

Journey towards the Elusive Poverty Reduction

Selected Lessons from South Asia

Sajjad Zohir*

Prelude – a note on possible biases

Communication across continents, in spite of persistent sponsoring of ‘global knowledge’, is often obscured by differences in experiences and due to diverse pathways in knowledge domain. Few biases of the author are therefore warranted.

- Views expressed in this paper are not necessarily representative of the South Asian academia – there is possibly no ‘representative’ segment.
- It neither captures all types of experiences nor the experiences of all the countries in South Asia. While some basic figures are summarized, the inferences are drawn from the author’s knowledge of (and limited exposure to the societies in) Bangladesh, Nepal, Pakistan and India.
- Previous work relevant for current engagement include, MDG exercises in several countries, probing into empirics related to poverty measures, several evaluations of poverty alleviation programs and few exercises on microfinance and NGOs in Bangladesh.

Outline of the Paper

The Meeting is meant to review progress towards poverty reduction with a view to identify future actions that will accelerate the progress towards poverty reduction by 2015 and beyond¹. A stock-taking based on available statistics on South Asian countries is done at the very beginning, which also reveals the limitations of ‘numbers’ we use to assess our progress. The *Aide Memoire* raises two interlinked and yet different sets of issues. The first includes general experiences with poverty reduction; and the second is specific to global crisis in food and energy. It is difficult to package meaningfully both into one paper. A brief presentation is made to summarize the effects of the food and the global financial crisis, and highlight their implications for the poor and poverty. But the primary focus of the paper remains on the poverty eradication efforts over the last two decades to bring out some of the lessons that may guide us into future. The essential search is for alliances that will have interests in eradicating poverty and on various approaches that hold the potential to realize those dreams. Setting a target of reducing poverty by half set us on a journey; and no matter how elusive the target has been, the journey itself had provided us with valuable experiences - some aspects of which are discussed in this paper.

* The author is Director, Economic Research Group (www.ergonline.org). The paper is prepared for the *Expert Group Meeting on Poverty Reduction*, organized by the UN Department of Economic and Social Affairs (DESA), and Economic Commission for Africa (ECA) at the UN Conference Center, 15-17 September 2010, Addis Ababa, Ethiopia.

¹ The *Aide Memoire* mentions of “Comprehensive review of successes, best practices and lessons learned, obstacles and gaps, as well as key challenges and opportunities that can lead to the implementation of concrete national, regional and international strategies for action. One may also add ‘failures’ in the list as a potential source of lessons.

Observation on Progress – improvements short of expectation

National level statistical agencies provide measures that are not always comparable across countries; and often, doubts are cast on their comparability across survey years even when a single country is considered. The World Bank (WB) has worked in close collaboration with these national statistical agencies in South Asia and had published a different set of poverty measures that are supposedly more comparable across countries – the latest poverty figures from the WB take US\$ 1.25 a day per person PPP as the cut-off for poverty measures, often coined as the international poverty line. Tables 1 and 2 summarize the available poverty estimates.

While there have been declines in incidence of poverty in all countries, the target of halving poverty (from benchmarks reported for 1990) may only be realized in Bhutan and Sri Lanka. The pace of decline was reportedly high immediately after the benchmark year; but there are reasons to believe that the pace of decline has slowed down in the recent past, if not stagnant. The single story that holds out for all countries in South Asia, as revealed by the WB estimates, is the persistent decline in poverty gap from 1990 till 2005². Most national level estimates however report of increasing inequality (measured by *Gini* coefficient) during the same period.

If the numbers have universal appeals, one may conclude that there have been declines in the measured incidence of poverty, but not enough to keep the number of poor people from increasing in South Asia. However, there are questions on the very measures, particularly the changes introduced in methods, which is discussed in the following section.

