Chapter 3

LINKING POVERTY TO NATIONAL POLICIES

Combining National Policies and Targeted Interventions

The Two-Track Approach

Weak Links with Macroeconomic Policies

Weak Links with Redistribution Policies

A new generation of poverty programmes is needed — to make growth more pro-poor, target inequality and empower the poor.

The review of national anti-poverty plans for this report underlines the importance of developing a new generation of programmes that focus on making growth more pro-poor, target inequality and emphasize empowering the poor. The old-school prescriptions of supplementing rapid growth with social spending and safety nets start from a wrong diagnosis of the problem.

Some anti-poverty plans continue to treat poverty as though it were a sectoral issue that can be addressed by a set of targeted interventions, such as providing microcredit or basic social services. But poverty is a multidimensional problem requiring comprehensive, multisectoral programmes linked to national policy-making.

Anti-poverty plans rarely give economic policies and general budget allocations a more pro-poor slant. While taking note of economic policies, many still advocate measures that stimulate growth as the single best antidote to poverty. More recent plans have taken on the need to advocate pro-poor growth—but still reflect little concrete idea of what this means (box 3.1).

ANTI-POVERTY PLANS RARELY GIVE ECONOMIC POLICIES AND GENERAL BUDGET ALLOCATIONS A MORE PRO-POOR SLANT.

Beyond economic policies, many people are beginning to regard governance, in the sense of institution building, as a vital link between growth and poverty reduction. In some countries where poverty persists despite growth, a governance system that discriminates against the poor might be the explanation. Inequality in the distribution of income probably reflects the underlying inequality in the distribution of political power. One defining characteristic of the poor, after all, is lack of power and influence—a topic taken up in later chapters. Here the focus is on policy-making.

In some countries there is little leeway in structural adjustment programmes to "adjust" economic measures to benefit the poor. The new Enhanced Framework for Poverty Reduction and its Poverty Reduction Strategy—to be jointly endorsed by the government, the International Monetary Fund and the World Bank—could help change this situation. But still at issue is ensuring that the government will be in the driver's seat.

COMBINING NATIONAL POLICIES AND TARGETED INTERVENTIONS

Policies for pro-poor growth should be part of any national anti-poverty plan. An examination of the distributional effects of government taxes, current expenditures and investments should also figure in such plans. In some countries, making tax systems less regressive might do more for the poor than the existing targeted programmes.

An emphasis on pro-poor growth is especially appropriate for anti-poverty plans in developing countries where a sizeable part of the population is poor. According to official estimates, 46% of the people in Uganda are poor, 50% in Mauritania, 51% in Kyrgyzstan and 69% in Mali and Mozambique. Under such circumstances relying on targeted interventions cannot be appropriate. Spreading benefits broadly across the population makes more sense.

Where the average income per person is already close to the poverty line, targeting benefits is not feasible. In Mozambique, where the average income is below the poverty line, there is not enough surplus to be redistributed through expenditure transfers. What is needed is growth certainly—but growth biased towards the poorer members of society.

An infusion of external resources could be used for redistributive purposes, but if the resources are used for transfers to the poor, they are unlikely to have a lasting impact. In countries where poverty is widespread, serious structural problems stand in the way of progress, and it is better to build national capacity for pro-poor policy-making and institutional reform.

As chapter 2 suggests, a separate anti-poverty plan has distinct advantages. It can highlight the issue. It can put poverty on the policy-making agenda. And it can underscore the need to integrate anti-poverty interventions into a comprehensive framework. If there is no separate plan and poverty is incorporated into national planning, it is often relegated to secondary importance.

The danger of a separate poverty plan is that it may reinforce the idea that poverty is a sectoral issue. Some

Box 3.1 *What Is Pro-poor Growth?*

How can policy-makers tell whether growth is pro-poor? For income poverty a good initial indication is that the poor's per capita income is growing faster than the average income. That would mean that income inequality is probably decreasing.

Another indication is that the proportion of people who are poor is decreasing faster than average income per person is increasing (that is, poverty is responding rapidly to growth). An even stronger indication is that the absolute number of poor people is being reduced by growth. Often the proportion of people who are poor can decline even as their numbers are increasing.

For human poverty a similar indication of pro-poor growth is acceleration in the trend rate of reduction in child malnutrition or in the expectation of dying before age 40. More immediate signs are sharp decreases in child wasting and under-five mortality—conditions that can respond more quickly to policy changes.

