

HUMAN DEVELOPMENT IN SOUTH ASIA 2006

Poverty in South Asia: Challenges and Responses

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ABBREVIATIONS

ADB	Asian Development Bank	MFIs	Microfinance institutions
ADP	Annual Development Programme	MHH	Male-headed household
AIDS	Acquired Immunodeficiency Syndrome	NGO	Nongovernmental organisation
BBS	Bangladesh Bureau of Statistics	NPLs	Non-performing loans
CBN	Cost of basic needs	OECD	Organisation for Economic Co-operation and Development
CBO	Community-based organisation	PBM	Pakistan Bait-ul-Maal
CCB	Citizen community board	PC	Provincial Council
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women	PFA	Platform for Action
CPM	Capability poverty measure	PIHS	Pakistan Integrated Household Surveys
CPRC	Chronic Poverty Research Centre	POPI	Poverty of opportunity index
DDC	District Development Committee	PPAF	Pakistan Poverty Alleviation Fund
EC	European Commission	PRSP	Poverty Reduction Strategy Paper
FDI	Foreign direct investment	SAARC	The South Asian Association for Regional Cooperation
FEI	Food-energy intake	SMEs	Small and medium enterprises
FHH	Female-headed household	SSNP	Social safety net programme
GDP	Gross domestic product	TB	Tuberculosis
GNP	Gross national product	U5MR	Under-five mortality rate
HDM	Human deprivation measure	UNDP	United Nations Development Programme
HIES	Household Income and Expenditure Survey	UNPD	United Nations Population Division
HPI	Human poverty index	UP	Union Parishad
ILO	International Labour Organization	VO	Village organisations
KPP	Khushhal Pakistan Programme	WTO	World Trade Organisation
LFPR	Labour force participation rate		
MDG	Millennium Development Goal		

Foreword

In 1976, Mahbub ul Haq wrote the now famous book on poverty *The Poverty Curtain* in which he questioned the hot pursuit of per capita income growth as the real end of development without any regard to its distribution or its impact on poverty. This book proved to be a watershed in Haq's intellectual evolution. As a result of his active involvement in development planning in Pakistan (in the 1960s), Haq saw the very limited impact of Pakistan's high economic growth on people and became increasingly convinced that the only route for the developing countries to have sustainable economic growth was to combine growth policies with policies for poverty reduction that included employment generation, rural development and empowerment of people through health and education.

During the rest of his life, Haq became deeply involved in analysing not only poverty but also its link to human development. Lack of human development, he concluded, was the main cause and consequence of poverty. Thus the strategies to reduce poverty should focus not only on increasing the income of the poor but also, and more importantly, on building the capability of the poor to earn an income and live a decent life.

The negative impact of globalization on the poor in every region has now made poverty alleviation a priority of all development policies of multilateral and bilateral development institutions. This has made the national development policies to be framed in terms of poverty alleviation strategies. Gone are the days when the GNP growth rate was the focus of all economic policies. Then the economic managers thought that distribution could come later. But now poverty alleviation has become the yardstick to judge all economic

performance. How the wind changes? But has the wind really changed in substance? We needed to substantiate that in this year's report of Mahbub ul Haq Human Development Centre.

Haq's theme of the imperative of poverty alleviation in all development policies and strategies runs through all the South Asia Human Development Reports. The specific themes of different Reports explained poverty in South Asia in terms of lack of education, health, employment, agricultural and rural development, good governance and women's empowerment. Never before in economic analysis has poverty been so conceptually and empirically integrated with all aspects of socio-economic and political issues as in the human development reports.

In the first South Asia Human Development Report, Mahbub ul Haq had lamented that while the region contained a quarter of the world's population, its share in the world's poverty was 40 per cent. That situation has not changed much since, although the per capita GDP of all the countries has gone up. Globalization has changed the face of South Asia. Many good things are happening from more and better schools, hospitals, roads, to employment opportunities in many new fields. Yet this new South Asia has left many people behind—those who are illiterate, out of school, in poor health, in poor areas and without income. Those are the ones we are focusing on in this Report—the voiceless majority of South Asia.

Poverty remains pervasive in South Asia. Though there has been some success in reducing the incidence of poverty in some countries, about half the world's poor still lives in South Asia. So the main objective of this Report has been to explore why poverty still continues to

exist in such a magnitude in a region that is doing fairly well in economic growth. The exclusive focus of this report is the impact of economic policies on poverty to assess whether the rising economic growth in South Asia has been making any difference to the incidence of poverty in the region, and to examine the impact of the numerous poverty alleviation programmes/schemes/initiatives that the governments in the region have been implementing.

The Report raises several questions, including why there is such disconnect between economic growth and poverty alleviation? Why do women bear the greater burden of poverty? What has been the impact of various poverty alleviation programmes in South Asia? And, most importantly, how is poverty connected to institutional inefficiency or neglect?

The Report contains nine chapters, in addition to the Overview. Chapter 1 introduces the theme of this year's Report by presenting a conceptual framework on poverty and human development. Chapter 2 describes the profile of poverty in South Asia. Chapter 3 analyses the gender dimension of poverty. Chapter 4 explores the relationship between growth, inequality and poverty. Chapters 5 to 8 provide critical analyses of poverty alleviation programmes in India, Pakistan, Bangladesh, and Nepal and Sri Lanka. Finally, chapter 9 looks at the link between poverty and governance in South Asia. The Report suggests that to sustain economic growth South Asia needs to seriously address the poverty challenge of the region.

I would like to put on record my very grateful thanks to the Royal Norwegian Embassy for supporting the preparation

of this Report. Without Norway's consistent support, it would not be possible for the Centre to carry on this work. I would also like to acknowledge the contribution of the UNDP Regional Bureau for Asia and the Pacific, particularly the Regional Centre in Colombo. A special thank to Dr Hafiz Pasha, Director of the Regional Bureau for Asia and the Pacific, for continuing to provide both the moral as well as financial support to Mahbub ul Haq Human Development Centre.

As always, the research team at the Centre worked hard to complete this Report. I must thank, particularly, Sadia Malik for supporting me in completing this Report. A special thank to Faisal Bari for supervising the research team from the beginning of this project. The research team, consisting of Feyza Bhatti, Ali Shan Azhar, Rabea Malik, and Shazra Murad collected and compiled data, prepared background papers, and helped at the end to put the Report together. I thank each one of them for their untiring efforts. Asifa Hasan, who joined the team towards the end of the research work, deserves particular mention for doing a good job. I am always grateful to my South Asian friends who are always there to help out the Centre. This year they were: Smita Gupta of the Institute for Human Development, India and Quazi Mesbahuddin Ahmed of the Planning Commission, Bangladesh. My sincere thanks to them for preparing the country paper on poverty alleviation programmes in India, and Bangladesh, respectively. I thank Taha Mustafa for composing and designing the Report, and Malia Asim for handling the administrative details.



Khadija Haq

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28 December 2006

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About Mahbub ul Haq Human Development Centre

Under the umbrella of Foundation for Human Development in Pakistan, Mahbub ul Haq Human Development Centre was set up in November 1995 in Islamabad, Pakistan by the late Dr Mahbub ul Haq, founder and chief architect of UNDP Human Development Reports. With a special focus on South Asia, the Centre is a policy research institute and think tank, committed to the promotion of the human development paradigm as a powerful tool for informing people-centred development policy, nationally and regionally.

The Centre organises professional research, policy studies and seminars on issues of economic and social development as they affect people's wellbeing. Believing in the shared histories of the people of this region and in their shared destinies, Dr Haq was convinced of the need for cooperation among the seven countries of the region. His vision extended to a comparative analysis of the region with the outside world, providing a yardstick for the progress achieved by South Asia in terms of socio-economic development. The Centre's research work is presented annually through a Report titled, *Human Development in South Asia*.

Continuing Mahbub ul Haq's legacy, the Centre provides a unique perspective in three ways: first, by analysing the process of human development, the analytical work of the Centre puts people at the centre of economic, political and social policies; second, the South Asia regional focus of the Centre enables a rich examination of issues of regional importance; and third, the Centre's comparative analysis provides a yardstick for the progress and setbacks of South Asia vis-à-vis the rest of the world.

The current activities of the Centre include: preparation of annual reports on *Human Development in South Asia*; a multi-year research project on improving the outcome of education in Pakistan; preparation and publication of a journal, *Mahbub ul Haq Human Development Review*; preparation of policy papers and research reports on poverty reduction strategies; organisation of seminars and conferences on global and regional human development issues, South Asian cooperation, peace in the region and women's empowerment.

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BLANK

Overview

Mohammed Yunus, the Bangladeshi economist who received the 2006 Nobel Prize for peace, got it right in early 1970s when he started his Grameen Bank to address the issue of huge human deprivation in Bangladesh in the wake of the independence movement. His recipe for addressing poverty was simple—provide small amount of money to the poor to invest in small enterprises (which later on became known as microcredit), empower women by lending them the money, and provide education and skill to the poor so that they are empowered with knowledge to better their situation. Built on this foundation, the new country of Bangladesh rose to become one of the best performers in the region to increase its export earnings with women workers as the backbone, improve education and skill-training of people, and to replicate microcredit programmes all over Bangladesh and the world. Today it is a conventional wisdom among donors and national policy makers that to reduce poverty one has to provide microcredit to the poor, focusing on the empowerment of women and human development, particularly education and health.

In 2006, South Asia as a region has become one of the fastest growing regions of the world, and India with its huge size, population and high economic growth rates over a decade is leading the region. But for all its shining metropolitan cities and IT-related boom, India still has the largest absolute number of people in poverty. Other countries provide even a bleaker picture, the success of Grameen Bank and other similar initiatives in Bangladesh and other countries notwithstanding. So this year's South Asia Human Development Report starts with some embarrassing questions for the policy makers of the region: Why has the

sustained economic growth rate of the region failed to significantly improve the living condition of the majority of South Asians? Despite several successful poverty alleviation programmes, including programmes of microcredit, why has there been such little progress in moving people out of poverty? Despite the amazing work of women activists in South Asia, why do women still bear the brunt of poverty and deprivation? Whose fault is it that South Asia still remains one of the poorest regions of the world? Is it the governments who do not have the political will to empower the poor? Or the bureaucrats who are still working for the rich and powerful, forgetting that they get their power, in most countries, from the people through the ballot box? Or is it due to the systems of patriarchy, customs and traditions that hold the region back? This Report has attempted to answer some of these questions.

In today's world, the challenge of poverty is the major challenge to sustain economic growth, fuel the globalization process, promote progress towards democracy, and reduce social tension and turmoil among various groups within and among nations. Yet many developing countries still wait for the 'trickle-down' policies to work as they focus on accelerated economic growth. In the 1960s, Mahbub ul Haq analysed the relationship between economic growth and poverty alleviation in a number of countries and concluded that the only route for the developing countries to have sustainable growth was to combine economic growth policies with policies for poverty reduction that included employment generation, rural development and empowerment of people through health and education. The strategies for poverty alleviation, argued Haq, should

focus not only on the income of the poor but also, and more importantly, on building the capability of the poor.

This Report focuses on analysing poverty in all its aspects—its scale, characteristics and manifestations—as well as the policies and programmes of South Asian governments to address this challenge. Based on the analysis, the Report comes up with six broad findings:

First, without a serious commitment to poverty alleviation, economic growth is neither sustainable nor just. This has been a continuing message in all our previous reports. Yet poverty has persisted and human insecurity increased in this region. The deprivation of a huge number of people has created the potential for social turmoil which, if not addressed, could cause severe damage to the integrity of the region.

Second, despite the recent efforts of governments to integrate the policies for poverty alleviation and economic growth, most of the Millennium Development Goals regarding poverty alleviation will not be achieved in South Asia by the year 2015.

Third, the system of patriarchy that perpetuates pervasive discrimination against women in South Asia makes them most vulnerable to poverty.

Fourth, globalization also has increased the vulnerability of South Asian poor in the job market, rural economy and in food security.

Fifth, the poverty alleviation programmes implemented in all the countries have been able to provide some relief to the poor, but not to the extent of the promise of the programmes due to implementation problems.

Finally, all the countries have been implementing decentralisation policies for bringing governance nearer to where people live. But poor governance has compromised the effectiveness of decentralization to empower the poor.

South Asia remains the most impoverished region in the world in terms of income as well as human development indicators, such as health and education. The largest absolute number of poor in the world lives in South Asia.

The statistics of South Asia's poverty are staggering:

- While South Asia's share in the world population is 22 per cent, it contains more than 40 per cent of the world's poor.
- An estimated 437 million people live below US \$1 a day, while three-fourths of the population survive below US \$2 a day.
- Nearly 237 million people in the region are at risk of dying before the age of 40.
- There are over 867 million people without access to basic sanitation, more than 400 million adults are unable to read or write, and 300 million are undernourished.

The deep-rooted poverty in South Asia is reflected in the limited progress of the region towards the attainment of the Millennium Development Goals (MDGs). Apart from halving the proportion of people without sustainable access to safe drinking water, it is highly unlikely that any of the other goals will be achieved by 2015.

Poverty in South Asia is not only pervasive it is also distributed disproportionately across regions and socio-economic groups. The poor in South Asia are mostly made up of women, minorities, people belonging to lower castes, casual and migrant labourers, the youth and the unemployed. Poverty is mainly a rural phenomenon with the bulk of the poor living in rural areas. These people are either landless or near landless and mostly work as casual agricultural labourers and cultivators.

South Asia is also home to the largest number of chronically poor in the world.

It is estimated that one-third of the poor population in South Asia is chronically poor. This essentially means that these poor face several forms of deprivation for most of their lives and often pass on this poverty to their children. The chronically poor in South Asia lack ownership of both physical and human assets—land, livestock, education, health etc. They mostly inhabit the backward and remote areas of South Asia.

The poor are not only income or capability deprived but are also vulnerable to disease, economic downturns, natural disasters and even violence. Women, children, and the elderly are the most vulnerable. To cope with shocks the vulnerable households have to resort to desperate measures to supplement income (like withdrawing children from school and putting them to work) that force them into a crippling cycle of poverty.

The challenge of poverty in South Asia is not only huge it is also highly discriminatory against women. Poverty has been feminized in most parts of the world, but in South Asia it truly has a woman's face.

Being a woman increases the likelihood of being poor since women have lower access to education, health and productive resources. Also being poor in a patriarchal society generally leads to gender differentiated outcomes in education, health, social, political and economic participation. This in turn increases the likelihood of more women falling into poverty. Poverty and gender inequality form a vicious cycle that pushes millions of women and girls into a trap of constant denial of rights, deprivation and extreme discrimination.

Although South Asia is home to almost one-quarter of the world's female population, its share in the world's female labour force is only 13.7 per cent. Majority of women in South Asia are engaged in agricultural activities and are largely invisible in statistics. Lower

education and skill levels of women also lead to lower earnings. In addition, women in South Asia are more likely to work as unpaid family workers.

Gender discrimination in health starts even before birth in the form of female foeticide or infanticide and continues in nutritional intake and healthcare practices. One-third of the women in South Asia are underweight and 15 per cent are stunted. Gender discrimination also manifests itself in access to healthcare services. Around half of the women do not receive any antenatal care which exacerbates threats to maternal health. Every day 507 women lose their lives during childbirth in South Asia.

Though gender gaps in education are closing, South Asia as a region still contains the highest number of female illiterates in the world. Less than half the women in South Asia were literate in 2004 as opposed to 74.1 per cent in the developing world. Women in South Asia also lag behind in vocational and technical training restricting their access to better job opportunities.

Although the Constitutions of all South Asian countries guarantee the equality of women and men, loopholes in legislation, existence of parallel judiciary and customary laws, and women's limited access to legal system have all contributed towards women's vulnerability to poverty. Discriminatory inheritance, land and property rights have limited women's ownership rights and access to productive assets such as land and credit.

While the Poverty Reduction Strategy Papers (PRSPs) and the development plans in South Asia are becoming more gender sensitised, there is acute need for mainstreaming gender in macroeconomic policies at national level. Some South Asian countries have initiated gender budgeting processes and have succeeded in producing gender budget statements. Grameen Bank has shown that encouraging entrepreneurship and self-employment of women through increasing women's access to collateral-free small loans is a successful strategy for alleviating poverty and

empowering of women in South Asia. However, the outreach of the microfinance institutions (MFIs) is quite limited.

Poverty reduction has not kept pace with the impressive rate of economic growth in the region due, in particular, to rising inequality of income, slowdown in agricultural growth, and anti-poor economic policies.

The impressive rate of economic growth in South Asia during the recent decade has not been translated into a consistent and significant decline in poverty. In fact, the decline in poverty incidence has been much slower compared to other regions with similar economic growth trends. There has been a significant worsening of income distribution levels in all South Asian countries as measured by the Gini coefficient. Backward and underdeveloped areas have lagged behind in progress. An analysis of the growth structure in South Asia reveals that high growth rates have been driven predominantly by acceleration in the services sector. The fruits of such growth have mostly accrued to the urban middle classes. There has only been a marginal increase in the productivity of the agricultural sector—the source of livelihood for the majority of poor in South Asia. As a result, rural poverty remains high and in some South Asian countries such as Nepal, Pakistan and Sri Lanka, rural poverty has in fact gone up in the recent decade.

A pervasive problem afflicting South Asia is the existence of a marginalised majority that lacks access to opportunities that are necessary to benefit from growth. The GDP increase on the whole has been plagued by inadequate employment generation. The phenomenon is reflected in stagnant/declining labour force participation rates (LFPRs) and rising unemployment in all major South Asian countries. Low educational attainment and poor skill levels have made it difficult for the deprived to exploit the employment opportunities created by economic growth.

Unequal distribution of land remains a serious impediment to agricultural productivity and uplift of the rural poor. Lack of access to credit by the poor is also a major source of rural poverty and is associated closely with the restricted access to land.

The economic policies pursued by the South Asian governments in recent years have, in general, failed to ensure broad-based participation of the poor in the growth process. Fiscal adjustments in the region have impinged heavily on public investment and welfare expenditures. Massive military spending and the rising fiscal cost of public debt remain important constraints on human development and poverty reduction programmes. With a regressive taxation structure, the burden of the tax mostly falls on the poor and the middle class whereas the benefits of public subsidies often bypass the poor.

The ongoing privatisation process in South Asia has also contributed to inequality and poverty. Given that the state is the largest employer in South Asia, privatisation has mostly resulted in massive layoffs, a heightened level of job insecurity and loss of pension benefits. The increased global economic integration and trade openness has exposed the small/medium farmers to external shocks. The situation has not been helped by the monetary policy that has failed to maintain the prices of essential food and non-food items at an affordable level.

Poor governance in South Asia is not only preventing the design of pro-poor economic policies but also undermining the efficient and equitable delivery of public services and the implementation of poverty alleviation programmes.