Degenerating Numbers and the Need for Rethinking on Measures

There is always an incentive to tamper with benchmarks if targets are defined in terms of those benchmarks and one wants to ensure flexibility in fulfilling conditionality tagged to those targets³. Two discernible trends over the last decade and half raise questions on monitoring outcome variables, such as, the poverty measures. The first was to post a higher level of poverty incidence in the benchmark year; and the second has been a persistent changes in methods - moving away from the Direct Calorie Intake (DCI) based measure to Food Energy Intake (FEI) method, and then to the Cost of Basic Needs (CBN) method. It is commonly agreed that the methods matter in measuring not only the level, but also the trend⁴. Thus, many of the early proponents of these measures are now proposing Muti-Dimensional Poverty Index (MDPI)! There has also been proliferation of various shades of poverty, from 'hardcore', to 'ultra', to 'chronic'; and an increasing

² An attempt to explain the phenomenon is made while discussing regional differences in poverty. More recent estimates from national level surveys administered by government statistical organization, particularly to capture the influence of global commodity price increases and the subsequent financial crisis, are not available.

³ Such tampering surfaced in prioritizing projects with indices reportedly meant to capture their relevance to poverty reduction under the PRSP scheme in some South Asian countries.

⁴ In addition, there are problems associated with recall periods and methods used in different survey years.

mechanical approach to ‘identifying’ poor. All of these reduced our concerns to the narrow territory of ‘social safety nets’, de-linked from growth and development of the economy and society, and driven by the pretension that there are unlimited resources to feed the poor.

While global initiative towards poverty reduction under MDGs have traveled two-third of the road, it may be worth revisiting the rationale of monitoring progress in terms of a poverty measure that is so susceptible to ‘methods’. Moreover, our madness with mechanical approaches, including those with poverty scorecards and small area estimates, need critical reflections.

Implications of Global Crisis

Most countries in South Asia thrive on remittance received from their workers engaged in overseas employment – the intra-regional element is insignificant enough to take note of. The same generally applies for their exports – only exception being India’s huge trade surplus with most of her neighbors. With the exception of India, the countries in South Asia are net importers of foodgrain; and with open economies, food price inflation in these countries during 2007 and 2008 are considered to have been ‘imported’. Empirically, it has been difficult to isolate the effects of global financial crisis, which was associated with depressed prices and market opportunities, from the effects of high commodity (fuel and food) prices that preceded the crisis. For net importers of fuel and food, the global crisis came as a boon, after a period of hardship caused by high fuel and food prices – at household as well as national budget levels; and South Asia was no exception. Rest of this section draws upon some of the empirical studies in Bangladesh to illustrate how food price increases may have adversely affected the efforts to eradicate poverty.

At household levels, the obvious losers from surge in food and fuel prices were the net buyers of food unless the working members had ways to adjust income in proportion to (or higher than) inflation rate. Several survey findings show that day laborers, people with fixed and low income, large families with few earning members (i.e., high dependency ratio), female-headed families (for example: widow/divorced, separated/abandoned), small and marginalized farmers who are net buyers of staple, small job holders in urban areas and self-employed people were severely affected due to soaring food price. Noteworthy amongst the most affected in urban areas are small shop owners/vendors on footpaths, beggars, garments workers, masons, etc. Rickshaw pullers and other transport workers (drivers of van, auto-rickshaws, cab, etc.) did not suffer as much since they were quick to adjust the fares. The same holds for agriculture laborers.

There are two general observations. First, rural poverty has been of greater concern in South Asia; and with food production located in rural areas, terms of trade generally tilted in favor of rural population. Thus, benefits from higher prices had transmitted fast to (rural) wage increases. Second, social safety nets largely addressed the poor and poverty during otherwise normal times and/or during times of natural disasters (such as, flood and cyclones). Market-related shocks, such as sudden increases in food prices, had

rarely been concern of these programs. The food crisis, associated with surge in food prices during 2007-08, brought about a significant departure from the past norm. It called for urgent attention to the needy with relief in kind; which was not feasible without addressing the aggregate supply situation. Thus, the space of NGO roles shrank; and it was only the government, in association with external partners (where such assistance was extended), who could engage in that space. It also called for addressing supply through ensuring higher production in the seasons to follow, which involved policy interventions in several spheres (inputs and output, and in their distribution and procurement), which are normally beyond the scope of non-government actors.