Such outcomes, whether for income poverty or human poverty, can result from rapid growth of private incomes in sectors in which the poor are concentrated—such as agriculture, rural industry and construction or urban small-scale enterprises—or from reallocation of public income to expenditures with a high impact on the poor, such as basic social services, rural roads or microfinance.

China's rising prosperity in the early 1980s, when its rural economy was expanding rapidly, is a well-known example of pro-poor growth. Viet Nam's experience in the 1990s was similar. Before the 1990s many East Asian economies, such as Malaysia and Taiwan (province of China), also experienced periods of pro-poor growth.

Policy reforms can make a big difference, but sometimes initial conditions, such as high human development from past investments, can help trigger advances. And sometimes pro-poor policies can be thwarted by adverse external shocks. Pro-poor policies do not always translate into pro-poor growth and human development—especially when key governance institutions to implement policies are missing.

countries, such as Kyrgyzstan and the Philippines, have poverty plans but, paradoxically, do not make poverty reduction a major objective in national planning.

Ideally, poverty planning should address both national policies and targeted programmes. This could be done by having an anti-poverty plan incorporate national policies or by making poverty reduction a prominent goal in national development planning. Nepal's current development plan sets poverty reduction as its overriding objective. And South Africa has made poverty reduction an integral part of its Growth, Employment and Redistribution Strategy (see the country profile).

Deciding between a separate poverty plan or a more poverty-focused development plan has little meaning if plans are not implemented. If plans sit on the shelf as general strategic documents while development is being led by the market, why all the fuss? In many cases even the best-laid plans are not used to govern policy-making.

THE TWO-TRACK APPROACH

In many countries whose anti-poverty plans were assessed, structural adjustment programmes guide policy-making—and restrict the resources for poverty reduction. The state is being phased out of areas where it need not be—as in marketing boards and public sector enterprises. But it is not being phased into such areas as poverty reduction, where it needs to command the resources and the capacity to play a proactive role.

South Africa incorporated poverty reduction much more explicitly into its national planning at the time it adopted a more market-led development strategy. But market-led growth does not always lead to declining poverty. And most countries still follow a “two-track” approach to poverty reduction: growth on one track and human development on the other. The tracks usually run parallel, however, rather than intersecting. Little thought goes to making economic policies more pro-poor, while social services are assigned the separate task of fostering human development.

The two tracks take varied forms. In the transition economies and among the Arab States poverty reduction still tends to be identified with social security or social welfare, though some countries are broadening their programmes. For example, Yemen is trying to transform its Social Welfare Fund from a welfare organization into a development agency.

Uzbekistan still maintains a broad system of social protection, but has compensated for cutbacks in social assistance in the 1990s by privatizing such assets as land and housing, increasing people's wealth. The first priority for many transition economies is to protect the livelihoods of the poor during an economic decline. Transferring public assets to them is one option. Only later will pro-poor growth become an issue.

Taking a cue from UNDP, Burkina Faso and Kyrgyzstan have elaborated sustainable human development strategies. But in Burkina Faso most poverty-related initiatives appear to be linked to reform of social spending. Promoting basic human development often becomes mistakenly identified with restructuring social expenditures alone. Moreover, the early generation of sustainable human development strategies does not necessarily focus on poverty reduction.

WEAK LINKS WITH MACROECONOMIC POLICIES

In Benin and Morocco growth-focused strategies coexist with poverty programmes—without the two tracks explicitly connecting. One reason is that the growth-oriented strategies are based on old-style structural adjustment programmes, which address the impact of adjustment on the poor either after the fact or as a secondary matter.

Concern for the human costs of adjustment has centred on protecting social spending and targeting it more effectively to the poor. The 20/20 Initiative, led by UNICEF and supported by UNDP, tries to restructure social spending to promote human development more equitably. Shifting more resources to basic social services and ensuring the quality of the services will definitely be more pro-poor than the current pattern of allocation in most countries. But there is no guarantee that these efforts alone will lead the poor to use the services. A more integrated set of interventions, both economic and social, is needed.