Poor public sector governance in South Asia is undermining the poverty alleviation efforts. Being constrained by resources, the poor mostly resort to subsidized public services to meet their needs. Efficient, equitable and just public service delivery contributes to building assets of

the poor. In South Asia, public service delivery is fraught with the failure of governance that tends to hit the poor more than the rich.

While South Asia is one of the most deprived regions in the world in terms of human development, it also turns out to be the one that spends the least on human priority concerns. What is even worse, public spending on health and education as percentage of GDP is going down in most South Asian countries. The actual utilization of whatever meagre amount is allocated is low and inefficient due to poor bureaucratic procedures, corruption and misallocation across various heads. Public spending is also highly inequitable in the sense that the benefits of public subsidies on health and education mostly accrue to the rich rather than to the poor who need them the most. The poor in South Asia also face several problems in accessing the social services. These include high transportation costs to reach a public facility; opportunity cost of using a service such as education and higher prices faced by the poor relative to the rich. Corruption also imposes an extra cost on the poor in accessing the services that they are entitled to.

Poor governance is also constraining the successful implementation of poverty alleviation programmes in South Asia. There are certain governance issues that are common to all South Asian countries and continue to recur in different degrees in various projects. These include limited coverage; poor targeting; a high degree of political interference in identifying beneficiaries; leakages due to corruption and lack of transparency; weak administrative capacity and the lack of monitoring and evaluation mechanisms. The cumulative effect of all these is that most of the state run poverty alleviation programmes in South Asia do not work as effectively as intended.

South Asia needs to ensure that the benefits of poverty alleviation programmes reach those that are the most deserving. Above all, the region needs to move well

beyond these poverty alleviation programmes and address the root cause of poverty that inevitably lies in inequitable and exploitative economic and political structure. In this context, decentralization and devolution of power to the local levels of government becomes a critical tool in South Asia for placing the institutions of governance closer to the people. In almost all South Asian countries an institutionalised effort to decentralize is underway. The process however remains marred by a plethora of problems. The local governments are saddled with issues like absence of constitutional cover and legal powers, lack of fiscal and administrative autonomy, dearth of resources, absence of monitoring and accountability mechanisms and low citizen participation. In fact, in most countries of South Asia, the agenda of decentralization has not been fully implemented. The implementation has mostly been cosmetic in nature since the ruling regimes have ignored the critical elements of successful decentralization.

In order to reduce poverty in South Asia, it is imperative to design and implement policies in a pro-poor manner. In this context, it is important to understand that in most cases, pro-poor policies do not undermine growth but in fact reinforce growth. In any case, it is the alleviation of poverty and the welfare of common people and not economic growth per se that should be the end of all development policies. Humane and pro-poor governance can be used as a powerful tool to reduce poverty by providing an enabling environment for pro-poor growth and by empowering people through building up their physical and human assets and through rights and freedom to claim a better life. In the context of South Asia, it is absolutely crucial to provide equitable access to opportunities to the entire spectrum of population so as to empower everyone, irrespective of their economic background, with assets necessary to achieve their potential.

Poverty and Human Development

When the concerns for production and distribution are not dealt with simultaneously, it is not possible for even an impressive GNP growth to filter down automatically

'Poverty cannot be treated as a mere flu, it is more like a body cancer. We cannot leave intact the model of development that produces persistent poverty and wishfully hope that we can take care of poverty downstream through limited income transfers or discrete poverty reduction programmes... The answer lies in a fundamental change in the very model of development so that human capabilities are built up and human opportunities are enlarged.'

—Mahbub ul Haq

During the 1970s, Mahbub ul Haq analysed the impact of the sustained and impressive gross national product (GNP) growth rates in a number of developing countries. He found that this growth had failed to resolve the problem of mass poverty in these economies in the 1960s. Haq, accordingly, posed a critical question: 'What has gone wrong? We were confidently told that if you take care of your GNP, poverty will take care of itself. We were often reminded to keep our eyes focused on a high GNP growth target, as it was the best guarantee for eliminating unemployment and of redistributing incomes later through fiscal means. Then what really happened? Where did the development process go astray?'¹

Haq then proceeded to answer the question. He said the source of failure to reduce poverty was in the preoccupation with GNP. While acknowledging the pivotal role of economic growth in addressing poverty, Haq emphasised that the 'character and distribution' of this growth is no less significant than its quantity. The one-dimensional pursuit to attain higher levels of GNP had, therefore, served to 'blur' the vision. The stress was merely on 'how much was produced and how fast'. The issue of 'what was produced and how it was distributed' was left to

take care of itself. It was, in fact, presumed that there was nothing objectionable in divorcing income distribution policies from growth policies. The implicit assumption being that once adequate growth had been achieved, a desirable distribution could then follow. But Haq argued, 'Once you have increased your GNP by producing more luxury houses and cars, it is not very easy to convert them into low-cost housing or bus transport.'² In other words, when the concerns for production and distribution are not dealt with simultaneously, it is not possible for even an impressive GNP growth to filter down automatically.

Haq linked up this analysis with a concrete policy framework incorporating poverty alleviation as the part and parcel of economic growth strategies. He advocated a selective attack on the worst forms of poverty manifested in malnutrition, unemployment, inequality etc. 'The developing countries must define minimum consumption standards,' Haq argued. 'Consumption planning should not be in financial terms but in physical terms, in terms of a minimum bundle of goods and services that must be provided to the common man to eliminate the worst manifestations of poverty'.³ This shift in focus from market demand to basic minimum needs of the poor, when planning targets for national production, is the invaluable contribution of Mahbub ul Haq to national planning. The shift implies specific plan targets for average nutrition, education, health, housing, transport etc. (in accordance with the level of basic needs that the society can afford) which have to be achieved over a defined period of time. It is necessary that the production and distribution objectives in development planning are integrated. The distributive aspects cannot be

effectively dealt with in poor economies unless sufficient employment opportunities are created. Hence, the panacea for the poorest sections of population does not lie in welfare schemes that temporarily enhance the purchasing power. Productivity of the poor is the sole lasting solution.

Building on this foundation of Mahbub ul Haq's work, this chapter provides a conceptual framework of this Report by looking at various definitions and measurement of poverty, the usefulness of the multi-dimensional concept of poverty, and constructs the indices of poverty of opportunity (POPI) for a number of developing countries.

Defining and measuring poverty

The definition and measurement of poverty has always been a difficult task. There are a variety of definitions and concepts about poverty measurement. The variation in poverty concepts reveals the complex and multidimensional nature of poverty. However, the unidimensional income/consumption approach has for a long time occupied a dominant position in poverty measurement.

National poverty lines

Most countries use 'absolute' poverty lines to measure poverty.⁴ Two main methods are employed to compute absolute poverty lines—the food-energy intake (FEI) method and the cost of basic needs (CBN) method.

Historically, the main operational emphasis in South Asia has remained on the FEI method which defines the poverty line by finding the consumption expenditures or income level at which a person's food energy intake is just sufficient to meet a predetermined food-energy requirement (typically a defined calorie target). There are a number of standard defenses to the approach employed by the FEI method.⁵ The data requirements are relatively modest and in most developing countries food constitutes a large share of

the budget. However, to specify minimum calorie requirement under the FEI method is a difficult proposition, because food requirements vary across individuals and over time for a given individual. The relationship between food energy intake and income will shift (not only by sex and age but also) according to differences in tastes, activity levels, relative prices, publicly-provided goods or other determinants of affluence besides consumption expenditure.

An increasing number of poverty estimates in South Asia are now being based on the CBN method in which the poverty line is set at the expenditure needed to meet the minimum requirements of all basic needs, food as well as non-food. The non-food expenditures include those on clothing, shelter, healthcare, schooling, transport etc. Admittedly, there is much scope for disagreement with respect to the non-food component of the method.⁶ The major drawback of the CBN method, however, is the ambiguity involved in interpreting the word 'basic' or 'sufficient'. There is an inherent subjectivity and social specificity to any notion of basic needs, including nutritional requirements. Defining the scope of basic needs and their minimum levels has, therefore, always been an area of controversy. The CBN method, being based on an evaluation of the social status, has been criticised for being arbitrary, subjective and hence ever-changing. Still it remains a popular practical method of setting poverty lines in South Asia.

The international poverty line—US \$1 a day

Poverty lines are very country-specific. It is virtually impossible to agree on a common poverty line that is uniformly acceptable in every country. Strictly speaking, therefore, one should not be able to make cross-country comparisons of poverty rates. Because of the disparate views about a minimum standard of living and differences in data availability and survey definitions, comparing poverty

The variation in poverty concepts reveals the complex and multidimensional nature of poverty

The international poverty line of \$1 a day corresponds to the national poverty lines of a number of the poorest countries

rates across countries proved elusive for many years. This precluded the assessment of the global trends in poverty, which had to rely on evidence from individual countries or from groups of countries. The fact, however, remains that for the purpose of the world counts, or indeed for monitoring overall poverty reduction, a common international standard of some sort was urgently required.

The first serious attempt to produce global estimates of poverty on the basis of an internationally comparable threshold dates back to 1990. That year, the World Bank proposed a common international poverty threshold of US \$1 per day, measured in 1985 purchasing power parity (PPP) exchange rates. The assumption behind the approach (based on national poverty lines from a sample of developing countries) is that after adjusting for cost of living differences, \$1 a day is the average minimum consumption required for subsistence in the developing world. Essentially, the PPP conversion rates are the cost of living indices among countries. They take into account the local prices of goods and services that are not traded internationally, making it possible to adjust for cost-of-living differences across countries.⁷

The overall approach to the counting of global poverty has essentially remained the same over the years, though there have been some refinements to the methods along with efforts for improvement in the quantity and quality of the primary data used for calculating global poverty. In the late 1990s, the World Bank released PPP exchange rates based on prices and consumption baskets for 1993 having much broader country coverage than the previous PPP rates. In effect, this amounted to the selection of a new international yardstick equivalent to US \$1.08 a day at 1993 international prices. The international poverty line, however, continues to follow the widely accepted and long-standing practices that consider household sample surveys to be the best available source of quantitative data on living conditions. Box 1.1 shows

how legitimate it is to use household surveys for global poverty measurement by directly estimating the living standards of poor households.

The \$1 a day poverty line immediately grabbed the world's attention and has since been employed in a range of policy analyses. It has frequently played a key role in determining resource allocation priorities, and in assessing the poverty reducing impact of policies and programmes all over the world. The concept gained further prominence in September 2000, when the United Nations Millennium Summit adopted it as the benchmark for monitoring progress in reducing extreme poverty around the world.

The international poverty line of \$1 a day corresponds, at least approximately, to the national poverty lines of a number of the poorest countries. Hence, its adoption as a benchmark for determining poverty in the world does make sense. The ultimate purpose of the \$1 a day poverty line is simply to provide a reasonably consistent assessment of progress against absolute income poverty in the developing world. For a global poverty count, the overriding concern is that two people with the same standard of living, measured by their command over resources, be treated the same way no matter where they live. In this regard, the \$1 a day concept has proven itself by the extensive use to which it has been put since it was first constructed.

Measuring poverty

A credible measure of poverty can be a powerful instrument for focusing the attention of policy makers on the living conditions of the poor. The 'headcount index' measures the incidence of poverty.⁸ The headcount index to measure poverty is attributed to the fact that it can be easily interpreted and understood by non-specialists; it only needs information on poverty status, i.e., whether a person is above or below the poverty line; and it provides a good picture of what has

Box 1.1 Household income and expenditure surveys—an appraisal

Quantitative poverty analysis often relies on monetary income/consumption. Household income and expenditure surveys are, in such cases, essential to estimate the number of people living in households whose income/consumption is below the poverty line for the corresponding household type. If based on nationally representative samples, the household surveys can be used to make assumptions about the conditions and trend of poverty at the national level. Moreover, such surveys collect information beyond monetary income or consumption. It is thus possible to obtain a broader picture of well-being and poverty, to investigate the various dimensions of poverty, and to examine the likely impact of policy interventions. The 'survey method' is employed by the World Bank for the dollar-a-day counts and for monitoring its trend over time. But household surveys have some limitations:

- First, surveys are not very common in countries which cannot afford the high costs involved. Sometimes, the expertise required for the design and implementation of surveys is also found lacking in developing countries.
- The definitions, methodologies, coverage and accuracy of surveys vary across countries and over time often rendering comparisons difficult if not misleading. For example, some countries ask respondents about their food spending over the past month, while others do so for the past week. Differences in survey methods can create some differences in the figures obtained. The results are highly sensitive to (apparently) minor changes in design.
- Converting the information on income or consumption collected in household surveys into measures of well-being requires many assumptions. The assumptions pertain to the treatment of measurement errors and the allowance for household size/composition when converting household data into measures for individuals. Poverty estimates are naturally sensitive to these assumptions.
- Aggregate household-level analysis can provide only a limited understanding of the intra-household distribution of resources. The income or consumption data collected at the household level cannot reveal inequality within the household, thus understating overall inequality and poverty.

- As countries become richer, the items missed by surveys may overstate the growth of consumption of poor people. In addition, surveys grossly underestimate the incomes of very rich people in poor countries for a variety of reasons.
- People who do not live in households—street people, or beggars—cannot be reached by household surveys. It is often difficult to travel to remote areas or to areas where there may be a concentration of poor people. Statistical offices typically undersample poor areas, with negative implications for survey accuracy.
- Income, and to a lesser extent consumption, is unevenly distributed throughout the year, particularly in agricultural economies. Hence, another issue with household survey data is that the measured distribution of resources, and sometimes its mean, can be sensitive to the timing of visits throughout the year.

Do the above shortcomings warrant the replacement of survey data with the national accounts data (on average consumption) for calculation of poverty rates? National income and product accounts (NIPA) approach is more consistent across countries. Also, the national accounts data is available for virtually all countries. However, national accounts data also suffer from some problems of measurement and interpretation compelling reliance on survey-based poverty rates to draw conclusions on poverty levels across countries:

- Admittedly, the national accounts data on consumption may be more complete than that from the surveys. It is because goods/services such as financial services, imputed rents and income from employer contributions to pension funds are included in the national accounts. However, these goods/services are not consumed by the poor. Hence, it may not be right to presume that surveys overestimate poverty merely because they underestimate average incomes.
- Using national accounts instead of income surveys to derive poor people's income levels, risks overestimating the rate of poverty decline and underestimating the number of poor people in most countries.
- Conversely, poverty levels may be overstated for the poorest countries

because national accounts overlook significant informal activity. Using income levels from surveys avoids the problem by directly targeting income and consumption goods relevant to poor households (food, shelter, health, education etc.).

- Poverty measures can be obtained from national accounts data by replacing the mean income/consumption figures from the household surveys with private consumption from the national accounts. However, since the latter provide no information on the shares of total income accruing to different income groups, we have no choice but to rely on surveys to determine these shares. To reconcile such contradictions between the household surveys and the national accounts is always a complex matter. The complexities pertain to differences in coverage, recall biases in the surveys, price imputations (which exist for household income and expenditure surveys and for non-marketed output in the national accounts) and sampling and non sampling errors in both.

Evidently, there is no good reason for believing that deriving poverty measures from national accounts would give better estimates. Household surveys are the key resource for identifying the characteristics of poor people and a vital input in policy formulation. What needs to be done, however, is to commit to the construction of an adequate database of household surveys for poverty analysis, and to work on improving it. In particular, constant efforts must be made to eliminate any obvious comparability problems between the surveys and to refine price collection efforts behind purchasing power parities. Another useful step in that direction might be to harmonise design and collection methods for income and consumption surveys across countries. To achieve that, it is imperative to determine local bundles of minimum needs on which to base poverty figures. Above all, where surveys do not exist, or are seriously outdated, it is desirable that the measures so computed are not treated on the same footing as direct estimates of the living standards of the poor.

Sources: UNCTAD 2002; UNDP 2003 and World Bank 2001b.

The measures of depth and severity of poverty are important complements to the incidence of poverty

happened to poverty over time. The desirability of a poverty measure depends largely on the purpose of measurement. Many practitioners believe that the identification of poor is more important than the aggregation of poverty. The headcount index is effective for this purpose.⁹

However, the exclusive use of the headcount index is not justified by poverty experts. It is mainly because the index fails to differentiate between the individuals or households with respect to how far off these individuals/households are from the poverty line. This culminates into an inability to capture any worsening of the conditions of those already in poverty. Watts (1968) and Sen (1976) criticised the headcount index for not taking into account the income distribution of the poor. We may consider the comparison of poverty between two regions with equal population sizes. Suppose that the regions have the same number of people below the common poverty line but the poor in the first region have almost no income while the poor in the second region are just marginally poor. It can be well-argued that poverty in the second region is much less serious than in the first region. However, the headcount ratio will indicate that the two regions are equivalent in terms of poverty.

The measures of depth and severity of poverty are important complements to the incidence of poverty. The 'poverty gap' is used to determine the average depth of poverty. By showing the average distance of the poor from the poverty line, the measure is able to capture any worsening of their conditions. However, the poverty gap treats all the poor the same way and as such ignores the inequality amongst the poor. The 'squared poverty gap' measures the severity of poverty.¹⁰ The 'squared poverty gap' takes into account not only the distance separating the poor from the poverty line but also the inequality among the poor. It increases if there is a transfer from one poor household to another relatively better-off household, even if the

average welfare of the two households remains the same.

The way poverty is measured is important for an understanding of poverty as well as for policy prescriptions (box 1.2).

The multidimensional nature of poverty

The serious limitation of the income/consumption based poverty measures to fully capture the concept of poverty has led to the realisation that poverty is essentially a multidimensional phenomenon and income is not the sole indicator of well-being. The lack of well-being of a population and, hence its poverty, depend on both monetary and non-monetary variables. An individual is poor due to his/her insufficiency of different attributes of well-being that are necessary to maintain a subsistence level of living. Examples of such attributes are housing, literacy, health, provision of public goods, income etc. This is not to deny that with a sufficiently high income a person is quite likely to improve the position of some of his non-income attributes. But income cannot buy everything. Therefore, poverty ought to be viewed multi-dimensionally as the inability to achieve minimally acceptable or subsistence levels of income as well as non-income indicators of welfare. In other words, a genuine measure of poverty should depend on income indicators supplemented by non-income indicators/attributes that may help in identifying aspects of welfare not captured by incomes.

Poverty/human development link

'The basic purpose of development is to enlarge people's choices ... People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure

Box 1.2 The measurement of poverty and anti-poverty policies

In essence, the headcount index, the poverty gap and the squared poverty gap may imply different anti-poverty strategies. The policy choice is often vital. For a given population, it might be the case that some groups have a high poverty incidence but low poverty gap (when numerous members are just below the poverty line). Still other groups may have a low poverty incidence but a high poverty gap for those who are poor (when relatively few members are below the poverty line but with extremely low levels of consumption or income). A programme might be very effective in reducing the number of poor (the incidence of poverty) but might do so only by lifting those who were closest to the poverty line out of poverty (low impact on the poverty gap). Other interventions might better address the situation of the 'very poor' but still have a low impact on the overall incidence (if it brings the very poor closer to the poverty line but not above it). How does the headcount index fare if employed as the basis of an anti-poverty policy framework?

