wages may be quite ineffective** on the ground, since these regions still have a vast reserve army of labour in agriculture ready to move into non-agricultural work at wages below the legislated minimum wages. Hence, the replicability of the Brazil model in South Asia and Sub-Saharan Africa may be less than effective.

"Washington Consensus" rejected

The period from 1980, the year of the first World Bank structural adjustment loan, to the mid-1990s was one dominated by intensely contentious debate between those who argued for reducing the role of the state in development, privatization of state enterprises, liberalization of the foreign investment regime, reduction of tariffs and domestic deregulation, on the one hand (World Bank,), and those who pointed that the state must continue to play an important role in economic development (and not just in social development as IFIs argued) (Chang,2003 ; Singh, 2003 ; Mehrotra and Jolly, 1997; Mehrotra and Delamonica, 2007;).

The latter pointed out that giving full freedom to market forces would exacerbate inequality, and could even be anti-poor. It is ironic that the institution – the World Bank - that had produced a seminal piece of work, *Redistribution with Growth* (Chenery, 1974) paid scant attention in its adjustment programmes through the 1980s to impacts on the poor of the same programmes. The criticism of the Bank and Fund programmes – as exemplified in a set of principles that came to be called "Washington Consensus" (Williamson, 1990) – were right in that the state in many developing countries had over-extended itself over a 30-year period between 1950 and 1980, beyond its competence and capabilities.

However, the Bank-Fund programmes were rightly criticized for neglecting distributional impacts. By the late 1990s this criticism came from within the World Bank itself, from its Chief Economist Joseph Stiglitz (Stiglitz, 1998). As a result it became widely recognized that poverty and inequality reduction cannot be the role merely of Social Funds, which became an add-on to adjustment programmes, but rather must be built into the design of economy-wide reform programmes from the beginning. Thus, a policy implication that emerged was that higher growth rates would yield higher or lower absolute poverty reduction, depending upon what the initial level of inequality or poverty level was. A corollary of this research evidence was that policy makers needed to be sensitive to two sets of variables: a) the initial conditions of inequality or poverty; and b) the impact of direct or indirect policy interventions.

Many direct interventions to reduce poverty emerged over the last two decades since 1995, and they were adopted successfully by many countries, as we discuss later in the paper.

Trade openness and industrial policy

On the relationship between external trade/industrial policy and poverty, the orthodox World Bank-IMF structural adjustment and stabilization policy implied a position favouring trade openness and a suspension of industrial policy (given that the latter implies interference with market forces). In this context it should be noted that several studies had found support for the view that trade openness (measured by trade volume as a share of GDP) promotes economic growth. However, does such economic growth reduce poverty also? Clearly not any type of growth will be poverty-reducing. In fact, new structural economists (like Dani Rodrik, Ricardo Hausmann,) were consistently arguing from the late 90s onwards that countries that followed policies that were contrary to the Washington Consensus, by and large, were the ones which sustained economic growth. In fact, Ravallion (2006) finds little or no correlation between greater trade openness and the pace of poverty reduction in developing countries.

Another article of faith of the Washington Consensus was that active industrial policies (for example, selecting promising sectors or firms using tariffs, subsidies or tax breaks) is bad policy. The World Bank's *TheEast Asian Miracle (1993)* presented a picture of East Asian countries adoption of industrial policy as having had mixed results. However, the World Bank's report came in for heavy criticism from a number of development economists in a special issue of *World Development ( )* devoted entirely to the East Asian experience. In fact, the Japanese government, which happened to have supported the World Bank's study of the East Asian experience was itself quite peeved by the World Bank report's conclusions, given that the Japanese own industrialization development from the Meiji Restoration onwards had, if anything, re-inforced the idea that industrial policy, when sensibly pursued can be effective in raising industrial and productivity growth.

Whatever the outcome of the scholarly debate, the lessons of Chinese success in increasing its comparative advantage of low wages combined with an educated, healthy workforce, to produce manufactures for export to the world market held out an important lesson to all developing countries that had neglected trade openness (for example, India). By the early 1990s India too was well on the path of economic reform, including both tariff reduction and trade liberalization (apart from domestic deregulation), which resulted in handsome gains for the export to GDP ratio of India for merchandise exports alone (which rose from11 per cent of GDP in the early 1990s to 16 per cent by the middle of 2000s); when services exports, especially of IT software boomed, the total export to GDP ratio by the late 2000s to 25% of GDP (though nowhere close to that of China's 35% of GDP) or much higher levels found in the East Asian economies (where it was possible on account of the much smaller size of their economy).

Unfortunately, it does not appear that these lessons have been adopted in many Sub-Saharan economies, which remain highly dependent on commodity production and the commodity concentration of exports has barely changed from 30 years ago. If the Sub-Saharan countries have seen GDP growth in the last decade, it is because of the rise of commodity prices in international markets. Such GDP growth that results leaves untouched most of the rest of the economy, and the number of poor has accordingly not fallen in SSA.

Implications for national policy

One implication of the declining faith in market fundamentalism is that there is a resurgence in belief about the efficacy of industrial policy. Industrial policy was a key instrument of the industrialization success of East Asian economies including China. It came under attack in the 1980s and 1990s from the international financial institutions, but the historic successes of Japan over the 1960s and 1970s as well as China more recently has demonstrated beyond a shadow of doubt that **policy-makers can ignore industrial policy in their efforts at industrialization at their own peril.** In fact, even a former Chief Economist of the World Bank has argued (Lin, 2012) that if a country wishes to upgrade its industrial structure it will need to first upgrade its endowment structure.

A low-income country is relatively well-endowed with labour and natural resources and changing the endowment structure requires movements towards relative abundance in capital, introduction of new technologies, and accompanying improvements in infrastructure to facilitate growth. As Lin (2012) notes, "the new structural economics argues, that the best way to upgrade a country's endowment structure is to develop its industries in any specific time according to comparative advantage determined by the given endowment structure at that given time. [That way] the economy will be the most competitive, the economic surplus will be the largest and the capital accumulation and the upgrading endowment structure will be the fastest possible" (page 5 to 6). It should interest policy makers in developing countries that like Stiglitz (another former Chief Economist of the World Bank), the views of Lin (who demitted office in 2012) were not regarded with approval by the management and dominant countries in the Bank.