There remains the larger issue of whether the adverse effects of the macroeconomic environment will overwhelm the effects of the progressive reallocation of social spending. Mongolia has had some success in using a poverty alleviation fund to finance local projects for rebuilding schools

Box 3.2 Developing Data to Study Inequality

Inequality's effect in slowing poverty reduction has led to an urgent need for research on its dynamics—research that requires reliable and readily accessible data. To provide such data, UNDP and the United Nations University, World Institute for Development Economic Research (UNU/WIDER) have recently launched the World Income Inequality Database. The database has information on income inequality for industrial, developing and transition economies and is freely available on the Internet (www.wider.unu.edu/wiid/wiiddoc.htm).

The new database expands and improves upon the 1997 Deininger-Squire database of the World Bank—almost doubling the number of observations and making the data easier to store and retrieve. Its data cover 1950–98, with a particular focus on the post-1980 period for 149 countries.

The database was developed as part of a project—called Rising Income Inequality and Poverty Reduction: Are They Compatible?—that evaluates different methods of measuring income inequality and examines the interaction between economic growth, income inequality and poverty reduction.

Box 3.3 *Supporting Agrarian Reform in the Philippines*

Skewed distribution of land is a major source of inequality in the Philippines. Small landowners are steadily disappearing, forced to become tenants or landless rural workers—a process accelerated by the unequal access to such resources as irrigation, infrastructure, technology and market information.

Yet land reform has a long history in the country. While earlier initiatives were directed mainly at tenants, the 1987 Comprehensive Agrarian Reform Programme aimed to redistribute 8.2 million hectares to about 3.7 million small-farmer and landless families. The programme gained new momentum in 1998, when Congress allocated additional funds and extended it to 2008.

By mid-1999 more than 5 million hectares of land (62% of the target) had been distributed to close to 3 million beneficiaries. Still hampering progress are resistance by landowners, illegal conversion of land and technical problems in surveying and valuing land.

Redistribution has been aided by the Agrarian Reform Community Programme, initiated in 1993 to provide beneficiaries with irrigation, electricity, farm-to-market roads, education and health care. The programme has helped establish about 2,300 farmer organizations and provided them with training in enterprise operation, management and financial record keeping.

UNDP has assisted about 80 Agrarian Reform Communities in six provinces through its programme for Support to Asset Reform and Development of Indigenous Communities. The programme empowers beneficiaries by fostering self-organization and collective action, providing policy advice on securing tenure and access to land and delivering agricultural extension services. The programme has also provided indigenous peoples with training in management planning for their ancestral domain.

A 1995 survey of beneficiaries of the agrarian reform found that three-quarters thought that their lives had improved since joining the programme, and that three-quarters of these attributed the improvement to the programme. On average, the income of beneficiaries had increased by about a fifth, with those who joined Agrarian Reform Communities benefiting even more.

and health clinics as well as for generating income. But poverty continues unabated because of dire economic conditions. China made the most headway in eradicating severe poverty in the early 1980s, when its rural economy was roaring, but progress began to grind to a halt when its development strategy shifted resources to the rich coastal areas.

Some countries have resorted to public sector jobs as well as social welfare to prevent poverty. But structural adjustment programmes have limited this option. In Yemen the number of public sector jobs is down at the same time that private sector development has sputtered. Even in fairly successful countries, such as Tunisia, privatization promises to add to the unemployment rolls unless job creation rises in the private sector (see the country profile).

Uzbekistan is well known for its gradual transition. During the country's deepest economic decline, its recession was half as severe as the average for other countries formerly in the Soviet bloc. And although there are no official statistics, there is little doubt that poverty has been less widespread and less severe than the average. All this without a poverty programme (see the country profile).

Despite Uzbekistan's achievements, some of its macroeconomic policies, such as maintaining an overvalued exchange rate and setting agricultural prices, are probably working against the interests of the poor. In China and Viet Nam, which have followed a more growth-oriented path of economic reform than Uzbekistan has, macroeconomic policies have had a telling impact on poverty.

Other transition economies appear to be saddled with an older generation of development strategies that combine rapid growth with human resource development and social safety nets. Kyrgyzstan, despite having a relatively new anti-poverty plan, leans towards this orientation.

The challenge now is to create a new generation of poverty programmes that incorporate concerns for pro-poor growth, equality and empowerment. The current consensus on the need for pro-poor growth has to be translated into practical policy suggestions and reforms of structural adjustment programmes. One suggestion is to have a policy advisory unit within the secretariat for the poverty programme that can evaluate the impact of general economic policies on the poor—through the character of growth and inequality.