Of the several nation-wide government responses in Bangladesh; three broad sets may be mentioned: (i) open market sales (OMS) of foodgrain, (ii) cash for employment and cash transfers, and (iii) policies to increase supply of foodgrain in the market. OMS distributed at spots close to clusters with poor people helped keeping prices affordable for some urban poor. However, difference between OMS and market prices could not be expanded beyond a small margin in the absence of sufficient stock (expected during a food crisis), and because higher margins would attract wrong kind of players to trade between segments in the market. Cash for employment and cash transfers under other SSNPs helped the beneficiary groups. However, a less studied case is their adverse implications for the non-beneficiary poor and those with fixed cash earnings⁵. Policies to increase supply through easing import failed to be introduced on time and such efforts were constrained by adverse international situation. Policies to force private traders to release from current stocks reportedly introduced new distortions. However, policies to increase production over the short-term (particularly through input market interventions) had been more effective since it allowed aggregate supply to increase and the process of realizing it also allowed poor wage earners to adjust their payoffs (incentives-led increases in production raised labor demand and wages).

Responses of poor households to sudden erosion of real income associated with increases in food prices had received wider attention. Other than compromising on quantity and quality of food, housing and general entertainment, most studies on South Asian countries uniformly report of relative non-responsiveness of expenses on education in the short term, while there were significant reductions in expenses on health.

The broader picture – growth-poverty linkage

Depending on one's perspective largely shaped by one's location in the global polity, approaches to poverty reduction have been perceived. At a general level, one may group those into two: (i) putting the burden on local economy to generate enough resources for redistribution to address poverty; thus, growth and expanding fiscal space drawing upon domestic resources has been of concern; and (ii) global resources have been made available to intermediary agencies, government and non-government, who then engaged in delivery of services to targeted (poor) population. This section highlights some issues pertaining to the first while rest of the paper discusses the second.

⁵ With limited aggregate supply, transfers through non-market channels tend to push market prices up and thereby adversely affect the ones left out of the net to buy from the market.

Cross-country data suggest that annual growth in per capita GDP reduces poverty. However, estimates on relation between GDP growth and poverty reduction used in growth-poverty accounting exercises suggest that the current pace of GDP growth is inadequate to realize the MDG target of halving measured poverty in South Asia. There is however a larger macro fact that demands greater scrutiny at national as well as at global levels. To my knowledge, it has surfaced in three empirical observations, all of which are perceived to be interrelated. Once untangled, these may provide greater insights into our journey towards poverty reduction.

The first is an observation at the global level suggesting convergence within the set of developed countries and within the set of less developed countries while the difference between the two sets of the countries increased. There is a mirror image of this within a single country when one looks into sub-national differences – urban-rural differences in developed region tend to converge while the difference between the developed (more “integrated”) and the backward (more “integrated”) regions increase.⁶ Following the so-called *core-periphery* model of Krugman (1991)⁷, one recognizes that the first two are outcomes of connectivity and spatial flows of capital and labor. A third trend, closely linked with the first two but largely ignored, is the increasing divergence between GDP and GNI in many of the LDCs who earn a significant proportion of foreign exchange (in the form of remittance inflows) by exporting temporary labor⁸. Outflow of labor does have implications for labor market situation leading to short and medium term increases in wages, but returns to investment are generally dampened because one has to pay higher wages for the same (or lower) value addition from remaining labor (with relatively lower skill). It is therefore no wonder that there is, in addition, a regular plight of capital out of these countries.

If the Krugman hypothesis eventually holds, early achievements in poverty reduction facilitated by export of temporary labor may not be sustained if these countries fail to convert the increase in GNI to an increase in GDP. Trends in macro aggregates in the LDCs as well as some of the developing countries in South Asia raise such concerns⁹. We often recognize the political ramification of all these, but are less keen to address the causes.

⁶ One would expect urban-rural convergence in the backward region as well. When primary growth centers shift out of national boundary, depending on the communication network, the outcome may vary. See, Zohir 2010a.

⁷ “The model is driven by the location choices of firms and individuals. Firms have an incentive to locate in the larger market to exploit economies of scale in production and to save on transport costs (the home-market effect identified in Krugman, 1980). Individuals have an incentive to move to the larger region, since it offers higher real wages and a larger variety of goods. This tends to increase the difference in size between the markets and strengthen the incentive to migrate both for firms and individuals. Hence, there is an element of circular causality.” (RSAS 2008)

⁸ Note that $GNI = GDP + \text{income (remittance) from short-term migrants abroad} + \text{production of extra-territorial bodies abroad (diplomatic, armed forces)} - \text{income repatriated to enterprises abroad} + \text{income received from enterprises abroad owned by residents}$. All countries in South Asia, other than Bhutan, exhibit negative net migration rate; and are recipients of significant amount of remittance.