African countries by and large still don't have much of an industrial policy in place. In other words, **many developing countries need to heed the experience of Japan, China, the NIEs, as well as the empirically well-founded theoretical contributions of neo-structuralist economics to formulate industrial policy that contributes to a continuous upgradation of the endowment structure**.

Industrial policy can lead to industrial growth, drawing labour out of less productive agriculture, thus contributing to the reduction of poverty. One of the reasons why China, the NIEs and to a lesser extent India have been successful in reducing poverty is because they have used industrial policy to promote industrial growth, which has attracted labour away from agriculture.

There emerged a substantial literature based on neo-structuralist economics which supports a strong role for the state in not just social policy, but also in appropriate ways in economic and industrial policy, as adopted by China, NIEs and increasingly in India. While there is full recognition of the need for trade openness and increases for foreign direct investment to sustain growth, there is also much greater recognition that privatization and deregulation may potentially improve allocative efficiency in the economy,it will not suffice to trigger GDP growth. **While allocative efficiency is necessary, it will not be a sufficient condition to ensure either increasing domestic savings or lead to greater investment, which are the sources of sustained growth.**

Driving the high growth rate in the East Asian miracle economies were savings and investment ratios to GDP of approximately 40 per cent. In China the savings and investment rate to GDP have even exceeded 50 per cent in the 2000s. No Latin American economy, almost all of which are at middle-income level, have a savings to GDP ratio which exceeds 20 per cent. While it is true that most of them are at upper middle-income level, and hence the potential for high GDP growth is lower than at lower middle-income level, the fact remains that the Latin American economies have remained in the middle-income trap precisely on account of these sustained low to moderate savings and investment rates in the economy. By contrast, India managed to raise its savings to GDP ratio between 2002-2008 to nearly 37 per cent of GDP (from 23 per cent in 2003), and its investment to GDP ratio to 38 per cent. Accordingly, the growth rate had also grown up systematically over the period. Not surprisingly, India saw a dramatic decline in the absolute numbers of the poor, not just the headcount ratio of poverty, after 2004-05.

If savings rates are to be raised on a sustainable basis it is critical that monetary policy is such as to avoid real rates of interest for depositors that are negative. But the central bank may feel constrained to keep interest rates high, if the inflation rate is high. The implication is that the consumer price index must be monitored carefully by the government, and policy-makers need to maintain monetary and fiscal policy consistent with relatively low inflation rates. **High inflation, especially in food prices, has a direct damaging effect on the poor, but also has adverse medium term consequences for the entrepreneurs who face an uncertain investment environment,** given the indirect impact of inflation upon consumption demand. Therefore, policy-makers need to watch inflation rates very carefully if savings rates are to be maintained.

While investment rates of domestic investors are a function of domestic savings rates policy-makers also need to be careful that fiscal deficits financed by borrowings from the banks can, under certain circumstances, have a crowding-out effect on private investment on account of liquidity in the banking system being constrained by excessive borrowing by the government. Besides large fiscal deficits can also have an inflationary impact, which can, as we have seen, dampen investment.

Another criteria that policy-makers need to keep in mind is that, while containing the fiscal deficit care must be taken to not cut public investment, and focus attention on reducing unnecessary recurrent expenditure. Sustaining growth requires that public investment does not go through a stop-go cycle because sustained public investment has the capacity to draw in private investment. Finally, there may be other factors preventing private investment from growing, even though the savings rate might be robust. The World Bank does a useful survey of enterprise perceptions in every country about the Ease of Doing Business. A country ranked low in international ranking in this respect is unlikely to be able to maintain high investment rates.

The role of middle class, the initial level of inequality, and initial poverty – their impact on promoting growth

As people rise above the poverty line there emerges a new non-poor class, which is still well below the middle class. It has been argued that a larger middle class promotes economic growth in many ways: nurturing entrepreneurship, shifting the composition of consumer demand, and making it politically feasible to implement policies and institutional changes that promote growth.

Similarly, it has been argued for some time that a low level of initial income inequality is growth-promoting, and hence-poverty reducing (Birdsall&Londono, 1997). Birdsall et al (1995) in particular argued that initial levels of asset inequality matter for future growth; they were making the argument on the basis of the historical experience of NIEs. A similar argument can be made on the basis of China's poverty-reducing growth after the 1979 economic reforms. The 1979 economic reforms were implemented on the back of three major sets of transformations in China in the first three decades after the Chinese Communist revolution in 1949: health improvements, educational improvements, and land reform. The combined effect of these three institutional changes was the emergence of a relatively egalitarian society, whose energies were released by the economic reforms of 1979. The economic growth that followed was dramatic in terms of poverty-reduction.

It is intuitively obvious that **when inequality is high poor people will tend to receive a lower share of the gains from growth.**[5] Thus Easterly (2009) conjectured that the initial poverty rate, rather than initial inequality, would be a better predictor of the elasticity of poverty reduction to growth. Ravallion (2012) produced the evidence on this matter and shows that it is not high initial inequality that slows the pace of poverty reduction given the rate of growth, but high poverty. The argument is that the poorest countries are not enjoying higher proportionate rates of poverty reduction. Ravallion shows that a high incidence of poverty slows subsequent growth. This is shown by using **data for hundred developing countries, which show an adverse effect on consumption growth of high initial poverty head count ratio at a given initial mean for a group of countries. It matters more than inequality**. He also measures the effect of the size of the middle class on subsequent growth and does not find it to be greater than the effect of initial poverty. Thus, the argument is that

[5] See the review of the evidence on this point in Ferreira and Ravallian (2009).

there may be a number of distributional parameters relevant to growth – inequality, poverty and the size of the middle class – but what matters more is the level of poverty.

Implications for national policy

The policy implication of this research evidence is that, in addition to economic growth, there may be value in governments making direct interventions to reduce poverty through a variety of means. Such actions should lead to increases in consumption demand. Certain policy measures of this kind are discussed later in this section.