Box 3.4 *Dealing with Regional Inequalities in the Russian Federation*

The Russian *National Human Development Report 1998* (UNDP Russian Federation 1998) reports that most social groups have real incomes that are substantially below minimum consumption needs and inequality has risen sharply. Gaps in human development among regions are growing even faster. Although the 1998 financial crisis hit Moscow and St. Petersburg hard, the economic decline has been sharpest at the periphery, where coping mechanisms were already stretched.

Some regions have had little capacity to recover because of geographic isolation, poor infrastructure, lack of economic diversification and reduced aid from the central government. Competition from imports and cuts in defence spending have had a severe impact on regions where industry was concentrated during the Soviet era, such as the North Caucasian republics. In Central Siberia and the Far East high transport costs have driven up the costs of some goods to three times those in other areas.

A United Nations interagency task force has identified eight regions—all remote areas that are economically depressed—as priorities for integrated humanitarian and development assistance from external donors. In collaboration with the International Labour Organization, UNDP has initiated a policy discussion with the government, other national development partners and external donors on the need for an explicit national anti-poverty strategy.

A roundtable discussion with a broad cross-section of representatives from the government and civil society led to a set of policy recommendations that was submitted to the deputy prime minister for social affairs: targeting priority areas for assistance, employing a multitiered, multisectoral approach and using such measures as tax incentives and legal reforms to support self-help initiatives of community-based organizations.

Recent development experience suggests that poverty eradication and empowerment of the poor go hand in hand. When the poor are not organized to advance their interests, most poverty programmes boil down to one form of social welfare or another—well meaning perhaps, but ultimately ineffective. Social mobilization is the platform for launching any meaningful campaign against poverty, a topic returned to in chapter 7.

WEAK LINKS WITH REDISTRIBUTION POLICIES

With renewed emphasis on inequality as an impediment to reducing poverty, growth is no longer considered the single driving force for poverty reduction. In many countries inequality is a roadblock to rapid and sustained growth (box 3.2). Moreover, a country with high inequality requires much higher growth to achieve significant progress against poverty.

Many poverty programmes do not adequately address inequality. Implicitly, they assume that rapid growth will take care of poverty if accompanied by "human development"—through investments in social services such as education, health care, water and sanitation.

Poverty programmes rarely deal with inequality in the distribution of land, which continues to be the most important asset of the rural poor in many low-income developing countries. But in the Philippines a serious effort to carry out agrarian reform appears to be under way (box 3.3). And in Uzbekistan privatizing land and housing has doubtless done much to alleviate the adverse effects of the transition. As in China, Uzbekistan's new private plots help provide for people's subsistence needs.

Regional disparities are a major impediment to poverty reduction. Public policies are not often geared to allocating resources to the more underdeveloped regions where many of the poor live. But shifting resources to poor regions is one of the more straightforward ways of tackling inequality—particularly in large countries such as Brazil, China and Russia (box 3.4).

Inequality has to be brought to the fore in the discussion on how to reduce poverty. The traditional thinking was that only rapid growth mattered and that changes in inequality could make only a minor difference in outcomes. But the consensus has shifted to recognizing that high inequality can be an imposing obstacle to poverty reduction, nationally and internationally.

Table 3.1 *Income or Consumption Share of the Poorest 20% of the Population, 1990–96*

In many countries the poorest receive a minuscule share of national income.

	SHARE OF INCOME OR CONSUMPTION (%)	SHARE AS A RATIO TO AN EQUAL PROPORTION (%)
Brazil	2.5	13
Chile	3.5	18
Gambia	4.4	22
Indonesia	8.0	40
Jordan	5.9	30
Kyrgyzstan	6.7	34
Mexico	3.6	18
Mongolia	7.3	37
Russian Federation	4.2	21
Senegal	3.1	16
South Africa	2.9	15
Thailand	5.6	28
Tunisia	5.9	30
Zimbabwe	4.0	20

Source: UNDP and United Nations University, World Institute for Development Economic Research (UNU/WIDER), World Income Inequality Database, 1999.

In some regions with high inequality, such as Sub-Saharan Africa and Latin America and the Caribbean, there is little chance of reducing income poverty by half by 2015—an international development target of the OECD's Development Assistance Committee. In many countries the poorest receive a minuscule share of national income (table 3.1). Economic growth cannot be accelerated enough to overcome the handicap of too much income directed to the rich. Income does not trickle down; it only circulates among elite groups.