- The headcount index records only those anti-poverty policies, which bring people out of poverty. In other words, the index hints at poverty-eliminating policies while utterly neglecting *poverty-alleviating* policies. As a consequence, the effectiveness of many anti-poverty policies cannot be adequately recorded by using the headcount index because a number of policies are not designed as such to lift the poor out of poverty.
- Assuming no other constraints and that all poor are identical in other

characteristics, it can easily be seen that the headcount index always has the tendency to channel the aid to the poor person next to the poverty line i.e., the last needy person first and the most needy person last.

An example of the above-mentioned limitations of the headcount index is provided by considering the design of an income-transfer scheme for the poor. If the success/failure of the scheme is to be evaluated solely by variations in the headcount index, it will then be imperative that money transfers should be targeted at the 'least poor'. On the contrary, equivalent transfers to the poorest of the poor will be ruled out of the policy framework unless they could impact on the headcount index. Quite evidently, we need to consider the distribution of income/consumption below the poverty line to properly evaluate the manner in which a programme (like an income-transfer scheme) ought to affect poverty and to formulate a potent anti-poverty policy. The knowledge of the depth and severity of poverty is certainly and particularly important for the evaluation of programs and policies.

The poverty gap measures the poverty deficit of the entire population i.e., it provides an estimate of the total resources needed to bring all the poor to the level of the poverty line. Assume, for example, that the poverty gap is equal to 0.20. What does this value imply? This means that, on average, the cash transfer needed to lift each person out of poverty represents 20 per cent of the poverty line. Still, the poverty gap like the headcount index may fail to accurately

evaluate the efficacy of anti-poverty policies due to certain reasons:

- The poverty gap only records the policies that alter the mean income of the poor. It does not distinguish any anti-poverty policies, which aim at helping the bottom poor from others that help poor in general (e.g., the housing subsidies).
- The poverty gap may record an increase in the poverty level when some poor are lifted out of poverty.
- In practice, given that perfectly targeted cash transfers to eradicate poverty are neither feasible nor necessarily desirable, one must be careful with the usage of the poverty gap statistic.

A measure of poverty intensity, therefore, needs to consider distribution-sensitivity in addition to counting the number of the poor, and calculating their average income/consumption shortfall. A distribution sensitive poverty measure, like the squared poverty gap, will channel assistance income to the poorest person first, the least poor last. Therefore, only distribution sensitive poverty measures can lead to both horizontally and vertically equitable anti-poverty policies. For a distribution-sensitive poverty measure, the efforts of any anti-poverty policies (eliminating, alleviating or redistributing) are always reflected in the overall poverty changes. Hence, the squared poverty gap is now widely used to address various distributional issues and to assess the efficacy of anti-poverty policy.

hours, political and cultural freedoms and a sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives.¹¹

In broad terms, poverty implies a denial of opportunities. In other words, the denial of basic human choices seriously

limits the available opportunities for ensuring a 'long, healthy and creative' existence. It is this denial that creates the poor and also perpetuates poverty. Certain opportunities in the socio-economic and socio-political spheres, such as access to employment avenues and political freedom, cannot be conveniently quantified. This partially explains the

The access to economic opportunities and minimum nutritional requirements are vital for the betterment of human lives

major focus on income poverty—the most readily quantifiable manifestation of the poor. Undeniably, the access to economic opportunities and minimum nutritional requirements are vital for the betterment of human lives. Such a narrow conceptualisation of poverty, however, leaves one oblivious of its wider dimensions. Income improvement, after all, represents the expansion of only one human choice.

In fact, there is need to acknowledge that poverty of income is often a mere outcome of human deprivation. It is the poverty of opportunity which is most often the cause of such deprivation. This is particularly true for the developing world where the equality of opportunity is severely restricted by myriad disparities. Such disparities arise when the basic human choices are denied selectively on the basis of gender, geographical location, ethnicity, social class, political affiliation or religious orientation. Viewed from this perspective, poverty is enemy of the creative potential of human beings.

Defining poverty in the human development perspective, the emphasis has increasingly shifted from securing the means (like income/consumption) for achieving ultimate ends to promoting the ends themselves. Such ultimate ends can be conceptualised in terms of the capability framework. ‘The human development paradigm is concerned both with building up human capabilities (through investment in people) and with using those human capabilities fully (through an enabling framework for growth and employment).’¹² The paradigm signals a shift from an income-centred view to a capability-centred one. Haq also provided the link between capability and poverty alleviation by recommending a selective attack on the worst forms of poverty manifested in malnutrition, unemployment and inequalities. He brought the basic minimum needs of the poor into sharp focus by advocating specific plan targets for average nutrition, education, health, housing, transport etc. in accordance with

the level of basic needs that the society can afford.

The poor lack opportunities because they operate from a position of inferiority. The poor are not merely individuals with certain adverse ‘resource endowments’ making choices in free markets. They belong to a fragmented community which faces markets, state institutions and local power structures, which discriminates against access of the poor over resources, public services and governance decisions that affect their immediate existence.¹³ In this regard, Haq warned that ‘markets do not automatically favour the poor, the weak, the vulnerable’.¹⁴ He argued that due to lack of education, health and nutrition the poor are unable to compete in the markets. Given a distorted income distribution, resources cannot be efficiently allocated through market mechanisms. Markets characterised by such an uneven playing field cannot be termed as either neutral or competitive. Therefore, we need what Mahbub ul Haq termed as ‘people-friendly’ markets to ensure the participation of the people in economic life.

Expenditure that enhances human development is strongly affected by the rate of poverty reduction. Empirical evidence suggests that:

- Poor households increase their food expenditure and calorie consumption significantly if they are provided with extra income.¹⁵
- An increase in family income has a positive effect on child schooling.¹⁶
- Household income has a significant effect on the use of health services with some studies suggesting a much higher relative response for low-income households as compared to high income ones.¹⁷

Reduced poverty contributes to a healthy civil society. Greater social participation and political stability also promote the cause of human development.

Multidimensional poverty indices—a brief review

To deal with multidimensional concept of poverty, the challenge is to aggregate measures of different dimensions of poverty and well-being. One school of thought stresses deprivations in myriad dimensions without considering their relative value/weightage. The protagonists claim that the dimensions ought to be analysed in isolation instead of trying to consider them in combination. Such an approach, however, leaves wide open the question of comparison across countries and across the different dimensions. Dimensions may move in diametrically opposite directions in the aggregate and/or in case of individual countries. A reasonable approach, therefore, is to define a composite index as a multidimensional measure of well-being.

There have been several important efforts to construct multidimensional indices.

The capability poverty measure (CPM)

The capability poverty measure (CPM) was suggested by the United Nations Development Programme (UNDP) in 1996.¹⁸ The CPM focuses on human capabilities and argues that deprivation is reflected in a lack of basic capabilities—when people are unable to reach a certain level of essential human achievement or functioning. Specifically, the CPM considers the lack of three basic capabilities:

- The capability of safe and healthy reproduction.
- The capability to be literate and knowledgeable.
- The capability to be well nourished.

As is evident from table 1.1, the CPM is a simple index composed of three indicators that reflect the percentage of the population with capability shortfalls in the above-mentioned dimensions of human development. The indicators

employed by the CPM are noteworthy for their emphasis on the deprivation of women. The index implicitly attempts to evaluate countries by their treatment of the most deprived group. The underlying theme is to emphasise critical areas where progress is needed the most. Despite being a step in the right direction, the CPM tends to exaggerate the overall estimate of human deprivation. This is particularly true for a region like South Asia where women and children carry the main burden of deprivation.¹⁹

The human poverty index (HPI)

The human poverty index (HPI) is the outcome of UNDP's pursuit for 'a broader and more representative set of variables'.²⁰ The HPI aggregates deprivations in the three basic dimensions of human development at the country level—a long and healthy life, knowledge and a decent standard of living.

Currently, the computation of the HPI is based on the recognition that the central issues pertaining to poverty in the developed countries are different from the ones encompassing the developing world. For instance, there is almost complete access to safe water in affluent nations. Accordingly, the same HPI is not being used for both developing and developed countries. Table 1.1 enlists how the various deprivations are being measured for the developing countries by what is termed as HPI-1. Originally, the measurement of deprivation in a decent standard of living also included an indicator of access to health services. But due to serious lack of reliable data on access to health services, the measure now relies on two rather than three indicators. UNDP has also devised an HPI (HPI-2) for selected developed (OECD) countries. The notably distinct feature of HPI-2 is that the dimension relating to living standards is measured by the population living below an income poverty line.²¹

The protagonists would argue that the HPI can serve as a useful complement to income measures of poverty in case of the

To deal with multidimensional concept of poverty, the challenge is to aggregate measures of different dimensions of poverty and well-being

developing countries. It helps remind us that poverty eradication will always require more than increasing the incomes of the poorest. It is extremely questionable, however, whether the advantages of using the HPI can outweigh the glaring limitation that it utterly overlooks income poverty in case of the developing/underdeveloped world (where the problem is the most acute). As discussed in depth in an earlier section, income poverty cannot be the sole yardstick of human deprivation. However, the relevance of income poverty within the wider context of poverty cannot be utterly denied. There is, hence,

little justification for the non-inclusion of an indicator of income poverty in an index that purports to be a virtual reflection of the human condition/deprivation. The total exclusion of income deprives the HPI of an inclusive notion of human deprivation. To all intents and purposes, the omission of income poverty virtually renders the HPI a mere social indicator. At the very least, this creates the necessity to use the indicator in tandem with the estimates for income poverty to accurately portray the prevailing deprivations.

Table 1.1 Multidimensional poverty indices

Capability poverty measure (CPM)					
DIMENSION	<u>A long and healthy life</u>		<u>Knowledge</u>		<u>Nourishment</u>
INDICATOR	Percentage of births unattended by trained health personnel		Adult female illiteracy rate		Percentage of underweight children under five years of age
Human poverty index for developing countries (HPI-1)					
DIMENSION	<u>A long and healthy life</u>		<u>Knowledge</u>		<u>A decent standard of living</u>
INDICATOR	Probability at birth of not surviving to age 40		Adult illiteracy rate	Percentage of population without sustainable access to an improved water source	Percentage of children underweight for age
Human deprivation measure (HDM)					
DIMENSION	<u>A long and healthy life</u>		<u>Knowledge</u>		<u>A decent standard of living</u>
INDICATOR	Percentage of people without access to safe water	Percentage of malnourished children under five years of age	Percentage of adult illiterates	Percentage of primary school age children who are out of school	Percentage of people living below the income poverty line
Poverty of opportunity index (POPI)					
DIMENSION	<u>A long and healthy life</u>		<u>Knowledge</u>		<u>A decent standard of living</u>
INDICATOR	Percentage of people not expected to survive to the age 40	Percentage of people deprived of 'health inputs' <div><div></div><div>Percentage of people without access to safe water</div><div>Percentage of malnourished children under five years of age</div></div>	Percentage of adult illiterates	Percentage of primary school age children who are out of school	Percentage of people living below the income poverty line

The human deprivation measure (HDM) and the poverty of opportunity index (POPI)

Another multidimensional measure of poverty is the human deprivation measure (HDM). This index developed by Mahbub ul Haq attempts to address the deficiencies of the HPI and the CPM.²² It is a composite of deprivations in three vital dimensions: health, education and income. The yardsticks used for the deprivations are listed in table 1.1. Following some modifications in the HDM, Mahbub ul Haq suggested the poverty of opportunity index (POPI) in the Report on *Human Development in South Asia 1998*.²³ The variables comprising the POPI cover substantial ground (table 1.1):

- The main advantage of the POPI is that even as it diverts attention away from income as the metric of poverty measurement, it does not ignore it altogether.²⁴
- The percentage of people not expected to survive till forty years of age measures the deprivation that arises through vulnerability to early loss of life. It is the acid test of access to health services in general.
- The deprivation of 'health inputs' remains an essential complement to life expectancy. By taking both life expectancy and health inputs into consideration, the POPI is hence representative of both present and future health deprivation.
- Given the massive prevalence of waterborne diseases, lack of access to safe drinking water is a very powerful indicator for a region like South Asia. The inability to obtain safe drinking water exacerbates the risk of infectious diseases and hence weakens the opportunity of the people to lead a healthy and useful life.
- The percentage of malnourished children is an informative variable which reflects the deprivation of capabilities for the new generation. New biological research reveals that

most human capabilities are formed in the first few years of life. Also the proportion of underweight children is a good proxy for lack of opportunity in a number of areas. In particular, it is an indication of nutrition and health for the population as a whole.

- Similarly, by taking into account both the illiterate adults and out of school children, the POPI captures both present and future education deprivation. The proportion of non-enrolled children raises issues with great relevance to exclusion from the world of knowledge. This ensures a more comprehensive picture of the prevailing scenario with regard to educational attainments.

Besides, the POPI appears to be a more conceptually sound measure owing to a number of factors:²⁵

- The index has the ability to reflect the present situation as well as to forecast future scenarios.
- The POPI has been found to be robust in terms of showing little variation even with diverse weighting techniques and disparate sources of data.
- The index can determine the area—education, health or income—where the situation is the most dire and hence requires most immediate attention.
- Despite being a general measure of deprivation, the POPI can be used to make exclusive derivations for the more vulnerable population groups like children and women.
- The design and the methodology of the POPI are simple and flexible.

The POPI (like all multidimensional indices) does face the difficult task of deciding between two complex alternatives. One possibility is that if someone is poor in any one dimension, he/she is simply counted as 'poor'. Another scenario could be to only consider those as 'poor' who fall short in all dimensions being considered. In practice, the POPI gives additional, but not overwhelming, weight

The percentage of malnourished children is an informative variable which reflects the deprivation of capabilities for the new generation

The poverty of health opportunities ranges from 13.4 per cent in Sri Lanka to 21.7 per cent in Bangladesh

to areas of more acute deprivation. In other words, the POPI tends towards the value of the dimension in which deprivation is the greatest.

There are some arguments with the choice of the component variables of the POPI. What must, however, be considered is that some vital dimensions elude adequate measurement altogether. Such dimensions comprise lack of political freedom, deprivation of social status, absence of personal security and inadequate access to economic assets. Also the inclusion of the diverse dimensions has to be carefully weighed against the risk of complicating interpretation. While the fact that poverty is a complex concept demands greater recognition, it does not necessarily entail rendering the POPI ambiguous and far too hard to comprehend. The POPI, therefore, remains a commendable effort to refine the concept and measurement of multidimensional poverty. We have, accordingly, computed the POPI for 46 developing countries including 5 countries from South Asia (table 1.2). The full procedure for calculating the index is presented in the technical note.

The poverty of opportunity index (POPI) for South Asia

It is worthwhile to explore where the South Asian countries exactly stand among the developing nations when ranked by the POPI. Table 1.2 indicates that only Sri Lanka makes it to the best ten in the list. The POPI for Sri Lanka (the best performer in South Asia) is nearly three times that of Costa Rica, by no means a rich country, which has all but overcome the poverty of opportunity. All South Asian nations, other than Sri Lanka and India, lie in the bottom half of the rankings. The dismal picture fares extremely unfavourably as compared to the developing countries from the American continents, the worst performing of which (Nicaragua) is ranked 24. We may consider each component of the POPI in isolation to determine more

precisely the source(s) of the high levels of poverty of opportunity in South Asia:

Poverty of health opportunities

The poverty of health opportunities ranges from 13.4 per cent in Sri Lanka to 21.7 per cent in Bangladesh. There still is a substantial population in South Asia which does not have access to safe drinking water. No less significantly, nearly half of the under-five children in the region are malnourished. While much needs to be done for improvement in the health sector, the low POPI rank of South Asia cannot be attributed solely to the lack of health opportunities in the region.

Poverty of education opportunities

Even as compared to the developing world, the opportunities in the education sector for the inhabitants of South Asia are woefully inadequate. Apart from Sri Lanka, well above one third of the population in every country is experiencing the poverty of education opportunities. The net primary enrolment rates are generally high with the exception of Pakistan (where one-third of the primary school age children still do not attend school). However, adult illiteracy rates continue to assume embarrassing proportions in comparison with most developing countries. With 58.9 per cent of its adults still illiterate, Bangladesh ranks the worst in South Asia. As is evident from table 1.2, the poverty of education opportunities is the dominant contributory factor towards the high POPI for South Asia.

Poverty of income opportunities

Income poverty continues to afflict all South Asian economies (see chapter 2 for details). Box 1.3 examines at length the past, the present and the expected future of the poverty of opportunity in South Asia and compares the conclusions with the prevailing trends for income poverty.

The analysis reveals that India is the only country in the region which has been able to reduce the poverty of opportunity to a smaller proportion of its population when compared to the percentage of the income poor. The phenomenon evidently points

to the fact that India has harnessed economic growth for the development of human capabilities and potentialities with considerable success.

Table 1.2 The poverty of opportunity index (POPI) for selected developing countries, 2005

POPI rank	Countries	Poverty of health opportunities (%)	Poverty of education opportunities (%)	Poverty of income opportunities (%)	Poverty of opportunity index (POPI) value (%)
1	Costa Rica	3.4	4.9	2.2	3.82
2	Panama	7.9	7.3	6.5	7.26
3	Mexico	7.4	8.7	4.5	7.30
4	Colombia	8.1	7.2	7.0	7.48
5	Turkey	7.8	11.6	3.4	8.83
6	Venezuela	12.0	7.1	8.3	9.60
7	Brazil	10.4	11.1	7.5	9.91
8	Trinidad and Tobago	10.2	2.1	12.4	9.97
9	Dominican Republic	10.5	12.5	2.5	10.14
10	Sri Lanka	13.4	9.0	5.6	10.34
11	Philippines	11.8	7.2	15.5	12.40
12	Peru	14.1	11.0	12.5	12.65
13	Indonesia	16.9	11.4	7.5	13.07
14	Paraguay	11.8	8.8	16.4	13.10
15	Honduras	13.3	18.1	20.7	17.89
16	Bolivia	15.1	12.0	23.2	18.05
17	Guatemala	11.7	26.1	13.5	19.36
18	South Africa	28.1	16.7	10.7	21.06
19	Mongolia	24.5	3.9	27.0	22.55
20	Botswana	37.5	20.6	23.5	29.17
21	Namibia	32.9	17.2	34.9	30.28
22	India	16.9	35.1	34.7	31.06
23	Kenya	40.1	25.9	22.8	31.48
24	Nicaragua	14.0	21.3	45.1	32.62
25	Lao PDR	41.4	28.4	27.0	33.58
26	Nepal	18.7	46.2	24.1	34.11
27	Pakistan	14.7	48.4	17.0	34.30
28	Lesotho	45.5	17.8	36.4	36.66
29	Cambodia	45.9	22.6	34.1	36.69
30	Mauritania	36.4	44.2	25.9	37.00
31	Cote d' Ivoire	29.2	50.4	14.8	37.34
32	Malawi	43.8	28.6	41.7	39.15
33	Bangladesh	21.7	50.8	36.0	39.73
34	Ghana	24.4	45.3	44.8	40.36
35	Senegal	26.9	55.5	22.3	40.62
36	Rwanda	36.1	31.4	51.7	41.61
37	Benin	30.3	56.3	30.9	42.91
38	Zimbabwe	41.2	12.0	56.1	43.58
39	Burundi	35.5	41.5	54.6	45.30
40	Mozambique	52.0	48.5	37.9	46.87
41	Madagascar	40.5	25.6	61.0	46.93
42	Nigeria	42.2	33.2	70.8	53.77
43	Zambia	50.9	29.5	75.8	58.26
44	Burkina Faso	43.1	81.0	27.2	59.47
45	Niger	46.5	79.7	60.6	65.14
46	Mali	43.1	74.9	72.3	66.41

Sources: UNDP 2005; UNPD 2006b; World Bank 2006b,h and MHHDC staff computations.