Instead of waiting for the impact of economic growth to 'trickle-down' to the poor a greater recognition exists today than two decades ago of the need for direct interventions plus growth to relieve absolute poverty. There is a policy imperative for combining growth with job creation in the non-agricultural sectors. In addition, social policy to build human capital must be supplemented by measures to promote social insurance and social assistance. But this is not a policy that has been adopted by many developing countries.

Birdsall et al (2013) identify a group of people in Latin America and other developing countries that are not poor but not middle class either. They defined them as the vulnerable 'strugglers', people living in households with daily income between $4 and $10 per capita (at 2005 pp $). They are vulnerable to falling back into poverty and hence not part of the secure middle class normally defined as those who have a per capita income > $10 per day. They argue that the cash transfers that the strugglers can receive are largely off-set by the indirect taxes they pay, and that the true benefit of in-kind transfers in health and education is questionable after adjusting for quality.

There is a case for social policy being more targeted in such developing countries towards this group which is growing, including in countries like India, and will probably exceed the numbers of the poor in the middle-income countries over the next two decades. To ensure social policy is effective in mitigating the effects of exogenous shocks over which these strugglers have no control, it would be **advisable for states to ensure that they correct the lower tax revenue and hence lower redistributive capacity in such middle-income countries**. For example, Latin America generates just 21 per cent of GDP in tax income each year compared to an average of 37 per cent in OECD (countries outside of Latin America) and 20 per cent of GDP in India (which is at a much lower level of income). At this level of taxation, many countries are unable to generate the resources that developed economies can spend on growth-and-equity enhancing investments in Latin America. This is particularly true because of the relatively greater reliance on indirect regressive taxes including the value-added tax, compared to direct taxes on corporations, property and personal income. Clearly, social policy cannot expand its scope unless policy-makers can muster up the courage to generate greater tax revenues than they are currently doing.

Social investment: Vocational Training and Skill Development as means to prepare a workforce for industrial growth

> A direct means of reducing the inequality of human capital is rapid universalization of basic education. As primary education has become universalized, thanks to the efforts associated with the MDGs, more and more children are moving into the secondary level of education. However, what is remarkable is that countries that have respectable levels of manufacturing output and employment, and are part of so-called 'Factory Asia' (with its production chains spread through many countries), all have reasonably high levels of Vocational Education and Training enrolment as a shar of total upper secondary enrolment. This is what enabled them to develop the human resources and middle-order skills for a growing manufacturing sector. Thus, in China 46 per cent, and in Indonesia 41 per cent of upper secondary enrolment is in VET, and 21 per cent and 17 per cent at secondary level, respectively (2010). However, in India, that share is barely 3 and 1 per cent respectively. The lesson is that countries cannot expect to become manufacturing nations unless they are willing to provide quality VET, instead of allowing their secondary level youth to wander into general academic education in the absence of any other choice, as happens in much of South Asia.
> *Implications for national policy*

One of the most important policy lessons **for countries that want to continue to grow, and expand their manufacturing sector, is that they must expand the opportunities for vocational education and training. The vast majority of East and South east Asian countries did precisely that**. In contrast, the opportunities for VET have not been expanding in either South Asia or SSA to a similar extent. This remains a major policy priority for the immediate future.

Social investment: Reduced total fertility rate is a driver of poverty reduction

Approximately 20 countries, both low income and middle income ones (LICs and MICs) (see table 3) made significant progress in reducing poverty (ODI, 2014). A common factor underlying most of these countries was the greatest percentage reduction in their fertility rates between 1990 and 2010.[6] The implication of a fall in fertility rate is significant reduction in the dependency ratio in the population. All these countries will experience a demographic dividend, which is a phenomenon wherein the share of the working age population in total population rises, while the share of the dependent, non-working age population (both children and over 60 years of age) will fall.

[6] Maldives, Iran, Bhutan, Cape Verde, Bangladesh, Lebanon, Nepal, Libya, Viet Nam, Yemen, Cambodia, Lao PDR Nicaragua, Pakistan, Malaysia – all saw change in fertility ranging from 43 to 62 per cent over the two decades.

Table 3: Total fertility rate: The top performing low-income and middle-Income countries between 1990 and 2010

Low-Income country (LIC)	Middle-Income country (MIC) as in 2012	
	Iran	Asia
	Nicaragua	LA
Bangladesh	Lao	Asia
Burkina Faso	Pakistan	Asia
Cambodia	Guyana	LA
Central African Republic (pre-conflict)	Tunisia	Mid-east
Ethiopia	Brazil	LA
Gambia, The	Panama	LA
Guinea	Senegal	Africa
Malawi	El Salvador	LA
Mali (pre-conflict)	Ecuador	LA
Mauritania	Viet Nam	Asia
Mozambique	Jordan	Mid-east
Nepal	Peru	LA
Niger	Guatemala	LA
Sierra Leone	Thailand	As
Uganda	Sudan	
	Timor-Leste	As
	China	As
	Bhutan	As
	Ghana	Africa
	Honduras	LA
	Indonesia	Asia

Source: ODI, 2014

It must be pointed out that the very significant contributions of first China and then India to the global reduction in poverty have been partly on account of their sharp reductions in fertility rate. In fact, China's success in poverty reduction is primarily because economic growth came on the strength of very sharp reductions in population growth; in fact China is now at the end of its demographic dividend by 2015 (www.chinadaily.com.cn; World Bank, 2012). On the other hand, India saw its demographic dividend begin in the early 1980s, and it is only just over the midpoint of the period of its dividend, which will last till the end of 2030s. Therefore, growth in India will have very significant poverty-reducing effects over the next quarter century (Mehrotra, forthcoming).

Similarly, in Bangladesh where an average woman will have 2.3 children in her life time the country is about to reap a demographic dividend. In Sub-Saharan Africa, this dividend will begin to flow shortly, hence its success in poverty reduction is still in the future, but will be dependent upon rapid GDP growth being sustained, and its growth not only generating jobs outside of agriculture, but productive jobs.

The real question is: how was this decline in TFR achieved? What policies were responsible ? Before 1995, at least a dozen developing countries Asia, Africa and Latin America had demonstrated that this was achievable even at low levels of income: South Korea, Malaysia and China in East Asia; Sri Lanka and Kerala state (India) in South Asia; Mauritius and Barbados among the island states; and Costa Rica, Cuba and Chile in Latin America. In these countries it was achieved by state-led investment in public and primary health care accompanied by provision of reproductive health services along with family planning. School-education, as opposed to higher education, was again state-provided, and universalized, at least upto junior secondary level. This model came to be called 'development with a human face' (Mehrotra and Jolly, 1997; Ghai,).