⁹ Increase in national savings coupled with decline in investment is an early symptom.

Experiences in Development Practices

– Resource transfers and targeted service delivery

While MDGs recognize the close relation between growth and poverty reduction; and are explicit in setting targets in social sectors that have positive synergies with poverty reduction; much of the resource allocations on ‘poverty reduction accounts’ over last two decades had confined to “transfers” to targeted population. This section and rest of the paper primarily focus on issues around such transfers.

Grameen Bank had clearly introduced a new delivery mechanism to widen the net of organized lending and brought poor and women in distant places within that net. During the early years, the proponents as well as those who sponsored such initiatives believed it to be the panacea for (‘a disease called’) poverty. It took more than a decade to acknowledge that ‘microcredit’ is one among many interventions that are needed to realize the goal of poverty reduction. A recent survey in Bangladesh (Zohir 2010c) showed that only around 10% of the microfinance clients had crossed the threshold of US \$ 1.25 a day PPP over a period between 1990 and 2008. The figure would have been 20% if it was not for other adverse factors that caused many non-poor clients to slide below the threshold. The agency build-up around ‘microcredit’ (and self-help groups) is however worth special attention; and two opposing trends may be flagged. First, extension of credit operations established new forms of organizations with potentials to engage in various other pro-poor activities – unfortunately, this has not been adequately appreciated and therefore the potentials were not nurtured at policy levels. Second, the business potential of the outreach is globally recognized and therefore global money is likely to pour into the sector, particularly in India. The latter, if unattended to, may fuel the vices of credit in the form of increased indebtedness, at both client and agency levels.

Asset transfer to ‘ultra poor’ is one other experiment which drew much attention at the turn of the century. An example is the program of Brac in Bangladesh, supported by Dfid. While benefits reach the targeted households and are likely to be sustained due to asset and technology transfers, it is alleged to be too costly benefiting one group by displacing another.

There are numerous other SSN programs, varying in the degree of inclusions and exclusions, type of resources transferred and modalities by which these are transferred, and varying in the nature of inter-linkages across service & goods markets. Several general observations are made without elaboration. First, targeted programs generally give rise to greater segmentations in the society (Zohir 2010d). Second, even the best of the methods (criteria) for targeting lacks wide acceptability. Third, targeted programs involving subsidy, provide basis for rent-seeking behavior amongst implementing agencies creating severe distortions in the institutional space. Finally, transfer programs that encourage technology adoption to increase food security are found to have stood out as success cases when poor are to be assisted in the face of food crisis.

While poverty may be caused by social processes, those struggling to come out of it are often hindered by events in the family, community or because of some systemic failures.

Of the factors most cited having caused negative changes in life trajectory of such people in rural Bangladesh, the following are worth mentioning: sudden health shocks in the form of either exorbitant treatment costs or loss of an earning member; natural disasters; meeting expenses on wedding (including dowry); and insecurity in retaining one's rightful ownership of property, including all land related litigation costs. Unfortunately, very little could be done in these areas.

A final comment is on the role of government. Historically, the government had been the major provider of services, which however changed since the 1980's (in Bangladesh) with increasing roles of private sector and the NGO/MFIs. There appears to be a reversal in the trend, particularly since the last food crisis. There are clearly conflicts of interests when the same service provider is responsible for governance of the market where the services are provided. It is necessary to consolidate the gains made over the years in efficient allocation of functional spaces to various agencies, without getting swayed by narrow interests of failed agencies.

Few disjointed thoughts

The paper is meant to flag some issues drawing upon experiences in poverty reduction in South Asia. Those are summarized to identify areas where actions may be called for.

Level and pace of poverty reduction in a community or a country depend broadly on three factors – growth (in GDP) with equity (or, not so adverse inequity); outflow of temporary labor (associated with remittance inflow) directly or indirectly favoring the poor (laboring groups); and transfers to the poor from government and non-government sources. The focus, for long, had been on the third element – there is a need to shift the gear if MDGs are to be realized with some level of satisfaction.