High prevalence of poverty has severely damaged the growth potential of the South Asian economy through a variety of channels

Conclusion

Poverty alleviation in South Asia has intrinsic significance as an end in itself. The influence and glamour of the rich and the powerful in South Asia coexists with the 'wretched of the earth'—the destitute, the illiterate, the malnourished, the sick and the infirm. Surely, it is imperative from the humane and the ethical perspective to provide the unfortunate with the minimum capabilities and the necessary opportunities that they so evidently lack. No society can term itself as civilised if it were to overlook the vast stretches of poverty amidst the small islands of prosperity. No economic order can be justified if it implies worsening inequalities and ever-increasing misery for a vast majority.

Second, the high prevalence of poverty has severely damaged the growth potential of the South Asian economy through a variety of channels. By being denied the minimum of food and basic necessities, the poor are rendered incapable of utilising their human capabilities. Individuals who lack access to basic health/sanitation facilities, rudimentary education and gainful employment cannot constitute a productive workforce which is the *sine qua non* of socio-economic advancement.

Last but not least, the adverse impact of poverty has been compounded by the social tensions and cultural erosion that it has bred. The increasing number of the deprived offers a sure recipe for insecurity and conflicts. The emergence of lawlessness, sectarianism and ethnic movements is but a growing manifestation of the high poverty levels in South Asia. The quest for peace, progress and prosperity in the region stands jeopardised by the impending threat posed by the teeming poor masses. The threat has every potential to be fatal as it gradually but steadily culminates into institutional breakdown and social polarisation.

This chapter provides the framework for subsequent discussion in the Report of the poverty profile of South Asia, its

gender dimension and its link to growth and inequality of income in the region. The Report also analyses the poverty alleviation efforts of five countries and ends the discussion with an assessment of impact of governance on poverty alleviation.

The poverty profile examines the extent and severity of poverty in South Asia. Poverty in the South Asian region is characterised by state/provincial level differences, rural-urban variations and greater concentration of the poor in certain ethnic and religious groups. In particular, the Report focuses on how and why the women in South Asia bear a disproportionately heavy burden of poverty compared to their counterparts in other developing countries.

It is extremely critical to determine how pro-poor the economic growth has been in South Asia, the impressive GDP growth rates notwithstanding. Chapter 4 underscores the extent to which the economic policies in South Asia have been successful in linking economic growth with poverty reduction through employment generation. The major sources of growth in the region as well as the contribution of the major economic sectors to the GDP help ascertain the pattern of growth. The structure of growth reveals that the poor in South Asia have not been the recipients of their due share and participation in the growth process. In this regard, both income and non-income dimensions of inequality that afflict the marginalised majority in the region merit discussion.

The Report points out significant lessons by a critical evaluation of the poverty alleviation programmes and projects implemented in the South Asian countries. The bottlenecks and hindrances common to project implementation at the national and regional levels are particularly highlighted. The Report makes an attempt to establish the extent to which the poverty alleviation programmes in South Asia have been successful in attaining their intended objectives.

Finally, the Report underlines the critical role of governance in South Asia if the high levels of poverty of income and poverty of opportunity in the region are to be brought down. The structure of

public sector governance is examined in depth to determine whether it reflects the imperative of poverty alleviation in South Asia.

Box 1.3 The poverty of opportunity index (POPI) and income poverty in South Asia

Drawing on the available data, the poverty of opportunity index (POPI) has been estimated for five South Asian countries for the years 1995 and 2005 (see table). The POPI estimates for the region show that Sri Lanka is at the top of the rankings having reduced poverty of opportunity to a POPI value of just about 10 per cent (where poverty of opportunity affects only one-tenth of the population). Bangladesh ranks the lowest in South Asia on the POPI index. However, apart from Bangladesh, well above one-third of the people in Pakistan and Nepal also suffer from poverty of opportunity.

The trends for the POPI are not exactly discouraging. As compared to the population suffering from the poverty of opportunity in 1995, the proportion has certainly dropped at present. Even though millions in South Asia remain affected by the poverty of opportunity, there has been a clear and robust downward trend in its incidence. All countries apart from Bangladesh have recorded an annual rate of reduction of well over two per cent in the POPI. However, it must be added that one should be wary of reading too much in the apparently impressive pace of improvement in the POPI for South Asia. For instance, given current trends, Pakistan would be able to reduce the poverty of opportunity to the level already attained by Sri Lanka not earlier than the year 2047. Needless to say that such an outcome will be far from desirable.

How does the POPI compare with the income-based (US \$1 a day) measure of poverty for South Asia? The

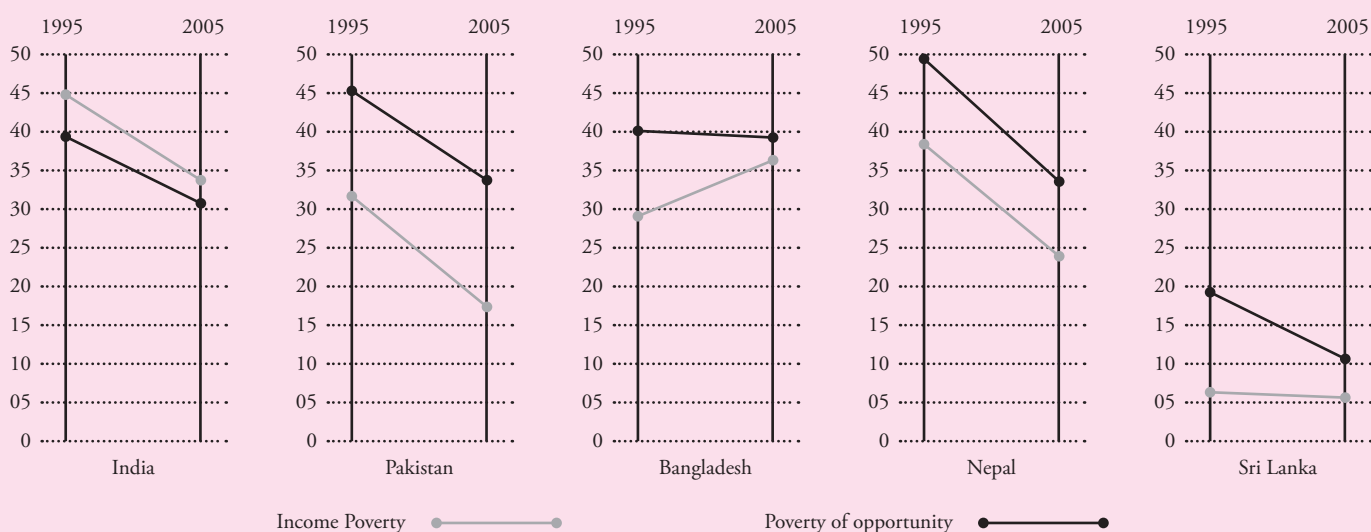
comparison reveals certain stark contrasts. Except in India, poverty in all other South Asian countries is higher as measured by the POPI than by income poverty alone (see figure). The most striking comparison between the POPI and income poverty can be noted for Pakistan. At present, the POPI for Pakistan is twice as high as the \$1 a day count underscoring the chasm between income and opportunities.

Evidently, many more people in South Asia are denied basic human opportunities than are denied income. The divergence between poverty of income and poverty of opportunity is not totally surprising in the backdrop of South Asia's dismal social indicators. The serious deprivation of several opportunities of life in the region manifests itself in low life expectancy, illiteracy and malnourishment.

Trends in poverty of opportunity in South Asia, 1995-2005

Countries	Poverty of opportunity index (POPI) value (%)		
	1995	2005	Annual reduction (%)
India	39.1	31.1	2.3
Pakistan	45.7	34.3	2.8
Bangladesh	40.9	39.7	0.3
Nepal	49.0	34.1	3.6
Sri Lanka	18.5	10.3	5.7

Income poverty (US \$1 a day) and the poverty of opportunity index (POPI) in South Asia, 1995-2005



Sources: UNDP 1996, 1998a, 1999 and 2005; UNPD 2006b; World Bank 2001b and 2006b,h and MHHDC staff computations.

Profile of Poverty in South Asia

Chapter 1 discussed at length the debate surrounding measurement of poverty issues and established that poverty is not merely a lack of income or consumption alone. Infact, poverty is a multidimensional concept that includes deprivation in other aspects of human well-being like education, health, and living conditions. The lack of these capabilities can be far more damaging than a mere lack of income simply because it deprives people of their basic human right—the right to live a decent and respectable life and pursue the goals that one values. In the words of Mahbub ul Haq: ‘Far more crippling than income poverty is the poverty of basic human capabilities, which prevents people from taking advantage of market opportunities.’¹

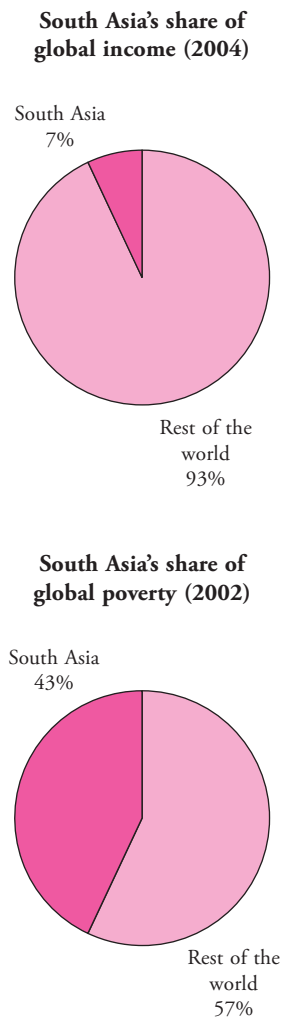
In order to understand the extent of human deprivation and formulate effective policies to counter it, it is important to know the extent of the incidence of poverty not only at the national level but also across different groups classified on the basis of gender, age, ethnic origin and geographical location. In this chapter, we discuss the various dimensions of poverty in South Asia. In particular, we discuss the extent, depth and severity of income/consumption poverty. We also discuss the extent of the poverty of opportunities in South Asia. While doing so, we also look at the inequalities that exist between different countries in the region and within countries among different groups and areas. This chapter also gives a complete profile of the poor by looking at their occupation, educational qualification, health status, and several other attributes that make them poor.

Poverty in South Asia: The global context

South Asia is home to over one-fifth of the global population while its share in global income is a mere seven per cent (figure 2.1). This makes the South Asian region home to the largest number of poor people; there are an estimated 437 million people who live below US \$1 a day and around 80 per cent of the population survives below US \$2 a day. Despite high economic growth in the last five years—Bangladesh, Bhutan, India, Maldives and Pakistan have on average all grown at over 5 per cent a year, while Sri Lanka has grown at 4.7 per cent and Nepal at 2.5 per cent²—South Asia remains the poorest region in the world. Its per capita income of US \$594 is below that of Sub-Saharan Africa (US \$601) and far below the developing country average of US \$1,502 (figure 2.2). While its share in world population is 22 per cent, it contains more than 40 per cent of the world’s absolute poor.³

Over the past two decades, extreme poverty, defined in terms of the number of people living below \$1 a day, has fallen in most regions around the world (see table 2.1). It has fallen most remarkably in East Asia due largely to sustained period of economic growth led by China. South Asia too has made progress in reducing poverty and moving closer towards the Millennium Development Goal (MDG) of halving the proportion of people living below \$1 a day between 1990-2015. The progress, although steady, has been rather slow. For instance, between 1981 and 2002, the percentage of annual reduction in the absolute number of poor has merely been 0.40 per cent compared to 6.06 per cent in East Asia and 2.76 per cent in Middle East and

Figure 2.1 South Asia—the poorest region in the world



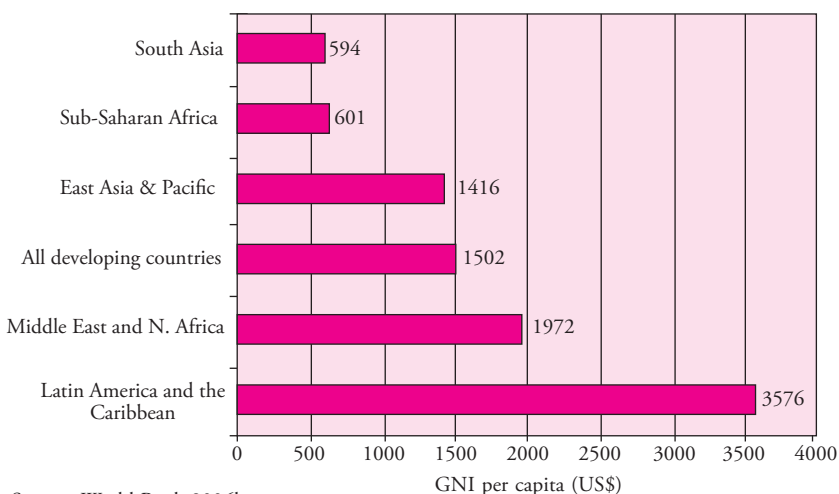
Source: World Bank 2006h.

North Africa (table 2.1). In developing countries as a whole, extreme poverty, measured in terms of the absolute number of poor, fell by roughly 1.8 per cent between 1980 and 2002. In contrast to the reduction of poverty in East Asia, China and South Asia, the number of extremely poor people in Sub-Saharan Africa has almost doubled since 1981.

While extreme poverty has gone down in most regions, the number of people living below \$2 a day has increased (table 2.1). In 1981, the number of people living below \$2 a day in South Asia was estimated to be around 821 million. This number has grown to over one billion in recent years. This indicates that most people in the region who experienced an upward movement from below \$1 a day have not witnessed a significant increase in their incomes. A very high proportion of the South Asian population lives just above the poverty line of \$1 a day. This means that a large proportion of the population in South Asia remain vulnerable to a variety of risks that may push them deeper into poverty. The nature of risks that may push families further into poverty vary from a fatal illness or loss of job to a rise in prices or the onslaught of a natural calamity or conflict.

In terms of the numbers of people who still suffer from a lack of income coupled with a deprivation of basic capabilities, the numbers are huge. There are today one billion people in the world who are

Figure 2.2 Per capita income by global regions, 2004



Source: World Bank 2006h.

living in extreme poverty and 2.6 billion people who live on less than \$2 a day. South Asia alone is home to more than one billion people who live on less than \$2 a day of which 437 million are extremely poor and survive on less than \$1 a day.

The headcount of poverty in South Asian countries

In terms of the proportion of people living below the international poverty line of US \$1 and \$2 a day, South Asia as a whole has witnessed a reduction in poverty. For instance, the share of people living on less than \$1 a day declined from 51.5 per cent in 1981 to 31.2 per cent in 2002 (see table 2.2). However, the sheer

Table 2.1 Trends in the absolute number of the poor, 1981-2002

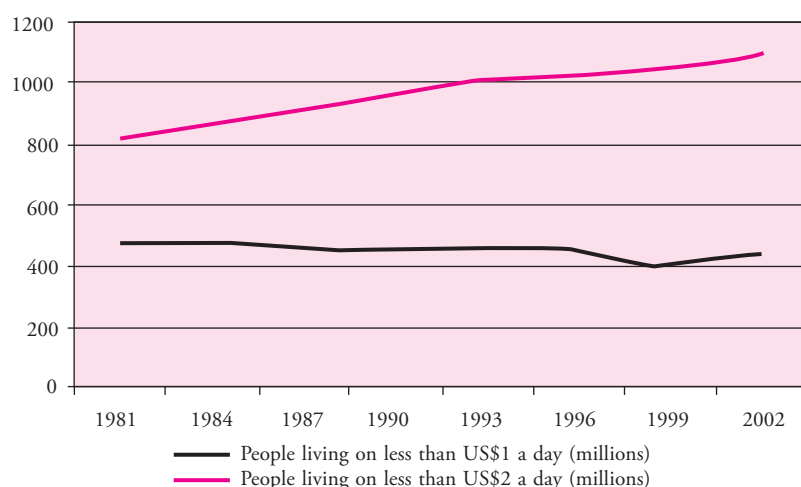
Regions	Population below US \$1 a day (millions)			Population below US \$2 a day (millions)			Annual change, 1981-2002 (%)	
	1981	1990	2002	1981	1990	2002	Population below US \$1 a day	Population below US \$2 a day
East Asia & Pacific	796	472	214	1,170	1,116	748	-6.06	-2.11
China	634	375	180	876	825	533	-5.82	-2.34
Europe & Central Asia	3	2	10	20	23	76	5.90	6.56
Latin America & Caribbean	36	49	47	99	125	123	1.28	1.04
Middle East & North Africa	9	6	5	52	51	61	-2.76	0.76
South Asia	475	462	437	821	958	1,091	-0.40	1.36
Sub-Saharan Africa	164	227	303	288	382	516	2.97	2.82
Total (developing countries)	1482	1218	1015	2450	2654	2614	-1.79	0.31

Source: World Bank 2006h.