There have indeed many successes in education in low-income countries, with primary schooling reaching universal levels, except in the Sahelian countries. However, health outcomes remain seriously deficient, and the health MDGs are far from being achieved in 2015. This is a serious weakness in the feedback loop from human capital formation to poverty reduction, and the feedback from these to GDP growth (Mehrotra, 2014). Sustained inclusive growth can only be possible when all these three objectives are realized.

Policy implication for national policies

Countries in Asia and Sub-Saharan Africa have been in a phase of demographic transition called the demographic dividend. The experience of China, which rode the wave of the demographic dividend shows that this once in a lifetime opportunity in the life of a nation must not be missed. China managed to reduce poverty at an unprecedented rate precisely because of very rapid economic growth during the period of its demographic dividend (DD). On the contrary, Latin American economists have noted that most Latin American economies have allowed their demographic dividend to pass them by, without governments taking full advantage; this is probably one reason why the upper middle-income Latin American countries are still in a middle-income-trap. During the phase of the demographic dividend, if a growing proportion of the population is joining the labour force, and getting productive jobs, they will save a part of their rising incomes. Hence, the savings rate to GDP tends to rise during the period of the DD. This is precisely what happened in China, and has happened in India more recently. China is now at the end of its DD, while India is still at the mid-point of its DD; SSA is in the early stages. If South Asian and African countries are unable to ride this wave, which involves growing investment rates along with rising savings, the growth rate will suffer from the volatility that Latin American countries have faced.

The prevailing contrasting experience of China on the one hand and many Latin American economies on the other should be a salutary lesson for both India and the Sub-Saharan countries.

India still has a quarter century to go before the end of its dividend, while SSA has only recently entered the period of its dividend. Both have no time to lose – a fact that governments in this regionsmust internalize, and modulate policies, accordingly. The most important lesson policy-makers is the speed with which structural transformation with economic growth is necessary. The other lesson is that policy mistakes will result in lost years which countries in the phase of their DD can ill-afford. Thus, the lost decades of the 1980s and 1990s in much of SSA and Latin America are the kind of catastrophic development experience that the poor can ill-afford the most.

Fertility reduction has been very successfulin a significant minority of countries, and can be a driver of poverty reduction. All countries that saw sharp decline in poverty were also those which reduced fertility rates to a level closer to replacement level (2.1). However, fertility reduction is not simply a function of family planningprogrammes. Countries that have quite rapidly universalized access to school education at least up to secondary level, and have provided quality preventive and public health services, as well as basic curative services to all have been successful in reducing fertility. **Thus, investment in social services, especially in building functional health systems and ensuring universal access and completion of secondary education by the majority of girls remains an effective method of reducing TFR and thus rapid poverty reduction.** However the fact that most populous states of India and the majority of countries in SSA still have a TFR over three per woman of reproductive age clearly calls for much more action by these countries on health/education measures to reduce TFR.

Effective social policy – involving growing public health and education expenditure, rising coverage of informal workers under insurance and social assistance programmes, and public employment – is dependent upon growing tax revenues. Rising tax revenues are in turn determined by sustained, reasonably high growth rates, but also the willingness and ability of states to generate tax and non-tax revenues. Lindert (2004) shows that during 1880 and 1980 the now industrialized countries saw an increase in tax to GDP ratio from around 10 per cent to around 40 per cent over the 100 year period. These tax revenues have driven the rising public expenditure as a proportion of GDP, and the growing share of the state in the economy. In fact, as per capita income rose over that 100 year period so did the size of the state. Lindert (2004) also shows that most of this rise in public expenditure was driven by three components: public health, education and social transfers.

This historical evidence from the OECD countries is particularly relevant for countries that have either entered the low middle-income status within the last decade and also for the majority of Latin American economies that have been at upper middle-income levels for some decades. The ministry of finance in developing countries is often an opponent of public expenditures on health, education and especially social transfers, particularly but not only in times of fiscal constraints, even though the country’s GDP may be growing reasonably. However, all three areas require sustained public spending over long periods of time, and a rising size of the state (including staff) in these areas, and not periodic reductions of spending. Of course, the monitoring of the effectiveness of public expenditures on these three areas must be constant, so that wasteful spending is contained, and the evaluation of impacts of such spending should also be regular. Otherwise, since public expenditure in expanding the coverage and improving quality of health, education and social transfer services will become a victim of political attacks from the upper-middle classes, who are likely to bear the cost of taxes collected that finance such expenditures.

Social investment: A large informal sector has led to increased need for social assistance

It has been a well-recognized fact that developing countries have seen a continuous growth in the informal sector of the economy (ILO; 1991; ILO, 2002; Mehrotra and Biggeri, 2007). Most employment is still concentrated in the informal sector. A defining characteristic of the informal sector is that the workers in it have no social insurance (old-age pension, death and disability insurance, maternity benefits). Only those in formal employment have access to such social insurance mechanisms. The recognition of a large informal sector led in Latin America to the emergence of a new form of social assistance since the early 1990s: conditional cash transfers. The most successful examples of CCTs are BolsaFamilia of Brazil and the Progressa of Mexico. However, by the end of the 1990s the phenomenon of conditional cash transfers (CCTs) had spread throughout Latin America and was introduced even in some African countries (for example, South Africa, Kenya) and Asia (for example, India, Bangladesh, the Philippines and Indonesia).

It is clear that such cash transfers have improved educational and health outcomes in Latin America (Fiszbein et al, 2009). In fact, for Brazil there is evidence that after the global economic crisis of 2008, poverty declined as a result of the increase in compensatory cash transfer. In other words, in a context where one would have expected poverty to increase, the cash transfers had the reverse effect. Nevertheless, even though Progressa in Mexico has also been a very successful programme, after 2008 the impact of the crisis upon poverty in Mexico was greater, and hence the transfers under the CCT could not offset the increase in poverty post-2008.

