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Journey towards elusive poverty reduction

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AVAILABLE poverty estimates suggest that while there have been declines in the incidence of poverty in all countries in South Asia, the target of halving poverty (from benchmarks reported for 1990) may only be realised in Bhutan and Sri Lanka. The pace of decline was reportedly high immediately after the benchmark year; however, there are reasons to believe it slowed down in the recent past. The single story that holds out for all countries in South Asia, as revealed by the World Bank estimates, is the persistent decline in poverty gap from 1990 till 2005. Most national-level estimates, on the other hand, indicate increasing inequality (measured by Gini coefficient) in 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.

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 targets. Two discernible trends over the last decade and a 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 change in methods, moving away from the direct calorie intake-based measure to the food energy intake method and then to the cost of basic needs method.

It is commonly agreed that the methods matter in measuring not only the level but also the trend. Thus, many of the early proponents of these measures are now proposing multi-dimensional poverty index. There has also been proliferation of various shades of poverty, from ‘hardcore’ to ‘ultra’ to ‘chronic’ and an increasing 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 the Millennium Development Goals have travelled two-thirds 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 neighbours. With the exception of India, the countries in South Asia are net importers of food grain; 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.

Empirical studies in Bangladesh may be used 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 with (or higher than) the inflation rate. Several survey findings show that day labourers, people with fixed and low income, large families with few earning members (i.e. high dependency ratio), female-headed families (e.g. widow/divorced, separated/abandoned), small and marginalised 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 labourers.

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 are generally tilted in favour 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 a concern of these programs. The food crisis, associated with the 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 nationwide government responses in Bangladesh, three broad sets may be mentioned: (i) open market sales of food grain, (ii) cash for employment and cash transfers, and (iii) policies to increase supply of food grain in the market. Open market sales of food grain 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 social safety net programmes helped the beneficiary groups. However, a less studied case is their adverse implications for the non-beneficiary poor and those with fixed cash earnings. 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 realising it also allowed poor wage earners to adjust their payoffs (incentives-led increases in production raised labour 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.

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.

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 realise 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. Following the so-called core-periphery model of Paul Krugman (1991), one recognises that the first two are outcomes of connectivity and spatial flows of capital and labour. 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 labour. Outflow of labour does have implications for labour 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 labour (with relatively lower skill). It is, therefore, no wonder that there is, in addition, a regular flight of capital out of these countries.

If the Krugman hypothesis eventually holds, early achievements in poverty reduction facilitated by export of temporary labour 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 concerns.

Resource transfers and targeted service delivery

While MDGs recognise 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 the past two decades had confined to 'transfers' to targeted population. This section and rest of the paper primarily focus on issues around such transfers.

The Grameen Bank introduced a new delivery mechanism to widen the net of organised 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 realise the goal of poverty reduction. A recent survey in Bangladesh by the author showed that only around 10 per cent of the microfinance clients had crossed the threshold of $1.25 a day PPP over a period between 1990 and 2008. The figure would have been 20 per cent had there not been 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 organisations 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 recognised 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 programme 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 social safety net programmes, which involve various degrees of inclusions and exclusions, type of resources transferred and modalities by which these are transferred, and which vary in the nature of inter-linkages across service and goods markets. Several general observations are made without elaboration. First, targeted programmes generally give rise to greater segmentations in society. Second, even the best of the methods (criteria) for targeting lacks wide acceptability. Third, targeted programmes involving subsidy provide basis for rent-seeking behaviour amongst implementing agencies creating severe distortions in the institutional space. Finally, transfer programmes 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 1980s (in Bangladesh) with increasing roles of private sector

and the NGOs/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.

A few disjointed thoughts

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 labour (associated with remittance inflow) directly or indirectly favouring the poor (labouring 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 realised 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 reduction 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 should be tagged to investment as one does in the context of preserving environment.

On the institutional space, lack of ownership and 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. 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 programmes need not always be households; communities and pro-poor economic agents possibly deserve greater attention.

A final comment is on globalisation. If the latter leads to consolidation of power in fewer hands marginalising the agencies within national territories, we are far from institutionalising 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.

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