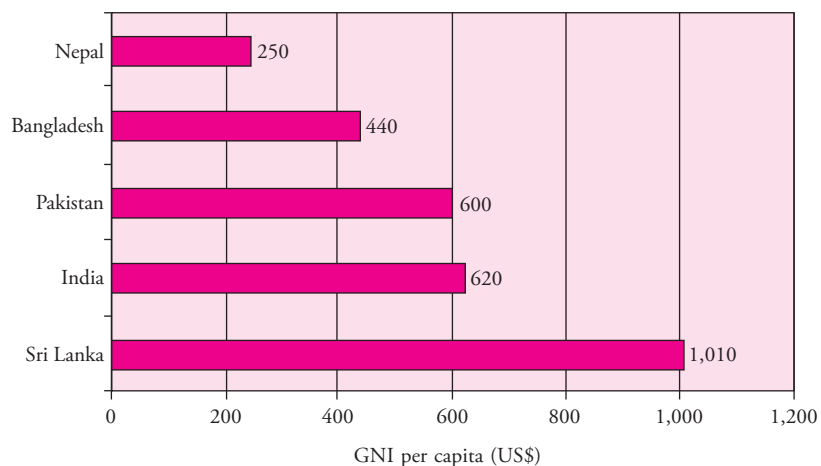
Table 2.2 Trends in poverty rates in South Asia, 1981-2002

	People living on less than US \$1 a day (millions)	Share of people living on less than US \$1 a day (%)	People living on less than US \$2 a day (millions)	Share of people living on less than US \$2 a day (%)
1981	475	51.5	821	89.1
1984	460	46.8	859	87.2
1987	473	45.0	911	86.7
1990	462	41.3	958	85.5
1993	476	40.1	1,005	84.5
1996	461	36.6	1,029	81.7
1999	429	32.2	1,039	78.1
2002	437	31.2	1,091	77.8

Source: World Bank 2006h.

Figure 2.3 Trends in income poverty in South Asia, 1981-2002

Source: World Bank 2006h.

Figure 2.4 Per capita income in South Asia, 2004

Source: World Bank 2006h.

magnitude of poverty and deprivation that this represents is huge; three out of every four persons in South Asia survive on less than \$2 a day.

Within South Asia, the incidence of \$1 poverty varies significantly across countries, ranging from a low of 5.6 per cent in Sri Lanka to a high of 36 per cent in Bangladesh (table 2.3). Comparing the per capita incomes of the South Asian countries also shows that the region has large variations in levels of well-being (figure 2.4). Sri Lanka has the highest per capita income of US \$1,010 while Nepal appears as the poorest with a per capita income of only US \$250. However, while the per capita income reflects a general level of well-being of an economy and its people, it does not illustrate the distribution of this income. It is important to analyse the inequality in the distribution of this income between the rich and the poor (see chapter 4 for a detailed analysis).

Table 2.3 shows that poverty below \$1 a day has declined in most countries of South Asia during 1990-2000. Intertemporal and cross-country comparison of poverty rates, however, require extreme caution. The survey design and methodology to compute poverty rates vary not only from one country to another but also from one time period to the other within the same country. Moreover, any conclusive statement about the progress/setback in poverty reduction over time cannot be made without having a fairly long time series data that is collected using a consistent methodology. In chapters 5-8, some attempts are made to gauge the performance of South Asian countries in reducing poverty overtime using national poverty data. The analyses in these chapters show that most South Asian countries have not witnessed a consistent decline in poverty rates overtime. Much of the decline in poverty over a specified time period is sporadic owing to a temporary shock arising mostly out of a favorable agricultural yield or a sudden increase in foreign remittances. No

Table 2.3 Progress and setbacks in poverty reduction in South Asia, 1991-2004

Countries	National poverty line				International poverty line				
	Survey year	Headcount ratio (%)			Survey year	US \$1 a day		US \$2 a day	
		Rural	Urban	National		Population below (%)	Poverty gap	Population below (%)	Poverty gap
Sri Lanka	1991	22	15	20	1995	6.6	1	45.4	13.5
	1996	27	15	25	2002	5.6	0.8	41.6	11.9
Annual change (%)		4.18	0	4.56		-2.31		-1.24	
Pakistan	1993	33.4	17.2	28.6	1996	31	6.2	84.7	35.0
	1999	35.9	24.2	32.6	2002	17	3.1	73.6	26.1
Annual change (%)		1.21	5.86	2.21		-9.53		-2.31	
India	1994	37.3	32.4	36	1997	44.2	12	86.2	41.4
	2000	30.2	24.7	28.6	2000	34.7	8.2	52.4	15.7
Annual change (%)		-3.46	-4.42	-3.76		-7.75		-15.29	
Bangladesh	1996	55.2	29.4	51	1996	29.1	5.9	77.8	31.8
	2000	53	36.6	49.8	2000	36	8.1	82.8	36.3
Annual change (%)		-1.01	5.63	-0.59		5.46		1.57	
Nepal	1996	43.3	21.6	41.8	1995	37.7	9.7	82.5	37.5
	2004	34.6	9.6	30.9	2004	24.1	5.4	68.5	26.8
Annual change (%)		-2.76	-9.64	-3.71		-4.85		-2.04	

Sources: World Bank 2001b and 2006h.

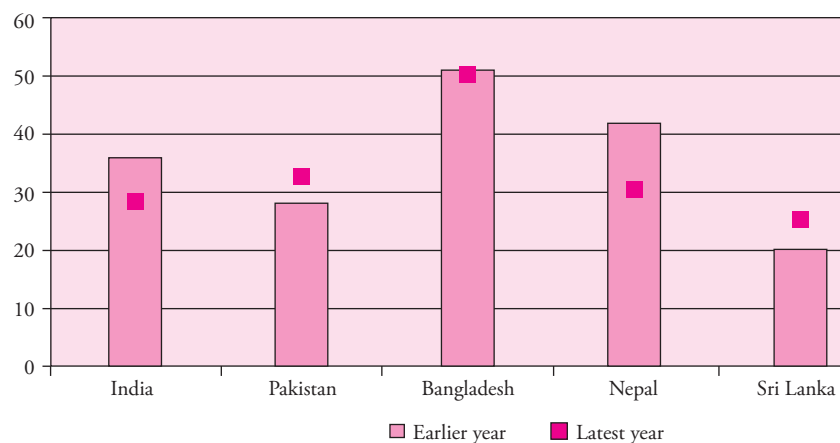
wonder, periods of decline in poverty rates are usually followed by a rise in poverty in the subsequent period and vice versa.

Manifestations of poverty

Poverty is not merely a lack of income but a denial of opportunities for living a decent life. While income poverty measured mainly through the international poverty line of \$1 a day remains a standard tool to estimate the number of poor, human poverty manifests itself in several forms of deprivations, other than income, that people in developing countries, in particular, face on a day to day basis: a premature end to life, a lack of education, denial of a tolerable level of living, inadequate or no health care, in short a complete exclusion from developing capabilities and accessing opportunities to lead a decent life. Using these human deprivation indicators as a proxy for poverty estimates is also advantageous in the sense that they are much directly observable and do not pose as many challenges related to measurement errors as those associated with using income poverty estimates. All previous Reports on *Human Development in South Asia* have focused on different aspects of human

well-being and human development as a process of enlarging the choices available to people. Poverty on the other hand is a denial of these choices to lead a long and healthy life, to be educated, to enjoy a decent living, all prerequisites for a respectable life.

The extent of human deprivation in South Asia is enormous. The absolute number of people who suffer from a denial of opportunities to live a decent life

Figure 2.5 Poverty in South Asia, 1990-2004 (percentage of population below national poverty line)

Note: Earlier year refers to the period around 1990-96 when the earlier surveys were carried out. Latest year refers to the period 1995-2004 when later surveys were carried out in the above South Asian countries.

Source: World Bank 2006h.

The magnitude of human suffering in South Asia is far greater than the poverty of income

is huge; there are over 400 million people living in extreme poverty, 198 million people without access to safe water, 867 million people with no access to basic sanitation, more than 400 million adults unable to read or write and 75 million malnourished children.

The magnitude of human suffering in South Asia is far greater than the poverty of income. As chapter 1 demonstrated with the calculation of the poverty of opportunity index (POPI), far more damaging than income poverty is the poverty of opportunity in South Asia. For all countries in South Asia except India, the magnitude of human poverty and poverty of opportunity, as measured by the human poverty index (HPI) and POPI is greater than income poverty measured by US \$1 a day (see table 2.4 below). In fact, for Pakistan the poverty of opportunity is twice the poverty measured by US \$1 a day. It is, therefore, essential to focus on some key aspects of human deprivation in South Asia for a clearer understanding of the extent of poverty and the various dimensions of human lives that it affects.

In South Asia, there are an estimated 460-480 million people who are capability/opportunity poor. These numbers translate into a huge waste of human potential and a setback for development in the region. Human poverty encompasses several forms of deprivation including premature death, poor health, illiteracy, poor living

conditions, and a lack of personal security. The presence of these deprivations limits the choices available to people and constrains them to a life of severe poverty and neglect. Among the several forms of discrimination that the poor face some are discussed below in the context of South Asian countries.

Short life

One of the most severe forms of deprivation is a short life. In South Asia, life expectancy has gone up in recent years. In the period 1960-2002, life expectancy has gone up by 19 years, meaning that an individual can now expect to live a much longer life. These gains are visible throughout the region with life expectancy ranging from 62 years in Nepal to 74 years in Sri Lanka in 2003. Despite these gains, South Asia continues to have one of the lowest life expectancies in the world, second only to Sub-Saharan Africa.

Dying before the age of 40 is a severe form of deprivation that is very real in the context of South Asia. The growing population in South Asia has meant that the numbers of those at risk of dying before age 40 has continued to rise. In 1990 there were 184 million people exposed to the risk of premature death. Today it is estimated that nearly 237 million people in the region are at risk of

Table 2.4 Poverty indices compared with income poverty for South Asia

	Human development index (HDI) value 2003	Human poverty index (HPI) value	The poverty of opportunity index (POPI) value 2005	Population below US \$1 a day 1999-2004* (%)
India	0.602	31.3	31.3	34.7
Pakistan	0.527	37.1	34.3	17.0
Bangladesh	0.520	44.1	39.7	36
Nepal	0.526	38.7	34.1	24.1
Sri Lanka	0.751	18	10.3	5.6
Bhutan	0.536	—	—	—
Maldives	0.745	16.6	—	—
South Asia (weighted average)	0.587	33.2	32.1	32.2

Note: *most recent year available.

Sources: World Bank 2006h and MHHDC staff computations.

dying before the age of 40 (see figure 2.6).

Infant and child mortality also represent a severe form of deprivation of life. South Asia accounts for one-third of the burden of the global under-five deaths. And among the 13 countries that are responsible for two-thirds of the world's child deaths, three are in South Asia, namely, India, Pakistan and Bangladesh. The risks of infant and child mortality vary across South Asia, with Pakistan having the greatest risk of both infant and child death: the infant mortality rate is 81 per 1,000 live births and child mortality is 103 per 1,000 live births. The rate of child mortality in India is 87, Bhutan 85, Nepal 82, Maldives 72, Bangladesh 69 and Sri Lanka 15 (per 1,000 live births). But India with its large population accounts for one in five of all global child deaths.

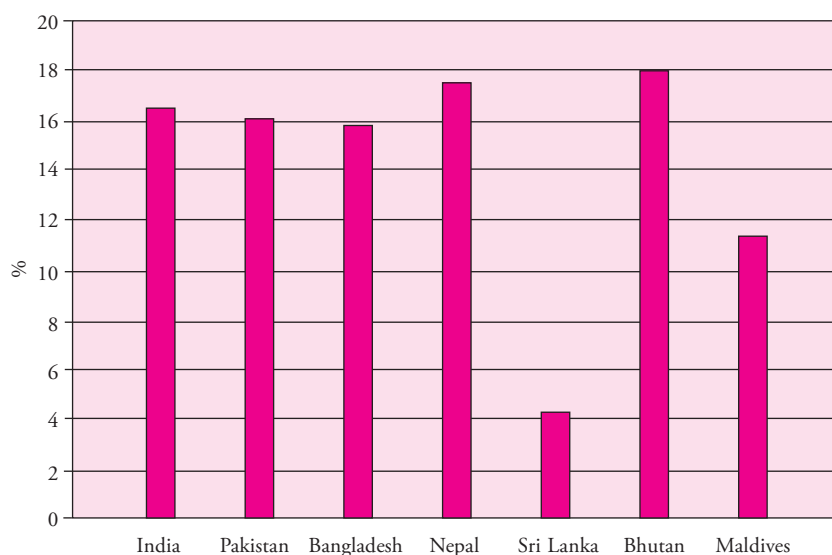
The risks of infant and child mortality also vary by level of income in South Asia with the poorest households having worse outcomes than the richest. This inequality of not only income but of opportunity is a testimony to the most severe form of deprivation that the poor in South Asia face (figures 2.7 and 2.8).

Maternal mortality contributes a large share to the total burden of premature deaths in South Asia. It also reflects the neglect that women in South Asia face. It is estimated that the lifetime risk of dying due to complications during pregnancy and childbirth in South Asia is very high: Nepal 1 in 24, Pakistan 1 in 31, Bhutan 1 in 37, India 1 in 48, Bangladesh 1 in 59, Maldives 1 in 140 and Sri Lanka 1 in 430 (see chapter 3 for a detailed discussion).

Illiteracy

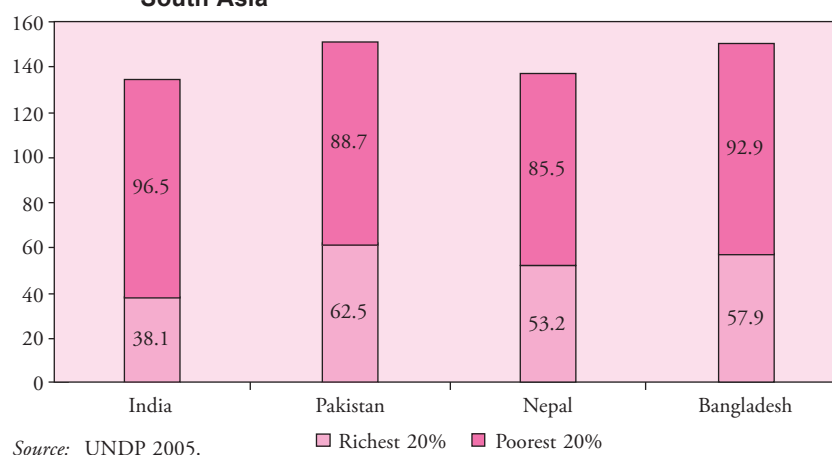
Among the many deprivations that confront people in South Asia illiteracy is one of the most damaging. There are more than 400 million adults in South Asia who cannot read or write, making the region the most illiterate one in the world. South Asia has made progress in improving

Figure 2.6 Probability at birth of not surviving till the age of 40 in South Asia



Sources: UNDP 2005 and MHHDC staff computations.

Figure 2.7 Distribution of infant mortality rates by income groups in South Asia



Source: UNDP 2005.

Figure 2.8 Distribution of child mortality rates by income groups in South Asia



Source: UNDP 2005.

adult literacy rates over the years. However, this progress has been too slow and too little, given the high levels of growth that the region has experienced. The literacy rate for the region increased from 32 per cent in 1970 to 57 per cent in 2003.

The progress has not been even as some countries in the region have done better than others. Sri Lanka and Maldives stand out as the two examples of success in achieving education for all. Sri Lanka's adult literacy rate of 90 per cent and Maldives literacy rate of 97 per cent compare well with the literacy rates in developed countries with much higher levels of income. The rest of the region still lags behind with literacy rate remaining low; India (61 per cent), Pakistan (49 per cent), Bangladesh (41 per cent), Nepal (47 per cent) and Bhutan (47 per cent). These percentages translate into large segments of the adult population, particularly in India with its huge population where 292 million people are illiterate.

Poor health and nutrition

Poor health and poverty are tied together in a vicious circle where poverty leads to

poor health and poor health pushes people further into poverty. For South Asia this scenario is very real; a large number of the poor lack access to health services, live in poor conditions and are therefore susceptible to disease. Diseases in turn take a toll on the family income especially if it is the breadwinner who falls ill. The family loses its income and goes into debt to pay the costs of treatment and medication. Widespread poverty and poor environment also result in a large burden of communicable diseases. It is estimated that in India alone 42 per cent of the total deaths are the result of communicable diseases. Also among women in the reproductive age, communicable diseases account for the largest proportion of total deaths. These avoidable diseases also contribute to the total burden of under-five deaths. The World Health Organization (WHO) has identified six diseases that it calls 'diseases of poverty' because they primarily affect the poor, and worsen poverty. These six diseases are tuberculosis, malaria, HIV/AIDS, measles, pneumonia and diarrheal diseases.

Poverty also results in lower immunisation rates for children. It means that a large proportion of children from poor households are not protected against preventable diseases and die in infancy. In Nepal, for example, while more than three-fourths of children from rich households had been immunised, only half the children from poor households had received all vaccinations.⁴ This disparity in access to health services is true for all South Asian countries (figure 2.9).

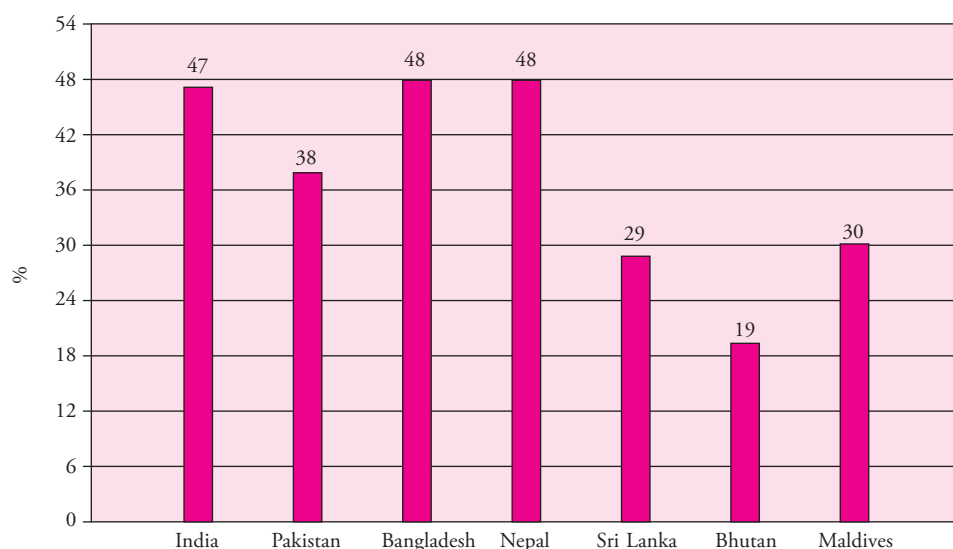
South Asia is also the most malnourished region in the world where nearly half the children under the age of five are malnourished. South Asia has a 20 per cent higher rate of malnutrition than Sub-Saharan Africa.⁵ While there has been progress over the years in reducing malnutrition among children in South Asia there are still more than 75 million children who are malnourished. Of these nearly three-fourths are in India.

Figure 2.9 Rate of immunisation by income groups in South Asia



Source: UNDP 2005.

Figure 2.10 Percentage of malnourished children under five years of age in South Asia



Sources: UNICEF 2005 and UNPD 2006a.