In any case, to deal **with the phenomenon of low productivity–low wages inherent to informal sector employment, social assistance in the form of cash transfers emerged as a widest spread tool of poverty reduction.**

Is it an instrument that is being widely used by governments across the developing world? As we just noted, CCTs is common to all Latin American economies. But in SSA and Asia (as one can also see from the list of countries on those continents above), it is a form of social protection that is more the exception rather than the rule. In other words, social assistance coverage may need to expand to cover at least the entire poor population.

However, social assistance alone will not suffice. It must be supplemented by a system of social insurance in developing countries. Social insurance mechanisms have been taken for granted to take care of systemic risk that face workers in developed countries, primarily because the preponderance of workers have formal sector employment. However, in developing countries, where the majority of workers only have access to informal employment, there is no social insurance (death and disability insurance, old age pension and maternity benefits) available. There are several reasons why social insurance is needed for workers in informal employment, which accounts for anywhere between 50 and 90 per cent of the total workforce, depending on whether one is referring to Latin America or South Asia. The first economic reason is that the lack of social insurance for informal workers reduces productivity. For example, out-of-pocket medical costs are often an important cause of households first falling into debt and then poverty. A second economic reason for social insurance is that its absence leads to coping mechanisms by the vulnerable and insecure population, which runs the risk of turning transient poverty into long-term poverty. Thus, transient poverty may lead to the withdrawal of children from school or lead to workers in agriculture into debt bondage, thus causing long-term damage to human capital formation. A third reason is that historical evidence from the now industrialized countries suggests that social insurance for workers has a downward effect on the total fertility rate (Cigno and Rosati, 1992). Fertility rates are kept high by the need of poor parents of children as an insurance against old age. Finally, there is another important economic reason for providing social insurance for informal sector workers, especially those with income below the poverty line. These workers who are in agriculture normally own agricultural land in their villages, albeit very small plots. However, these small plots are their safety net, their social security. Such small farmers may never give up their land, slowing down the process of urbanization and availability of labour for non-agricultural employment. They will never part with this land as long as they do not have at least some partially similar mechanism of social insurance at the work place in urban areas.

For all these reasons there is a need for policy-makers to devise mechanisms for provision of social insurance for workers who do move to informal sector work in urban locations. For the poor segment of such workers the state will need to finance an old-age pension, death and disability insurance and maternity benefits – the three key components of a social insurance system – wherein the ultimate beneficiary is not contributing to the fund that will be the source for social insurance. However, for those above the poverty line the state should consider a cascading contribution from the state's own revenues, declining with rising level of income of the potential beneficiary, with the own contribution of the beneficiary rising with rising levels of income.

Social insurance can be extended to workers in the informal sector. Not all workers in the informal sector are poor; some are themselves employers. **The poorest workers in the informal sector can receive old age pension, death and disability insurance and maternity benefits – the three critical ingredients of a system of social insurance, according to the ILO – through a non-contributory mechanism.** It will require that all such workers are first registered by a national body, authorized to register such workers. They would need to be given bio-metric means of identification, data from which would have to be fed into a national database, aligned with the insurance companies. The premiums would have to be mostly paid by the government, while the beneficiaries would have to only contribute an annual fee, which should be nominal, in order to show a minimal degree of ownership. Biometric identification would make the insurance portable from location to location as well as job to job. For India, such a social insurance for the 22% of the population that is poor would only cost some 0.38% of GDP at 2012 prices (Mehrotra, 2014).

Social investment: Public employment programmes have gathered momentum as a poverty reduction measure

Workfare was an important element of the New Deal introduced by US President Roosevelt in 1933 in response to the Great Depression as a form of employment of last resort (Minsky). Similarly, many employment generating programmes began across the developing world in the last decade or so, as an effort by the state to be the employer of all resort. The most well-known and the largest is the Mahatma Gandhi National Rural Employment Guarantee (MGNREGS) in India. This promises 100 days of work per year per household to those willing to do unskilled manual labour at the minimum wage notified for the programme. This is a self-targeting scheme, since it involves hard manual labour, especially in the lean season of agricultural work in rural areas. While India and South Asian countries have had a long history of such public work programmes to relieve rural distress and build rural assets to enhance agricultural productivity (for example wells, tanks, roads, afforestation), South Africa also introduced a similar programme in the last decade. Similarly, Argentina's Jefesprogramme is another example of the phenomenon of the state acting as the employer of last resort. After the economic crisis that began 2008 such public employment programmes have been seen as a direct intervention to relieve poverty, while at the same time building new assets that could increase productivity.

However, the number of countries that adopted such programmes remains quite limited.

Implication for national policy

As a direct poverty reduction measure there has been a growth in recognition of the role of public employment programmes, especially in South Asia where they have been historically prevalent, but also in South Africa and Argentina in the last decade. Their role consists of providing distress employment in lean season for surplus agricultural or urban labour. But the experience with these programmes has also demonstrated that, along with providing such employment, they can also contribute to the creation of productive assets that enhance productivity. Despite the success of the Indian, South African and Argentinean programmes over the last decade, **very few countries, either in the low or middle-income category, have public employment programmes for lean season employment of surplus rural or urban workers**. Given the success of these programmes reported in section 2, it suggests a surprising lack of vision among policy makers that such programmes have not been replicated elsewhere.

A defining characteristic of successful programmes is that the beneficiaries are self-selecting, rather than pre-identified as having to prove they are ‘poor’ by some poverty line. Since the wage would be slightly below the market wage, and the work involved would be quite hard manual labour, the self-selection would ensure that there is not excessive demand, which might cause major fiscal burden to the state. Another characteristics that would make for success, especially perceived success in the eyes of the middle-class (whose support will be needed for such a programme will be needed in a democracy for political reasons), is that it leads to works that improve the productivity of the soil or water conservation or builds roads or leads to forestation, and so on.