A critical question is on the ownership of the agenda to eradicate poverty. Most initiatives at the national levels have been driven by external partners. Unfortunately, rewards tagged to poverty may have allowed the business of poverty to flourish. Thus, no wonder, governance failure pervades within the government as well as in service deliveries by non-government/private agencies. One is tempted to revisit the old debate on aid versus trade, with (possibly) lot more incentives for pro-poor and pro-employment trade. It may not be too aggressive to suggest that employment premium be tagged to investment as one does in the context of preserving environment.

On the institutional space, lack of ownership and the wasteful efforts towards building facade of local ownership, are tied to a domain of consultant-dependent global governance. This aspect has largely remained outside the discourse on development; and there are reasons for serious probing into the theme.

Related to the issue of governance is often flagged theme on corporate social responsibility (CSR). While some gains have been achieved under the initiative, it is time to introduce a new measure on Corporate Social Irresponsibility; and tag penalties on

both government and private agencies for violating the basic contracts these agencies ought to have with national and global citizens.

It is possibly necessary to get out of the prison created by poverty numbers in order to reduce poverty. Some traditional statistics, such as, terms of trades between sectors and countries, cost of living indices for the poor (rural landless, urban wage workers, etc.), proxies for domestic capital formation, etc. possibly deserve lot more attention.

Relevance of redistribution, with safety nets being one of several routes, will always be there. However, the focus of poverty reducing transfer programs need not always be households – communities and pro-poor economic agents possibly deserve greater attention.

A final comment is on globalization. If the latter leads to consolidation of power in fewer hands marginalizing the agencies within national territories, we are far from institutionalizing a global system of governance to ensure global redistribution of benefits that will ensure harmony with progress. It may be worth nurturing the national agencies for a more respectful relation between global citizens.

Table 1
Poverty Head Count Ratio at National Poverty Line

Year	Bangladesh	Bhutan	India	Nepal	Sri Lanka
1990	56.6		37.2		26.2
1993-94			36.0		
1995				42	
2000		36.3		38	
2002					22.7
2004-05	40		27.5	31	
2007		23.2			15.2
Annual rate of change	- 1.0		- 0.8		

Source: Various country level reports.

Table 2
Poverty Head Count Ratio at US\$ 1.25 a day

Year	Bangladesh	India	Sri Lanka	Nepal	Pakistan
1990	67	54	15		65
1995	59	49	16	68	48
2000	58		14		29
2005	50	42		55	23

Source: World Bank data base.

Table 3
Goal 1: Eradicate extreme poverty and hunger

	1990	1995	2000	2005	2008
Bangladesh					
Employment to population ratio, 15+, total (%)	74	70	68	68	68
Employment to population ratio, ages 15-24, total (%)	66	59	57	56	56
GDP per person employed (constant 1990 PPP \$)	2,166	2,448	2,827	3,308	3,722
Malnutrition prevalence, weight for age (% of children under 5)	64	58	48	39	41
Poverty gap at \$1.25 a day (PPP) (%)	21	18	17	13	..
India					
Employment to population ratio, 15+, total (%)	58	58	57	56	56
Employment to population ratio, ages 15-24, total (%)	46	44	42	40	40
GDP per person employed (constant 1990 PPP \$)	3,531	4,111	5,061	6,276	7,445
Malnutrition prevalence, weight for age (% of children under 5)	..	..	44	44	44
Poverty gap at \$1.25 a day (PPP) (%)	16	14	..	11	..
Nepal					
Employment to population ratio, 15+, total (%)	60	60	59	61	62
Employment to population ratio, ages 15-24, total (%)	52	50	47	46	46
GDP per person employed (constant 1990 PPP \$)	..	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	43	43	39	39
Poverty gap at \$1.25 a day (PPP) (%)	..	27	..	20	..
Pakistan					
Employment to population ratio, 15+, total (%)	48	47	48	49	52
Employment to population ratio, ages 15-24, total (%)	38	36	36	40	44
GDP per person employed (constant 1990 PPP \$)	5,938	7,123	7,524	8,378	8,950
Malnutrition prevalence, weight for age (% of children under 5)	39	..	31
Poverty gap at \$1.25 a day (PPP) (%)	23	12	6	4	..

Source: World Bank data base.

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