The worrying fact is that the progress in reducing malnutrition rates in the region seems to be slowing down. While for South Asia as a whole the percentage of children malnourished declined from 64 per cent in 1980-94 to 51 per cent in 1990-97, it declined by only five percentage points to 46 per cent in 1995-2003. In most of the South Asian countries, the decline in the rate of malnutrition among children has either stagnated or even risen as in the case of Nepal. Most countries in the region continue to have very high rates of malnutrition among children, with nearly half the children under the age of five being affected; India (47 per cent), Pakistan (38 per cent), Bangladesh (48 per cent), Nepal (48 per cent), Maldives (30 per cent), and relatively lower rates in Sri Lanka (29 per cent), and Bhutan (19 per cent).⁶

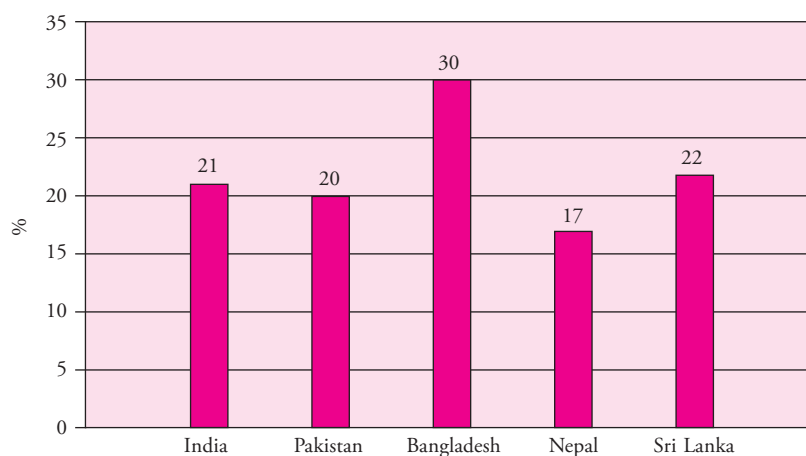
While malnutrition among children is a severe form of deprivation, there is an equally large proportion of people which suffers from a deficiency of food intake and hunger. There are nearly 300 million people in the region who are undernourished. This makes up for 40 per cent of the world's undernourished and

food insecure people in the world (figure 2.11).

Living conditions

Poor living conditions are another form of human deprivation that is the outcome of poverty. Lack of access to safe water and adequate sanitation facilities represent some of the worst forms of poverty. Contaminated water is a major cause of diarrhea among children, and other water

Figure 2.11 Undernourished population as a percentage of total population in South Asia



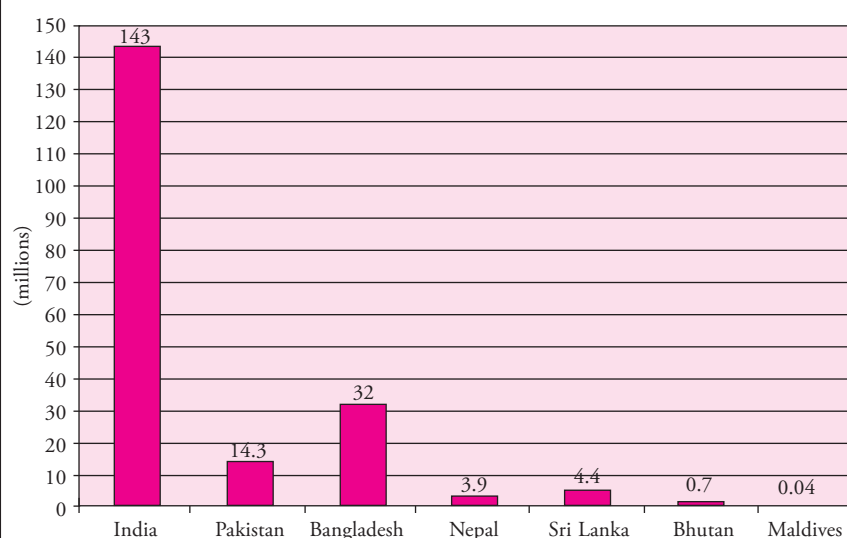
Sources: UNDP 2005 and UNPD 2006a.

Table 2.5 Trends in access to water and sanitation in South Asia, 1990-2002

	Population with access to sanitation		Population with access to safe water	
	1990	2003	1990	2003
India	12	30	68	86
Pakistan	38	54	83	90
Bangladesh	23	48	71	75
Nepal	12	27	69	84
Sri Lanka	70	91	68	78
Bhutan	—	70	—	62
Maldives	—	58	99	84

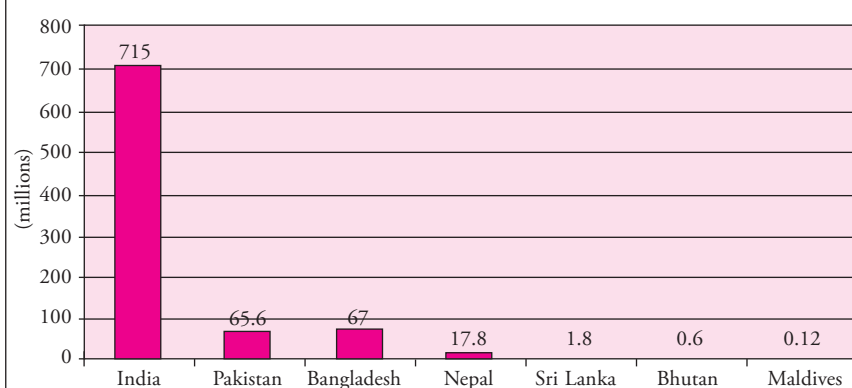
Source: UNDP 2005.

Figure 2.12 People without access to safe water in South Asia



Source: UNDP 2005.

Figure 2.13 People without adequate sanitation in South Asia



Source: UNDP 2005.

pollutants such as long term exposure to arsenic in drinking water can lead to other fatal diseases.

While South Asia has made progress in providing access to water and adequate sanitation facilities to a larger proportion of people over the years, there are still 198 million people without access to safe water and 867 million people without adequate sanitation facilities. While India has made progress in terms of reducing the number of people who suffer from these deprivations, India still has the largest absolute number of people without adequate safe water and sanitation (figures 2.12 and 2.13). There are 143 million people who lack access to safe water and 715 million people without adequate sanitation facilities in India alone.

Human deprivation in South Asia: The global context

Death before the age of 40 is a grim reality that many people in the developing world face. In Sub-Saharan Africa, with the high levels of HIV/AIDS cases, the chances of dying before the age of 40 are as high as 60 per cent in Zambia. On average, around 40 per cent of the population in Sub-Saharan Africa is at risk of dying before the age of 40. In South Asia, the probability of dying before the age of 40 ranges from 4.3 per cent in Sri Lanka to 18 per cent in Bhutan. South Asia has managed to increase the overall life expectancy by 43 per cent since 1960. However, the progress seems to have slowed down in the last decade during which life expectancy increased by only two years (table 2.6). All other regions, except Sub-Saharan Africa, have made progress in improving life expectancy. In Sub-Saharan Africa, the HIV/AIDS epidemic is largely responsible for premature deaths and, consequently, the fall in life expectancy in the last decade.

There has been substantial global progress in reducing both infant and child mortality rates over the years. However, the worrying trend is that this progress seems to be slowing down. Between 1990

Table 2.6 Trends in human development in South Asia compared with the rest of the world, 1990-2004

	HDI		Life expectancy (years)		Literacy rate (% of adult population)		Child malnutrition (% of children under weight for age)		Under-five mortality rate (per 1,000 live births)	
	1994	2003	1994	2003	1994	2003	1990-96	1996-2004*	1995	2003
Developing countries	0.576	0.694	62.1	65	69.7	76.5	32	27	95	88
Arab States	0.636	0.679	63	67	54.7	64.1	14	...	65	61
East Asia & the Pacific*	0.652	0.768	69	70.5	81.8	90.4	16	15	46	39
Latin America & the Caribbean	0.829	0.797	69	71.9	86.2	89.6	11	7	46	32
Sub-Saharan Africa	0.380	0.515	49.9	46.1	55.9	60.5	32	28	174	179
Central & Eastern Europe & the CIS	0.760	0.802	68	68.1	98.1	99.2	...	5	35	24
South Asia (weighted average)	0.459	0.587	61.3	63	49.7	58	50	46	112	86
World	0.764	0.741	63.7	67.1	77.1	...	...	26	85	80

Note: *Data for earlier year are for East Asia and do not include the Pacific region.

Sources: UNDP 1997 and 2005 and UNICEF 2005.

and 2003, child death rate in developing countries fell at a slower pace than in the 1980s. South Asia has made substantial progress in reducing both the infant and child mortality rates that have more than halved since the 1960s. However, despite this progress South Asia's child mortality rate is almost three times higher than that of Latin America and more than two times that of East Asia & the Pacific. The infant and child mortality rates in South Asia are also some of the highest in the world. It is estimated that of the 10.8 million global under-five deaths in the years 2000, one-third was in South Asia.⁷ Also of the total child deaths in the world, two-thirds occur in 13 countries of which three—Bangladesh, India and Pakistan—are in South Asia.

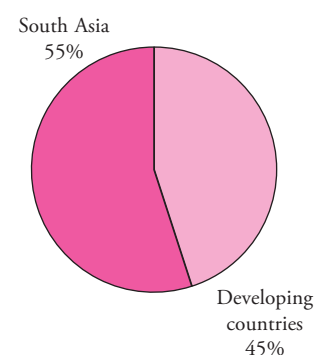
Of the global maternal deaths more than one-third are in South Asia. There are an estimated 185,000 maternal deaths in South Asia each year. This means that each day 507 women die due to complications during childbirth making South Asia the region with the second highest number of maternal deaths after Sub-Saharan Africa. Despite far better economic growth and increase in food

production, it is South Asia rather than Sub-Saharan Africa which is the region with the greatest number of malnourished children, where more than half the children under the age of five are below their weight for age. Of the 150 million malnourished children in the developing world, 78 million are in South Asia.

More than half of the developing world's illiterate population is South Asian (figure 2.14). Mahbub ul Haq wrote in 1997: 'Lack of human capital will increasingly become a handicap for South Asia in a global economy that is opening up fast and where rewards go to those who are willing and able to compete'.⁸ South Asia's predicament is made clearer by table 2.7 which traces the lacklustre progress of the region towards the attainment of the MDGs.

Who are the poor in South Asia?

In South Asia, the poor are not equally distributed across regions and across socio-economic groups. Some groups are poorer than others and also more vulnerable to poverty. Usually, the poor in South Asia are disproportionately made

Figure 2.14 Share of South Asia in the developing world's adult illiteracy, 2003

Note: Population data for developing countries does not include the least developed countries.

Source: UNDP 2005 and UNPD 2006a.

Table 2.7 The Millennium Development Goals (MDGs) and South Asia

The Millennium Development Goals and targets	Achievements	Remaining challenges
Goal 1		
Eradicate extreme poverty		
Target 1: <i>Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day</i>	<p>GDP per capita increased from PPP \$1740 in 1995 to PPP \$2867 in 2004.</p> <p>There are 39 million fewer people living below \$1 a day in South Asia in 2002 as compared to 1993.</p> <p>At the current rate of decline, the proportion of people living below \$ 1 a day is likely to fall by 66per cent by 2015.</p>	<p>South Asia accounts for the largest number of people living below \$1 a day. Forty-three per cent (437 billion) of the world's poor were living in South Asia in 2002.</p> <p>Despite the progress in poverty reduction, the income gap between the rich and the poor continues to widen. Income inequality has continually worsened in countries across South Asia since 1990.</p> <p>Stark disparities remain in the incidence of poverty across South Asia based on gender and geography, with women, minorities and rural populations bearing heavier burden.</p>
Target 2: <i>Halve between 1990 and 2015, the proportion of people who suffer from hunger</i>	<p>Prevalence of malnutrition among children under the age of five has declined from 62 per cent in 1992 to 49 per cent in 2004.</p> <p>Policies for food security, particularly in India and Sri Lanka, have been successful in staving off widespread famine</p>	<p>At the current rate of decline, South Asia is unlikely to halve the prevalence of under-nourishment until 2050.</p> <p>The declining trend in food prices has reversed in 2004 making it harder for the poor to meet their nutritional needs.</p>
Goal 2		
Achieve universal primary education		
Target 3: <i>Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling</i>	<p>Net primary enrolment ratio has increased from 73 per cent in 1990-91 to 88 per cent in 2004.</p> <p>Primary completion rate (proportion of pupils starting grade 1 who reach grade 5) has gone up from 73 per cent in 1991 to 82 per cent in 2004.</p> <p>Adult literacy rate in South Asia has increased from 47 per cent in 1990 to 60 per cent in 2004.</p>	<p>At the current rate of increase, only 75 per cent of the children will complete primary education by 2015, which falls short of the universal enrolment and completion target.</p> <p>One in every five children is out of school in South Asia.</p> <p>The gender, class and ethnic gaps in access and completion of primary education remain wide across South Asia, decreasing the pace of improvement in this area.</p>
Goal 3		
Promote gender equality and empower women		
Target 4: <i>Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015</i>	<p>Ratio of male to female enrolment in primary and secondary school has increased from 71 per cent to 87 per cent between 1990 and 2004. At the current rate of increase, South Asia will achieve universal primary enrolment for girls by 2015.</p> <p>The literacy rate among women of ages 15 to 24 increased by 12 percentage points between 1990 and 2004.</p>	<p>Primary completion rates in South Asia are 10 per cent higher among boys as compared to girls.</p> <p>Higher illiteracy rates (at all levels) among women as compared to men make South Asia the most gender insensitive in the area of education, delaying its achievement of gender equality and empowerment goals till the 2050s.</p>

Table 2.7 The Millennium Development Goals (MDGs) and South Asia **(Continued)**

The Millennium Development Goals and targets	Achievements	Remaining challenges
Goal 4		
Reduce child mortality		
Target 5: <i>Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate</i>	<p>Under five mortality rate has declined from 130 deaths per 1000 live births in 1990 to 92 in 2004.</p> <p>Infant mortality rate (0-1 yrs) has declined by almost 30 per cent between 1990 and 2004.</p>	<p>At the current rate of decline, the target will not be met until the mid-2030s.</p> <p>Despite improvements, South Asia has the second highest under-five mortality rate in the world. Gender disparities in health outcomes have persisted over the decades.</p> <p>The progress has been unevenly distributed within the region. While the under five mortality rate declined by more than 50 per cent in Bangladesh, Sri Lanka and Nepal between 1990 and 2003, Pakistan and India could only lower it by about 28 per cent each.</p> <p>One in every ten children dies before reaching the age of 5. Most of the under five deaths are avoidable with easy and cost-effective interventions.</p>
Goal 5		
Improve maternal health		
Target 6: <i>Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio</i>	<p>Proportion of births attended by skilled health personnel has increased by ten percentage points over the past decade.</p> <p>The decline in fertility rates from 5.6 per cent to 31 per cent over the last three decades has contributed to better health of the mothers.</p> <p>New policies and legislation to protect and promote women's health are an indication of prioritisation of women's health issues.</p>	<p>South Asia has the second highest maternal mortality ratio in the world and is unlikely to meet the targets.</p> <p>The region has the second lowest, next to Sub-Saharan Africa, number of skilled healthcare personnel attending births.</p> <p>The healthcare systems are weak in addressing the needs of pregnant women, especially in case of emergencies.</p> <p>Gender discrimination prevails in access to and provision of healthcare services, affecting the health of girls and women.</p>
Goal 6		
Combat HIV/AIDS, malaria and other diseases		
Target 7: <i>Have halted by 2015 and begun to reverse the spread of HIV/AIDS</i>	<p>Prevalence rate among adults remains below one per cent in South Asia.</p> <p>All countries in South Asia have active programs and strategic plans aimed at preventive knowledge dissemination. Blood safety has become a priority in healthcare systems.</p> <p>Sri Lanka stands out with 90 per cent of the population being aware and knowledgeable about HIV/AIDS, setting a standard for the rest of the countries.</p> <p>Governments' commitment to provide antiretroviral therapy to patients of HIV is likely to contribute to prevention efforts.</p>	<p>India is home to the second largest population of HIV positives. The number of HIV cases has increased by 25 per cent since 2001. At the current rate, India is projected to have 110 million people living with HIV by 2025, up from 5 million in 2003.</p> <p>Awareness and knowledge of HIV/AIDS in South Asia remains low with around 40 per cent of the adult population aware of the disease.</p> <p>Despite low levels of HIV prevalence, South Asia is a high risk region due to high levels of poverty, low literacy and poor awareness levels, prevalence of high risk groups (e.g. a large young population), weak healthcare systems and low contraceptive use.</p>

Table 2.7 The Millennium Development Goals (MDGs) and South Asia **(Continued)**

The Millennium Development Goals and targets	Achievements	Remaining challenges
Target 8: <i>Have halted by 2015 and begun to reverse the incidence of TB, malaria and other major diseases</i>	Incidence of TB in South Asia in 2003 is 179 per 100,000 people. Proportion of population with access to an improved water source and sanitation facilities has increased over the decades, reducing the chances of incidence and spread of diseases such as malaria.	Around one in four TB cases occur in South Asia and the growing threat of HIV/AIDS is likely to increase the number. The spread of multi-drug resistant TB cases is likely to overburden the healthcare systems, besides causing millions of deaths.
Goal 7		
Ensure environmental sustainability		
Target 10: <i>Halve by 2015 the proportion of people without sustainable access to safe drinking water</i>	The proportion of population with access to safe drinking water has increased from 77 per cent in the early 1990s to 84 per cent in 2002. The proportion of population with access to improved sanitation facilities has doubled between 1990 (17 per cent) and 2002 (35 per cent). At the current rate of progress, South Asia will be able to reach the requisite target by 2015.	Carbon dioxide emissions have gone up over the past decade, contributing to high levels of pollution and incidence of disease.

up of women, minorities, people belonging to perceived low status castes, casual and migrant labourers, people living in rural areas, the youth and the unemployed. Many of the regions that the poor live in are also backward and remote areas.

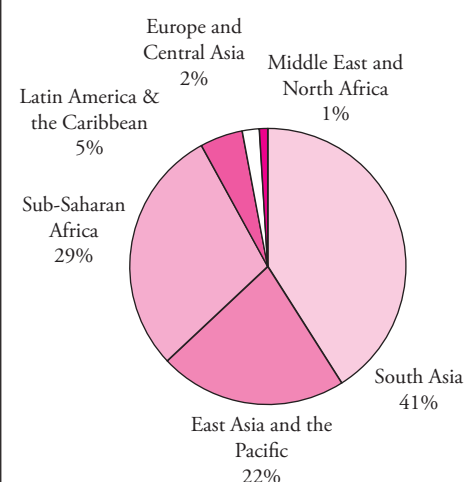
Youth

It is estimated that South Asia, with 84.1 million youth (15 to 24 years old) living below US \$1 a day, has the largest proportion of the world's youth who live in poverty. Every four out of ten young people in poverty (living below US \$1 or US \$2 a day) in the world live in South Asia. This age group, constituting one-fifth of the population of South Asia and 41 per cent of the world's youth, lives in extreme poverty (see figure 2.15). India alone is home to more than 200 million young people. They also make up a bulk of the poor population in the region.