Micro finance programmes emerged as a direct poverty reduction instrument

Until the early 1990s there were relatively few success stories from micro-finance programmes in developing countries. The most famous example of successful micro-finance programmes that emerged in the 1990s is Bangladesh’s women’s group-based lending scheme, Grameen Bank (GB). GB’s lending focused on reaching the poor through their eligibility criteria and their branch location decisions, which (in contrast to traditional banks) have favoured areas where there are limited opportunities for poor people to start non-farm activities. Thus Pitt and Khandker (1998) found that GB lending to groups of women helped to both smooth the consumption of borrowing households and also to build their physical and human capital. The success of GB in Bangladesh led to a rash of expansion of such micro-finance programmes across South Asia and other Asian countries, as also Latin American ones. In India, the success of lending by banks to self-help groups constituted exclusively by women has shown remarkable results in improving livelihoods, with all their attendant benefits for human capital formation in the states of Kerala (the Kudumbshreeprogramme) and Andhra Pradesh (the IndirakrantiPatham). So remarkable was the success of the group-based lending to women in these two states that the federal government of India decided during the 11th Five Year Plan period (2007-2012) to take the programme to scale across the entire country (the National Rural Livelihoods Mission).

Meanwhile within the last decade such micro-finance programmes have spread in other developing countries as well although many of them tend to be private sector led. Private micro-finance institutions (MFIs) have grown in India as well especially in Andhra Pradesh, but the most successful programme remains the one led by the government. On the other hand, **private-led MFIs tend to be profit-making entities, and tend to have a higher rate of interest (even for the poor) than public sector lenders, and have seen less success in improving lives of the poor.**

Thus, MFI activities usually tend to be focused on lending to poor individuals, while the self-help group based programme is, by definition, group-based lending. Groups have demonstrated a very high rate of repayment, which has remained the reason for their continued expansion. However,, it is true that group-based lending involves greater transaction costs for the state, since poor groups of borrowers need support in preparing projects that are bankable, and even need continuous handholding support over the course of the loan repayment period.

Implication for national policy

A genre of social assistance programme emerged in the last two decades based on the provision of micro-credit to self-help groups of poor people, especially women. This is a direct intervention for poverty reduction. This measure proved to be an effective way of not only building social capital but providing livelihoods to the poor in rural areas. Given that LICs are characterized by low levels of female participation in the labour force, **the emergence of micro-finance for individuals and micro-credit self-help groups offers an alternative and sustainable way in which economic activity, outside of agriculture, could be promoted successfully, thus increasing the labour force participation rates of women**. However, the fact is that the majority of countries still tend to rely upon MFI-based micro-lending to individual households, rather than on a group-basis.

3. Links between poverty and sustainable development

The degradation of eco-system services poses a significant barrier to the achievement of the Millennium Goals for 2015 (Millennium Eco-system Assessment, 2005). There is much evidence to suggest that the degradation of eco-system services is hurting many of the world's poorest people and is often the main factor causing poverty. Of course, we know that eco-system changes such as increased food production have also helped to pull hundreds of millions of people out of poverty. But changes have also hurt many communities.

First, desertification affects the livelihood of millions of people especially those poor living in dry lands. Thus, it is high productivity eco-systems or urban areas that usually experience population growth, but such population growth rate was highest in less productive eco-systems during the 1990s. Dryland farmers, both rural and urban saw the highest, and mountain systems the second highest population growth rate in recent decades. One factor that in the past reduced population growth in marginal lands was the migration of some people out of such lands to cities or to agriculturally rich regions. However, today such migration has become limited for several reasons: poor economic growth in some cities, fewer availability of land in more productive regions and tighter immigration restrictions in wealthy countries.Drylands, therefore, remain very vulnerable to climate change, and their people highly prone to remaining in poverty.

Drylands have among the lowest per capita income and highest infant mortality rates among many parts of the world (Millennium Ecosystem Assessment, 2005). Nearly 500 million people live in rural areas in arid regions, mostly in Africa and Asia, and in regions of Mexico and in Northern Brazil. The limited rainfall and high variability limit the productive potential of drylands for settled farming and nomadic pastoralism. Unfortunately, expanding production as population rises in such drylands(for example, by reducing fallow periods over grazing pastures, and cutting trees for fuel wood) result in environmental degradation. These processes cause abnormal vulnerability. Thus, after unusually high rainfall from the 1950s to the mid 1960s which attracted people to the Sahel, the region experienced the return to the normal rain levels after 1970. The good rain fall had attracted people to the region, but when rain fall returned to low levels after 1970s about 250,000 people died, together with their cattle, sheep and goats.

Moreover, vulnerability is also widened in low lying coastal areas where poor populations are growing. When population grows in eco-systems at risk of disasters, vulnerability only grows. Particularly on account of growth in these vulnerable populations the number of natural disasters (floods, droughts, earthquakes and so on) that require international assistance has grown four times over the past four decades.

Third, common pool resources (eg. forests) and common property resources on public and village lands in cultivated plains have tended to shrink when population grows, but also due to the privatization of such common resources. This is especially the case for indigenous people and forest-dependent people.

Fourth, there are gender differences in regard to the impact of changes in eco-systems, and women are more vulnerable. Rural women in Africa and Asia are the main producers of food crops like rice, wheat and maize. Since women play an important role in agriculture the damage to eco-systems of water quality, fuel wood, land productivity results in higher demand on womens'labour. This reduces the availability of womens' time for food preparation, child care and so on. Despite women's contribution to agriculture rural women seem to benefit less from development policies and new technologies.

Fifth, the impact of declining eco-system services is rarely measured in national statistics or in poverty assessments. This has the effect that often inappropriate statistics are collected or statistics simply ignore the reliance of rural poor on eco-system services. For example, a study of 17 countries found that 22% of household income in forest regions comes from sources not included in national statistics (harvesting wild food, fuel wood, fodder, medicinal plants, timber). These activities contribute a higher share of poor families' total income than for better-off families, and such income was especially important in periods of unpredictable failure shortfall from other sources of livelihood.

Finally, the energy needs of large and rapidly growing economies like China, India, Indonesia and Brazil can further destabilize climate patterns if only fossil fuels are relied upon. That the energy needs of these economies must be met goes without saying, since millions of poor citizens in these countries are still without access to electricity for lighting and still use biomass/fuel wood for cooking. Their energy needs must be met from modern sources; but increasingly they must rely upon renewable sources of energy.