Of the ten countries with the largest populations of poor youth, three are in South Asia. India with a population of 67.7 million youth living below US \$1 a

day has the largest concentration of youth in poverty in the world. Bangladesh (9.9 million) and Pakistan (3.8 million) are also among the top ten countries in the world where young people live below US \$1 a day.

Figure 2.15 Regional break-up of young people living on less than US \$1 a day, 2002



Source: UN 2005.

Young people in South Asia face several forms of deprivation and are thus vulnerable to poverty, disease, unemployment, illiteracy and hunger. Among the several forms of poverty that they face, a very important measure of their extreme poverty is undernourishment or, in its worst form, hunger. Despite its good record of economic growth, South Asia with 57.8 million undernourished young people accounts for the largest number of undernourished young people in the world.

Youth unemployment is also a serious problem. Young people (15-24) make up a large chunk of the working age group (15-59) in South Asia ranging from 29 per cent in Sri Lanka to nearly 40 per cent in Bangladesh. These youth account for nearly half the unemployed in South Asia. Youth unemployment rates in South Asia have increased over the years. In 1993, the unemployment rate for young people was 12.8 per cent which increased to 13.9 per cent in 2003, leaving nearly 17 million young people without work.

There are nearly 85 million illiterate young people in South Asia. Most countries in the region have low levels of youth literacy except Maldives and Sri Lanka where there is almost universal literacy. To compound the problem of illiteracy, there are large gender gaps in educational achievements among the youth. It is estimated that only 62 per cent of young women can read and write compared to 77 per cent young men. This makes South Asia home to the largest number of illiterate youth.

The rural poor

Poverty in South Asia is mostly a rural phenomenon with the bulk of the poor in most countries living in rural areas. Thus the percentage of the poor living in rural areas in Bangladesh is 82 per cent, 78 per cent in India, and 73 per cent in Pakistan.⁹ Most of the people living in the rural areas of South Asia work as casual agricultural labourers and cultivators. These people are either landless or near

landless and are mostly dependent on wages from agricultural work. What makes these poor labourers even more vulnerable to poverty is the fact that much of their work is seasonal, depending on the cultivation and harvesting of the crop. Thus, not only does the wage level affect the poverty of these casual labourers but the actual number of days that they work also has an important bearing on the levels of their poverty. It is estimated that the largest number of the poor people in rural India are casual agricultural labourers who remain poor for much of their lives.

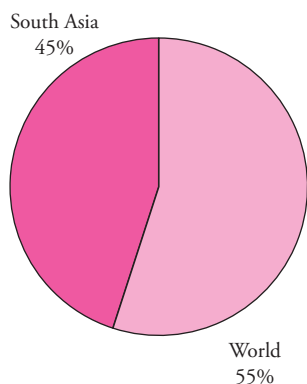
In order to survive the seasonal swings of unemployment and poverty, the rural poor in South Asia often migrate from one area to another, chasing opportunities for employment. In these circumstances, migrant workers often get into situations of debt in order to maintain household incomes.¹⁰ In some cases, this increases the vulnerability of people to even more exploitative employment. Although rural areas in most South Asian countries are inhabited by two-thirds of the population, they have received little attention from policy makers leading to a steady deterioration in the living standards and an increase in rural poverty over the years. These conditions have led to migration, especially of the young and skilled labour, to urban areas.

The population in the urban areas has been swelling as a result of rural poverty and unemployment. The asymmetric development in urban and rural areas has exacerbated this migration of poverty from rural to urban areas. This has led to an overburdening of urban services such as housing, water supply, electricity and sanitation and has led to a growth in urban slums where living conditions are even worse than in rural areas. This is especially the case in large metropolitan cities like Mumbai in India and Karachi in Pakistan.

The 'working poor'

The term 'working poor' refers to those that work for wages that are too low to lift

Figure 2.16 South Asia's share in global chronic poverty



Source: CPRC 2006.

them out of poverty. A large number of the employed in South Asia can be categorised as the 'working poor'. It is estimated that in 1999-2000 there were 132 million casual workers in rural India, most of them working in the agriculture sector.¹¹ These are the people considered as the 'working poor', who despite being employed are unable to move out of poverty. Estimates suggest that a large proportion of those employed in the agricultural and informal sectors in South Asia are the working poor. In India, it was estimated that 46 per cent of the employed could be characterised as the 'working poor'. With the exception of Sri Lanka where the working poor constitute 7.3 per cent of the employed, the number of working poor in Pakistan, Bangladesh and Nepal range from 30-40 per cent. According to one estimate, there are around 233 million working poor in South Asia.¹²

The minorities

In South Asia, belonging to a 'low' caste or tribe or to a religious minority results in social, political and economic exclusion. Those who are a part of these religious and ethnic groups are least likely to benefit from economic growth and, as a result, much more likely to experience long-term poverty. In rural India, survey results in 1970-71 and 1980-81 found that a Scheduled Caste (SC) or a Scheduled Tribe (ST) was more likely to be poor than households belonging to other castes. Survey data found that even in the relatively better off states like Kerala and Andhra Pradesh levels of poverty were higher among the Scheduled Castes.¹³ It was found that per capita income for the Scheduled Castes was 24 per cent lower in Andhra Pradesh while in Kerala it was 41 per cent lower than the state average per capita income. Being a Scheduled Caste or Scheduled Tribe woman in India results in even greater deprivation and poverty.

The poverty dynamics

As the previous discussion reveals, there are around 400 million people in South Asia who are income poor and around 480 million who are capability poor. While these numbers establish the huge magnitude of poverty, they do not show the movements of the poor in and out of poverty. Poverty is not a static condition and all people are not poor to the same extent or for the same duration of time. Some people are poor only for sometime—those who are known as the 'transitory poor', while others are poor for most of their lives and are the 'chronically poor'. This is an important distinction, especially for devising poverty alleviation policies. It is important to understand these dynamics of poverty in order to address the varying needs of the sub-groups within the poor.

In South Asia, to identify the different groups of poor is a challenging task. The difficulty in accurately estimating the numbers of poor that fall into each of the different categories of poor or how they move in and out of poverty stems from the fact that it requires panel data that analyses household's poverty status overtime. The number of such datasets that are of good quality and are representative is very limited. However given the limited number of panel surveys, the best estimate suggests that one-third of the poor population in South Asia is chronically poor.¹⁴ This means that one in every three poor persons in the region will be poor for most of his/her life and will pass this poverty onto the children. They will face not only income deprivation but also multidimensional poverty in the form of illness, malnutrition, illiteracy, unsafe drinking water, poor living conditions, social exclusion and premature death. Also the chronically poor in South Asia cannot be grouped into one single group but are infact spread across different groups that can be divided according to geographic location, ethnicity, caste, religion, gender and age. The causes of their chronic poverty also vary across the region, from one country to another,

within each country and also from one household to another.

South Asia's chronic poverty

Chronic poverty is the worst form of poverty that many people in South Asia face. People who experience such poverty face several forms of deprivation for most of their lives and often pass this poverty onto their children. It is estimated that of the 300 to 420 million people trapped in chronic poverty around the world the largest numbers live in South Asia (135-190 million). Of these more than three-fourths live in India, while the remaining one-fourth is spread between Bangladesh and Pakistan.

Poverty and chronic poverty in South Asia are, however, unevenly distributed. Within countries, some areas and groups are poorer than others. This is particularly true in the case of India where poverty is generally concentrated in six states: Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra, West Bengal and Orissa account for over 70 per cent of the poor population in the country (table 2.8). These states also have the lowest levels of human development in the country. Four of these states, namely Orissa, Madhya Pradesh, Bihar, and Uttar Pradesh, with Assam have had levels of poverty exceeding 30 per cent for many decades.¹⁵ Given the large population of India, this translates into enormous numbers of people who continue to suffer consistent and multidimensional deprivation.

The asymmetrical distribution of persistent poverty is also visible in other countries of the region. In Bangladesh for instance, poverty is found mostly in the Northern and South-eastern regions while the Central and South-western regions of the country have done relatively well. Bangladesh also has poverty concentrated in smaller areas that are a result of poorer geographical conditions that expose people to natural disasters, particularly floods.

In Pakistan, poverty is largely concentrated in the Southern and Western

Table 2.8 Headcount estimates for the poorest Indian states, 1993-94

%

State/region	Rural	Urban	
	Very poor	Poor (including very poor)	Poor (including very poor)
Assam	13.1	45.0	1.2
Bihar	27.7	58.2	14.1
Madhya Pradesh	17.1	40.7	25.7
Maharashtra	16.2	37.9	18.7
Orissa	21.8	49.8	23.0
Uttar Pradesh	19.6	42.3	16.9
West Bengal	13.6	40.9	7.5
All India	15.3	37.2	14.9

Source: Mehta and Shepherd 2004.

parts of the country and evidence suggests that harsh living conditions resulting from the geographical location of the region along with poor social development is the primary cause of chronic poverty. The difficult geographical and environmental conditions in the mountainous northern areas and the dry areas in Balochistan and Sindh in Pakistan result in immense and continuous deprivation for the people living there. Constant denial and deprivation of even the very basic needs in Pakistan is widespread in regions where tribal or feudal lords still control affairs as in the Federally Administered Tribal Areas (FATA), in Balochistan, parts of Sindh and North West Frontier Province (NWFP). In Nepal, most of the chronic poor live in mountains and hills. Acute poverty is also rampant in Midwestern and far-western regions where majority of the population barely eke out a living

Chronic poverty in the region is also found in areas that have been suffering from years of conflict as in the North-eastern parts of Sri Lanka and in the mid-west of Nepal. Continued conflict in these areas over the years has virtually isolated these areas from the rest of the country thus leading to higher levels of poverty that have persisted over the years.

While it is difficult to estimate the exact distribution of chronic poverty by rural and urban areas, it is likely that most of the chronically poor in South Asia live in rural areas. Several surveys carried out in Bangladesh, India and Pakistan indicate

Table 2.9 Characteristics of the chronic poor in rural Bangladesh

	Always poor	Overall
Households not owning dwelling (%)	7.6	4.9
Landless households (%)	39	28.6
Near landless households (%)	30.4	19.1
Adult illiterates (%)	52.1	34.9
Adults who have not completed primary schooling (%)	69.9	48.2
Average number of years of schooling (15+ population)	5.9	10.4

Source: CPRC 2006.

the persistence of poverty over time. In Bangladesh, a survey estimated that close to one-third of the rural population was chronically poor both in 1987-88 and in 2000. For India, two separate surveys estimated that in late 1960s and during 1970-81 almost half the rural population was chronically poor. In Pakistan it is estimated that around 26 per cent of rural households are chronically poor.¹⁶

Chronic poverty in South Asia disproportionately affects certain groups like ethnic and religious minorities, people perceived to be of lower castes, people working in the informal sector and women. It also affects those who have little or no control over assets, both material and human, in the form of education and health. In India, for example, it was found that becoming literate, increasing the land under cultivation, having a house of one's own and livestock were all factors that helped people escape poverty.¹⁷ In South Asia,

most studies reveal that the chronically poor usually have no or very little land holdings. Another study for Pakistan reveals that the factors that make people poor and the factors that pull them out of poverty are different. While geographic conditions played a greater role in making and maintaining poverty, education and livestock ownership were important factors in pulling them out of poverty.¹⁸

Among the many characteristics that distinguish the chronically poor in South Asia from the rest of the population is the ownership of both physical and human assets. Landlessness, little or no livestock, illiteracy and poor health are a few of the characteristics of the chronic poor in South Asia. In rural Bangladesh, for example, 39 per cent of the chronically poor were landless compared to around 28.6 per cent of the total population. In India too, 44 per cent of the chronically poor households were landless compared to 32.7 per cent of overall households (tables 2.9 and 2.10). Poor human capabilities are also more widespread among the chronically poor. In rural Bangladesh, while more than half of the chronically poor adults were illiterate, only 35 per cent of other households were illiterate.

Lack of physical assets like land makes the chronic poor resort to low paid casual work often in the agricultural sector. The largest proportion of chronically poor in India is employed as casual agricultural labourers while cultivators make up the second largest group.¹⁹ The poverty of this group is the most severe and pervasive. While poverty 'severity' and poverty 'chronicity' (see chapter 1 to understand poverty 'severity') are different concepts it can be argued that those who are the poorest are more likely to be poor for a longer duration, often a lifetime. Thus for South Asia it can be argued that the working poor constitute a large proportion of the chronically poor.

Table 2.10 Characteristics of the chronic poor in rural India

	Always poor	Overall
Average land size (hectares)	1.7	3.7
Landless households (%)	44	32.7
Near landless households (%)	19.6	12.6

Source: CPRC 2006.

Poverty, risk and vulnerability in South Asia

Estimating the number of people who are poor or live below the poverty line gives some idea about the scale of the problem, however, it conceals the number of people who are just above the poverty line and who may be at risk of falling into poverty as a result of some internal or external shocks. It also does not consider the fact that being poor exposes people to other forms of deprivation and makes them vulnerable to disease, economic downturns, natural disasters and even violence. What makes households at risk or vulnerable to poverty? What are the internal or external threats that can make them poor or poorer? These are important questions in the debate surrounding the risks of and vulnerability to poverty.

Analysing movements in and out of poverty gives us important information about the vulnerability of different households. While negative shocks affect both poor and non-poor households and lead to drops in levels of consumption and well-being, poor households are more vulnerable. In South Asia, the poor are exposed to a number of risks against which they have no protection, especially because poverty in the region is largely concentrated in rural areas and in the informal sector.

Vulnerability is an important characteristic of poverty especially rural poverty in South Asia. Identification of vulnerable households is, however, more difficult than identification of poor households. While it is relatively simple to estimate a poverty line and the people who fall below such a line, it is impossible to measure the factors and the extent to which they make people vulnerable. The vulnerability of households in South Asia varies by the location of the household, and also, to a large extent, by the magnitude of the shock to which it is exposed. Some shocks may push households into poverty for sometime while others are likely to be more acute and may result in lifelong poverty. In

South Asia evidence shows that events like an illness lasting several days or weeks may push a few households into poverty while an event like the death of the wage-earning head makes many households vulnerable to severe deprivation and poverty. The poor spend a larger proportion of their income on healthcare than the non-poor. In South India, for example, the direct cost of treatment and equipment for disabled people averages three months' income. This excludes the indirect costs to families, or the opportunity costs of income foregone.²⁰

Location or residence of households is also an important factor in determining people's vulnerability to shocks. In South Asia, as has been discussed above, majority of the poor live in rural areas. They are largely employed in the agricultural sector—in low paid casual work that is usually seasonal. These workers are highly dependent on their wages that tend to vary with crop sowing and harvesting seasons. Most of these workers are landless or near landless. In a study of South Indian villages, it was estimated that the higher risk from monsoon could cut farm profits of households in the lowest wealth quartile by 35 per cent, compared to 15 per cent reduction for median households and with no effect on the wealthiest households.²¹ Evidence from India²² also shows that increased land cultivation and income from livestock were some of the factors that helped people cope with shocks and not fall further into poverty.

Within the poor there are some groups that are more vulnerable than others. Women especially widows, children, and the elderly are particularly vulnerable. There are large gender gaps in literacy rates, enrolments and health outcomes. The low levels of human capabilities of women expose them to a variety of risks and make them more vulnerable to deprivation and poverty (see chapter 3). Studies in South Asia have shown that women are more likely to be affected by adverse shocks. In India, for example, rising food prices were found to have led to larger reductions in nutrient intake for

Vulnerability is an important characteristic of poverty especially rural poverty in South Asia

women than for men.²³ While women in general are at risk, widows are particularly vulnerable. In India a demographic study showed that mortality rates for widows were twice as high as among married women of the same age. In Bangladesh, too, similar results were found.²⁴

In South Asia, people belonging to certain ethnic and religious minorities and those belonging to so-called lower castes are also at a greater risk than others. These households are significantly more vulnerable to shocks as they are marginalised and usually denied access to means to protect against such adverse conditions. They are usually employed in low paying casual work in both rural and urban areas, are illiterate, malnourished and denied access to quality healthcare. In the urban areas in Pakistan and India, a large number of the casual workers in the informal sector, including stigmatised workers like sweepers, are from the lower

castes or from the religious minorities. In India, it is estimated that nearly two-thirds of the bonded labourers are from the scheduled castes and scheduled tribes.²⁵

It is largely the poor and those barely above the poverty line in South Asia who are exposed to a number of risks against which they have little or no protection. The lack of mechanisms to deal with shocks means that these households are forced into a crippling cycle of poverty that is often hard to break. Thus, to cope with shocks the poor households are forced to resort to measures like withdrawing children from school and putting them to work in order to contribute towards family income, selling livestock and other assets, or borrowing money on discriminatory terms that pushes them deeper into a lifetime of poverty and deprivation.

Gender Dimension of Poverty

The challenge of poverty in South Asia is not only huge, as we have seen in chapters 1 and 2, it is also highly discriminatory as far as the female half of the population is concerned. No matter how poor, deprived and unemployed South Asia's men are, the burden of deprivation and degradation, and the inhuman conditions that the South Asian women suffer are far worse. Owing to the embedded system of patriarchy in South Asia, discrimination against women in South Asia is worse than in most developing countries. It begins from the time they are born and continues through the unequal provision of education, healthcare and nutrition, to the world of work and participation. Poverty has been feminised in most part of the world, but in South Asia it truly has a woman's face.

Vicious cycle of poverty and gender inequality

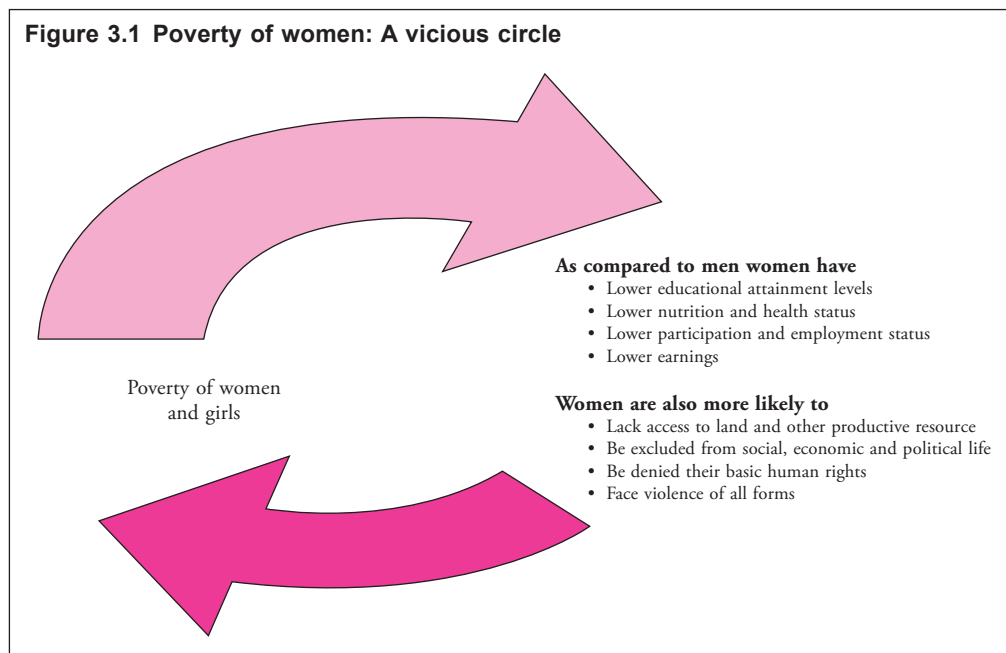
Poverty and gender inequality are interlinked in numerous ways forming a

vicious cycle that pushes millions of women and girls into a trap of constant denial of rights, deprivation and extreme discrimination (figure 3.1). Being a woman increases the likelihood of being poor since women have lower access to education, health and productive resources. Also being poor in a patriarchal society generally leads to gender differentiated outcomes in education, health, social, political and economic participation. This in turn increases the likelihood of more women falling into poverty, or decreases their chances of escaping poverty. Poverty causes girls and women to sink in conditions that are detrimental to their physical and mental well-being such as trafficking, early marriage and physical violence.