Implications for national policy

For all these reason, **the post-2015 global agenda, as well as national policies for poverty reduction, must take on the challenges of climate change more directly than has been the case in the MDGs for 2015**. In SSA, poverty cannot be decreased, even if there is GDP growth, if the vulnerabilities discussed above are not addressed simultaneously.**In SSA there is little chance of domestic resources sufficing to counter the effects of climate change; international resources must supplement** on a large scale domestic efforts. The argument in the previous section about initial levels of poverty come into sharp focus in this context, and international negotiations on climate change, and international assistance for dryland regions must address these vulnerabilities. Otherwise, in such regions, poverty reduction will remain a distant mirage.

The case for rapidly increasingly the use of renewable sources of energy is only strengthened by the fact that a significant share of populations in the South do not haveaccess to electricity, who are usually. For them consumption of commercial sources of energy must continue to expand, as access to electricity can contribute to increasing the productivity of the poorest citizens. We will use India as an example, which must **expand use of renewable energy even faster than it has been doing**. At present wind energy capacity is close to 22 000 megawatts and solar is another 2650 megawatts (nuclear is 4 800 megawatts). Wind and solar account for about 13 per cent of total electricity generating *capacity, although actual contribution energy supply is only half that level.* A recent Planning Commission expert group on low carbon strategies for inclusive growth recommeneded to increase wind energy capacity to 120 000 megawatts and solar to 100 000 megawatts by 2030. This is feasible as India is well endowed with both sun and wind resources.

Such an energy transition will have to be driven by innovations in technology, regulation and financing (Ramesh, 2014). It will need development of indigenous R and D capacity and engineering capabilities. But it will have massive payoffs. An estimate suggests that around 24 000 jobs were created in the last three years alone when solar capacity has increased from around 1800 to 2650 megawatts . It will increase energy security, and reduce emissions of carbon dioxide. It will improve public health, and result in development in regions that have remained backward until now. In other words, the development of climate change adaptation and mitigation techniques can themselves have significant poverty reducing impact.

4. Implications of the observed trends for the post-2015 global development agenda

The trends observed in the previous three sections indicate the following priorities for national policies and the post -2015 global development agenda.

Since 2005 the number of poor people in Africa has fallen by only 2.1 per cent, as against a fall of 38.6 per cent in the world. For the post-2015 period the aid agencies must concentrate on Africa. This is because poverty in China is no more a source of concern and in India if the growth rate is sustained as is the poverty-reduction to growth elasticity, as was the case between 2005 and 2012, then even though there will be at least 200 million poor people in India beyond 2015, poverty would increasingly be concentrated in Sub-Saharan Africa.

Poverty reduction is becoming feasible. In 2005 supplementingthe income of each poor person in the world to raise their daily income up to $1.25 would have cost $96 billion, or 80 per cent of the total foreign aid disbursed that year (Chandy et al, 2013). But in 2010, with poverty reduction widespread and larger global aid volumes the cost of such a global safety net would be just $66 billion, or slightly more than half of all official aid.

The global agenda on poverty reduction post-2015 should focus on the following priorities, among other things:

i) **Timely poverty data is a sine qua non of poverty reduction**. Quality data on poverty, based on a consistent poverty line, regularly collected in the smaller countries at a frequency of at least every two years is a necessity to meet this objective. The **capacity of national statistics agencies should be built up in smaller countries with the use of aid agency resources**. The World Bank must lead this effort, and where necessary, the regional development banks should also assist.

   The frequency of collection of poverty data shows important differences across the regions of the South. The Latin American region has the most frequently collected data on poverty – annually. By contrast, in India, which has the largest number of poor people in the world, consumption expenditure data is collected only onceevery5 years, which is used for estimating poverty. Then at the international level the World Bank produces poverty estimates after every 3 to 4 years but each new estimate faces a 3 year lag due to time spent on data collection and analysis. The result is that the world's estimates of 'current' global poverty are already three years out of date. Hence, we would recommend that poverty data should be collected every year, and if capacity to collect and analyse data is built up rapidly it would be possible to reduce the frequency of reducing the time lag from 3 to 2 years. In this way global poverty data would be available at more frequent intervals, which would create a data base for sustaining the fight against poverty.

ii) The failure of states is a driver of continued poverty. It is notable that no country with a failed state has achieved a single MDG. Half the children not in primary school and children who died before reaching five years of age live in failed states. In 2005 only 20 per cent of the world's poor lived in failed states, but their proportion has risen to an about

50 per cent by 2014 (Chandy and Gertz, 2011). It should not be assumed that all the failed states are located in Sub-Saharan Africa. There is enough evidence over the last few decades about the reasons why states 'fail'. **When large or even MICs (eg Iraq or Syria) face state failure, then it is obvious that poverty alone, or conflicts between ethnic groups over mineral resources alone are not the causes of state failure. International players have had a role, and interventions by big powers are also a source of state failure in developing countries.** Such conflicts are either large number of very vulnerable people, or perpetuate high levels pre-existing poverty. Major powers need to keep in mind that their own interventions may perpetuate a cycle of conflict, thus perpetuating the causes of poverty.

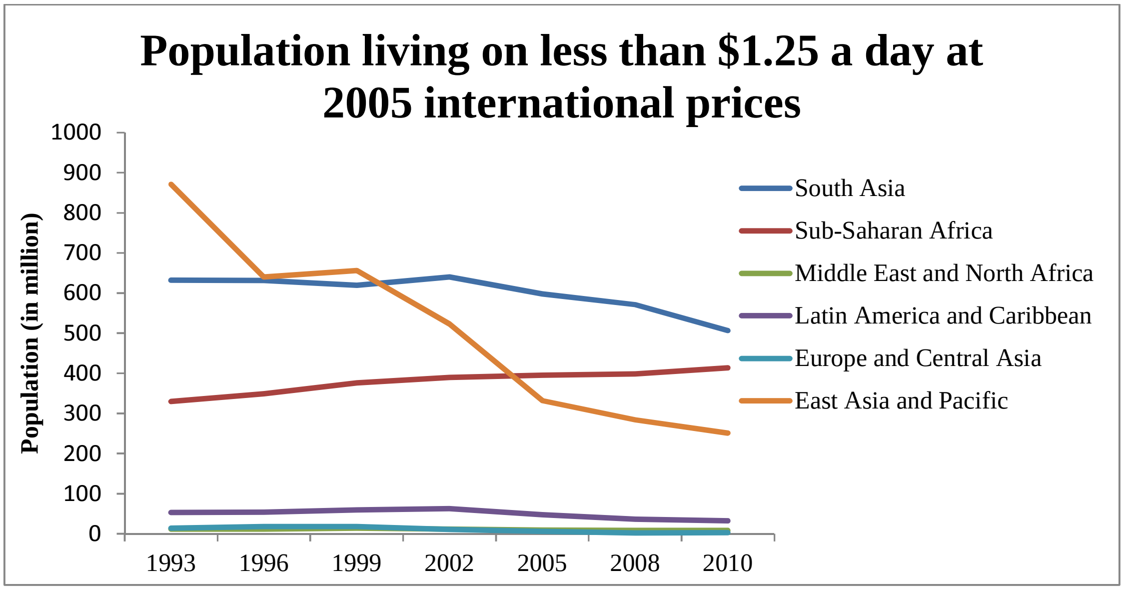
iii) Between 2005 and 2015 the share of global poverty in Asia will decline from two-thirds to one-third, but Africa's share increases from 28 to 60 per cent. At the same time, there has emerged dispersal of poverty across countries. In 2005, half the world's poor were to be found in just two countries, India and China. By 2015 it is the top five countries that account for this share[7]. Three-fourths of the world's poor lived in eight countries in 2005, but that number is 15 countries in 2015. **Thus external assistance would need to focus on those 15 countries.**

iv) There is another important dimension of the evolution of the country dispersal of global poverty. As the world's most populous developing countries graduated into becoming middle income country status, poverty is not concentrated any longer in low-income countries (LIC) (Sumner, 2010).

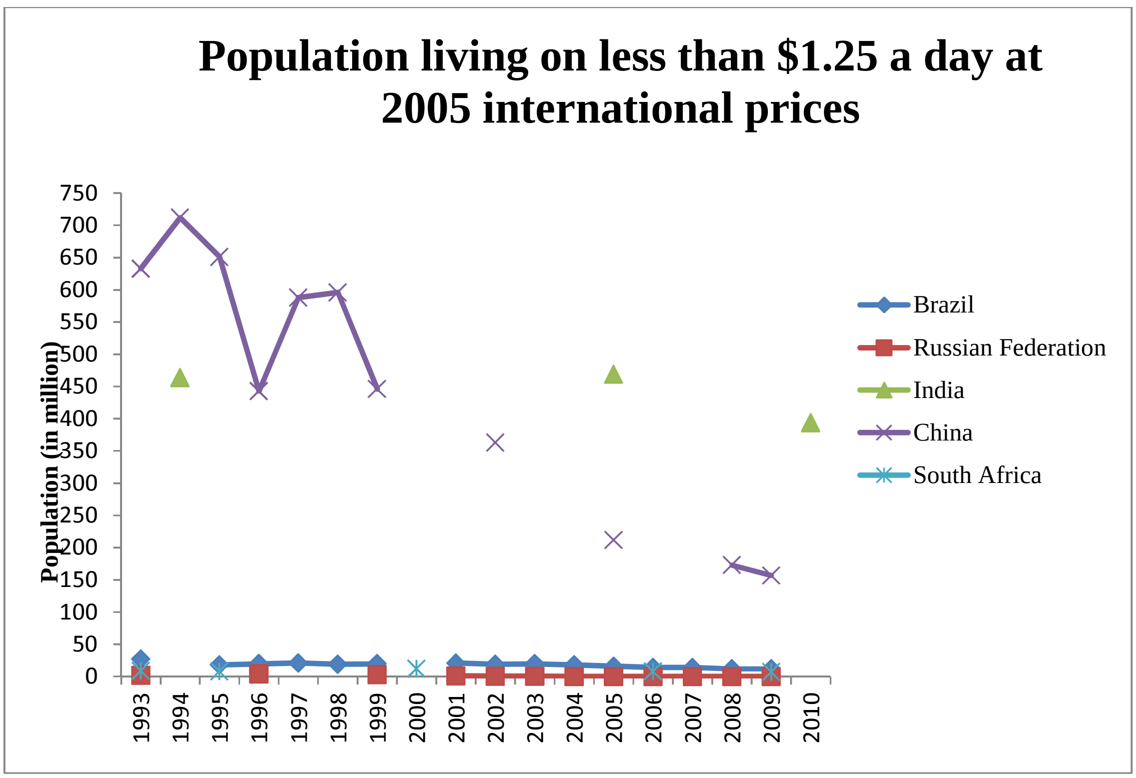
In 2007 India graduated to MIC status, and in 2008 Nigeria and Pakistan did as well, thereby causing this shift. These three countries together accounted for two-fifths of the world's poor at that time. The fact that erstwhile LICs have turned into MICs implies that their ability to finance direct measures for poverty reduction domestically is greater. This fact has two policy implications. First, it implies that **bilateral donors may begin to withdraw assistance from such MICs.** For instance, UK has already announced that it will not provide bilateral assistance on a grant basis to India from 2015 onwards. A second policy implication is that **MIC governments which still have larger number of poor should increase their domestic efforts to reduce poverty**.

v) Finally, **without much greater transfer of technology from the OECD to developing countries, both LICs as well as MICs, the global compact for containing climate change cannot be met**. OECD countries have to be willing fund the transfer of technology, without which the entire planet risks facing disaster with the global temperatures rising by over 2 degrees centigrade by 2100.

[7] Eight countries accounted for one-third of the world's countries in 2005, but in 2015 that number would be 15 countries.



Population living on less than $1.25 a day at 2005 international prices
Population (in million)
1000
900
800
700
600
500
400
300
200
100
0
1993
1996
1999
2002
2005
2008
2010
South Asia
Sub-Saharan Africa
Middle East and North Africa
Latin America and Caribbean
Europe and Central Asia
East Asia and Pacific



Population living on less than $1.25 a day at 2005 international prices
Population (in million)
750
700
650
600
550
500
450
400
350
300
250
200
150
100
50
0
1993
1994
1995
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2004
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2006
2007
2008
2009
2010
Brazil
Russian Federation
India
China
South Africa

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