Historically, the South Asian women have been suffering from discrimination, and non-recognition of their vital position within households, communities and countries. Since 1997, the Reports on Human Development in South Asia have repeatedly pointed out that in South Asia

Poverty has been feminised in most part of the world, but in South Asia it truly has a woman's face

Figure 3.1 Poverty of women: A vicious circle



About two-thirds of the total illiterate adult population in South Asia is female

while the rights of girls and women are rarely protected, their subordinate position to men has always remained as the main determinant of their health status, educational attainment levels, labour market experiences, mental and physical well-being, and overall quality of their lives. These have increased the likelihood of women to be poor and have caused girls and women of South Asia to be poorer than their male counterparts not only in terms of income, but also in terms of capabilities and rights at every stage of their lives.

The low status of women and the high incidence of gender discrimination are not specific to South Asia only. In no region of the developing world are women equal to men in legal, social and economic rights. However, it would not be wrong to say that highly patriarchal structures in governments, communities and families make South Asian women more prone to face gender discrimination than other countries. That is why women in South Asia are highly vulnerable to poverty regardless of whether we define poverty in terms of income, basic needs or 'poverty of opportunity'. Currently,

- There are 95 women per 100 men in South Asia as opposed to 97 in developing countries and 106 in Sub-Saharan Africa. South Asia is the region where the gender gap in population is the highest in the world. The imbalance in population sex ratio indicates as many as 50 million missing women due to constant neglect and discrimination.¹
- Women live longer than men but the difference between the life expectancy of women and men in South Asia is below the average of the developing world. In 2003, female life expectancy as a percentage of men was 102 for South Asia while it was 105 for the developing countries. In addition, though women in South Asia live longer than men, they suffer more from ill-health.²

- In developing countries, economic activity rate of women is two-thirds (67 per cent) of that of men. The ratio is even lower in South Asia where women's economic activity rate is only half of men's economic activity rate.³
- In South Asia women earn only 39 per cent of what men earn while in most of the developing countries women's earnings are 50-70 per cent of that of men.⁴
- Thirty per cent of adult women in developing countries are illiterate while in South Asia over half of adult females are illiterate. About two-thirds of the total illiterate adult population in South Asia is female. Similar gendered patterns are also observed in school enrolment rates of girls and boys.

Women's income poverty and gender inequalities in legal, social, political and economic life have various repercussions not only for women and girls who bear the direct burden, but also on households, communities and countries. First of all, poor households need the contribution of both men and women to household income, and women's productive market and non-market activities serve as a cushion to keep households out of poverty, or falling deeper into poverty. Women are less likely to earn an income, and even when they work for pay they earn a lower income than men do.⁵ But women are more likely than men to spend their earnings on household food items, and on education and healthcare of their children.⁶ Moreover, poverty of women in terms of their lower access to education and healthcare not only impacts women themselves but also the well-being of their families. Numerous studies have shown the negative correlation of women's education to fertility rates and child mortality rates, and positive correlation to children's nutritional status and increased school enrolment rates.⁷ Eliminating gender inequalities in education will also lower gender discrimination, as educated mothers are less likely to discriminate among their children by sex.⁸ Gender

equality in social, economic and political life also contributes positively to the democratic process and better governance of public institutions. In addition, gender inequality, particularly in education and employment, hinders economic growth and becomes an obstacle to the poverty reduction efforts of countries.⁹ The empirical analysis shows that improving gender equality in education, employment, access to productive assets and greater female bargaining power improve growth and other development outcomes.¹⁰ As an example of economic repercussions of gender gaps in economic participation and women's lower representation at managerial positions, it has been estimated that closing the gender gap of the workforce in the non-agricultural and agricultural sectors by ten per cent would increase the output by eight per cent, and increasing the female-male ratio of managers by ten per cent in the non-agricultural sector would increase the output by two per cent in India.¹¹

In short, improving gender equality enhances women's income-earning possibility and reduces poverty. It also augments a country's ability to grow, reduce population growth and decrease high rates of mortality and morbidity of women and children. Women's agency in poverty alleviation is highly critical not only for providing an opportunity for women to take themselves and their families out of poverty, but also for the 189 countries which have promised to halve the proportion of people living in extreme poverty by 2015 during the Millennium Summit.

South Asian countries, as signatories of the Millennium Declaration, have to address the root causes of gender inequalities and empower women not only because empowerment of women is one of the Millennium Development Goals (MDGs) but also to break the vicious cycle of poverty that one-third of South Asians are already caught in.

To achieve gender equality and alleviate women's poverty are indeed the most challenging task for the South Asian

countries. As documented in the *Human Development in South Asia* Reports, the reasons for women's poverty are a mixture of deeply-rooted, multi-level and multi-sector factors including; i) gender discrimination in distribution of household resources (such as food and clothing), ii) discrimination in access to education and healthcare, iii) lower endowment of land and productive assets, iv) discrimination in the labour market, v) discriminatory laws and vii) patriarchal structures, cultures and norms that compel women to accept their subordinate position. The task is challenging because it requires constant gender sensitised policies and interventions at all levels (government, community, household). Failure at one level will hinder results in others. South Asian countries have to take this challenge more rigorously in order not to miss the targets set by the MDGs.

Are the female-headed households (FHHs) poorer?

Since the early 1990s, there has been an increasing concern for the feminisation of poverty due to a rise in the numbers of female-headed households (FHHs). FHHs which had often been shown as the poorest of the poor, have also become a proxy for analysing income poverty of women as a result of a shift in focus of research towards comparison of incidence of poverty in households headed by women and men. This was mostly because of the unavailability of data at the individual level (box 3.1).

Poverty has been shown as a cause as well as a result of living in a female-headed household. The analysis of various surveys from developed and developing countries have indicated that female-headed households have different socio-economic characteristics than male-headed households (MHHs) and this increases the likelihood of FHHs to be poor as compared to the MHHs.¹² Female-headed households are considered as more prone to poverty because besides having a lower

Gender inequality, particularly in education and employment, hinders economic growth and becomes an obstacle to the poverty reduction efforts of countries

Box 3.1 Data and methodological constraints regarding women's poverty

The measures that are based on data from households rather than from individuals fail to capture the poverty by sex. Conventional measures of poverty assume that a person is poor if he/she lives in a household with income/consumption levels below a certain poverty line. This method fails to demonstrate the poverty of women, as it doesn't reflect the intra-household differences in distribution of income or consumption/expenditure of women and men separately. Women and girls who live in non-poor households might have consumption shares as low as poor households due to unequal distribution of resources within the households.

Female-headed households are not always poorer than the male-headed

households; neither are they always the poorest of the poor. The unavailability of individual level data has led to measuring women's poverty data through comparing poverty levels of female and male-headed households. Despite female-headed households being universally categorised as 'the poorest of the poor', recent studies indicate that though they are more vulnerable to various shocks that might lead to poverty, the share of women in the poorest income quintiles are not significantly different from that of men.

Similarly, sole concentration on female-headed households by policy makers to alleviate women's poverty is not fair for millions of women who are living in constant poverty in poor or non-poor households, and who need specific

attention in order to receive equal opportunities in education and employment opportunities and healthcare.

Therefore, there is a need for collecting data to portray individual levels of poverty and for broadening the definition to capture gendered dimensions of poverty. The inability of income-based poverty measures to capture the poverty levels by sex as well as the multidimensional nature of poverty leads to discussion on how to improve the methods to measure women's poverty. Collecting individual level income and consumption data will solve the problem to an extent but will still fail to cover multidimensional aspects of women's poverty necessitating a broader lens to analyse it.

socio-economic status, women are also more likely to have difficulties in accessing the assets such as land and any other productive assets that are necessary for income generating activities. Similarly, women are more likely to lack skills and entrepreneurship abilities to start or continue small businesses that might help them earn adequate incomes. Furthermore, as FHHs are usually perceived as the poorest of the poor, living in a household headed by a female has also shown as a reason for intergenerational transfer of poverty and disadvantages.¹³

However, recent research on female-headed households and poverty in the developing world has shown otherwise. For example, studies have indicated that female-headed households are not necessarily income poor and are not the worst-off among the poor.¹⁴ Female-headed households are not homogeneous and the poverty levels of these households mostly depend on the causes for a woman to head a household such as the migration of a male member or being a widow. In addition, FHHs are found to be less likely to transfer poverty from one generation to the next. Indeed, these women are more likely to invest in future generations than

male counterparts. A large number of studies have shown that the control of resources by females leads to greater investment in health and education of the whole family.¹⁵ For example, female-headed households even with lower incomes have better-nourished children and spend more on education and healthcare than male-headed households. In addition, women living in MHHs may not have access to and control over assets, and little or low education and skill to earn income.

Various studies from India show that FHHs are not poorer than MHHs.¹⁶ One of the recent studies which uses two different surveys even indicates a better-off position of FHHs as compared to MHHs in terms of poverty incidence in the national and rural areas, but finds higher and significant poverty incidence in FHHs living in urban areas (table 3.1).¹⁷

In Pakistan, available studies based on household surveys do not indicate that female-headed households are poorer than male-headed households.¹⁸ The reason for this can be attributed to the fact that most of the female-headed households receive domestic/foreign remittances from male

Table 3.1 Poverty incidence of female-headed and male-headed households in India, 1999-2000

	(%)	
	Female-headed households	Male-headed households
Rural	20.4	22.7
Urban	20.1	18.4
National	20.3	21.5

Note: Data based on NSS Consumption Survey of 1999-2000.

Source: Gangopadhyay and Wadhwa 2004.

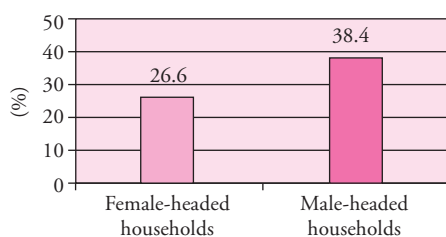
Table 3.2 Poverty incidence of female-headed and male-headed households in Bangladesh, 2000

	(%)	
	Female-headed households	Male-headed households
Rural	47.7	41.9
Urban	53.3	52.4
National	49.1	44.0

Note: Poverty line calculated using caloric consumption level of 2,122 kilocalories per day.

Source: ADB 2004a.

Figure 3.2 Poverty incidence of female-headed and male-headed households in Pakistan, 2001-02



Source: Ninno *et al.* 2006.

members working within or outside the country. However, poverty rates were higher when the female head was the main income earner.¹⁹ Participatory poverty assessment has also categorised widows in the poorest of the poor group.²⁰ Average income levels of FHHs are 33 and 35 per cent lower than that of MHH

in urban and rural Bangladesh. Poverty incidence is also higher by five percentage points in FHHs as compared to MHHs in Bangladesh. The difference is particularly significant in rural areas (table 3.2).²¹

In Nepal, FHHs have a higher incidence of poverty (table 3.3). Poverty incidence, though, varies with the place of residence. Female-headed households in the hills have significantly higher incidence of poverty than male-headed households. In Bhutan, too, there is no significant poverty gap between female-headed and male-headed households, but poverty is more severe in female-headed ones.²² Although the data do not lead to clear conclusions, it clearly points out the urgent need for improved individual level data in order to understand and address women's income poverty in South Asia.

Pervasive discrimination against women in South Asia

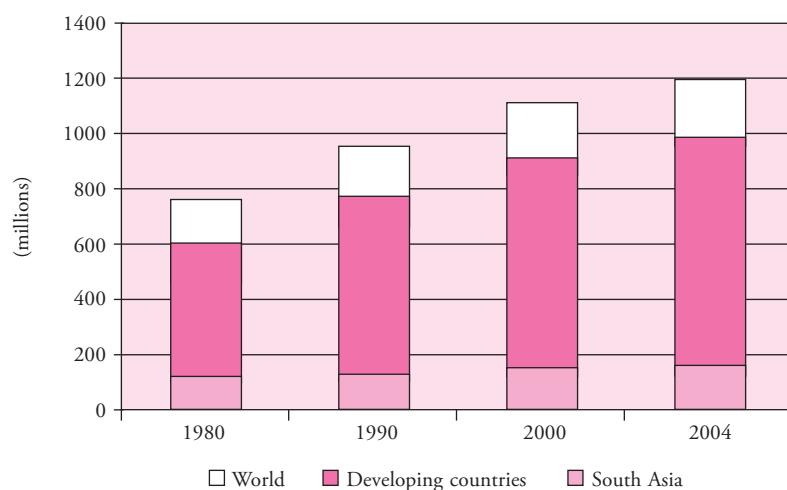
As discussed in previous chapters, it is impossible to portray poverty only by inadequate financial means. Particularly within the context of human development, poverty is also interlinked with gender discrimination experienced by women and girls in all spheres of life that results in women's poverty of opportunity, capability, empowerment and higher vulnerability to economic difficulties. Indeed, poverty of South Asian women is not only related to lack of financial means but also to lack of human capital, lack of access to and control over land and other

Table 3.3 Poverty incidence of female-headed and male-headed households in Nepal, 1996

	(%)	
	Female-headed households	Male-headed households
Mountains	63.1	56.6
Hills	62.7	52.4
Terai	32.0	31.7
National	50.7	47.2

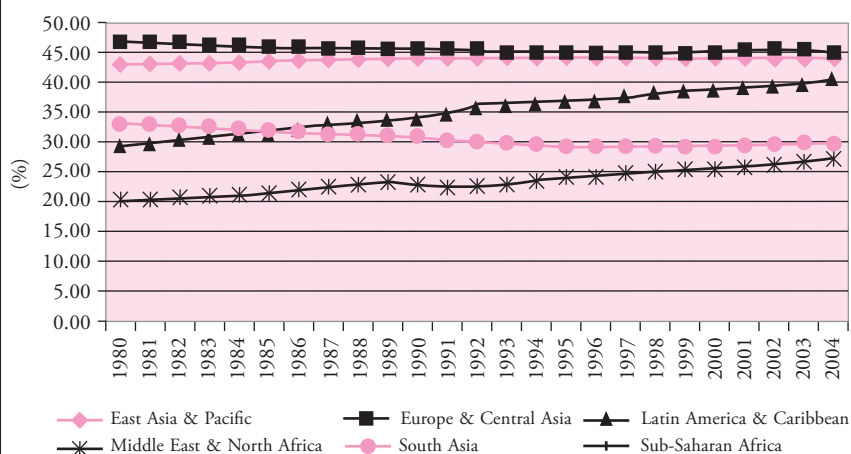
Source: ADB 1999.

Figure 3.3 Trends in female labour force, 1980-2004



Source: World Bank 2006g.

Figure 3.4 Trends in women's share in the labour force, 1980-2004



Source: World Bank 2006g.

productive assets, lack of decision-making power, and lack of protection from physical and mental threats from male members of the family or community. These are the reasons for women being more vulnerable to poverty.

Discrimination in employment

Over the last three decades there has been a marked increase in the number of women who have been participating in the labour market. Women's share in the labour force is increasing gradually both

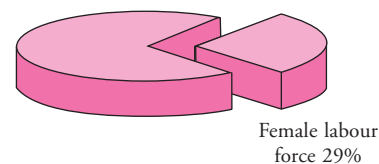
in developed and developing countries. However, the increase in the female labour force participation since 1980s has been only 29.7 per cent in South Asia as compared to 47 per cent and 49 per cent in the world and in developing countries, respectively. The female labour force in South Asia has increased from 118 million to 153 million over the last two and a half decades (figure 3.3).

Although South Asia is home to almost one-quarter of the world's female population, South Asian share in the world's female labour force is only 13.7 per cent. As discussed in the Report on *Human Development in South Asia 2000*, the low number of female labour force can be attributed to the invisibility of women's work and their unrecognised non-market activities that lead to underestimation and underremuneration of women's labour.

Women constitute around 40 per cent of the total labour force in the world and in developing countries. In East Asia and Pacific, Europe and Central Asia the share of women in the labour force is almost equal to that of men; women constituting 45 per cent of labour force. The share of women in the total labour force is the lowest in Middle East and North African region, followed by South Asia where women's share in total labour force is only 29 per cent (figures 3.4 and 3.5).

Although women are continuing to catch up with men in terms of labour force participation rate (LFPR), some regions lag behind. For example, the female labour force participation rate has grown fast but women's LFPR is still only 52 per cent and 42 per cent of that of

Figure 3.5 Share of women in South Asian labour force, 2004



Source: World Bank 2006b.

Table 3.4 Economic activity rate for women by global regions, 2003

	Economic activity rate (ages 15 and above)		
	Female rate (%)	Index (1990=100)	As % of male rate
All developing countries	56.0	102	67
Arab States	33.3	119	42
East Asia and the Pacific	68.9	100	83
Latin America and the Caribbean	42.7	110	52
South Asia	44.5	107	52
Sub-Saharan Africa	62.3	99	73
Central and Eastern Europe and the CIS	57.5	99	81
OECD	51.8	107	72
World	55.6	103	69

Note: Figures for South Asia are calculated as a weighted average.

Source: UNDP 2005.

Table 3.5 Economic activity rate for women in South Asia, 2003

	Economic activity rate (ages 15 and above)		
	Female rate (%)	Index (1990=100)	As % of male rate
India	42.5	105	50
Pakistan	36.7	129	44
Bangladesh	66.5	101	76
Nepal	56.9	101	67
Sri Lanka	43.5	108	56
Bhutan	57.1	100	65
Maldives	65.4	101	80
South Asia	44.5	107	52

Note: Figure of South Asia calculates as a weighted average.

Source: UNDP 2005.

men's in South Asia and Arab States respectively (table 3.4).

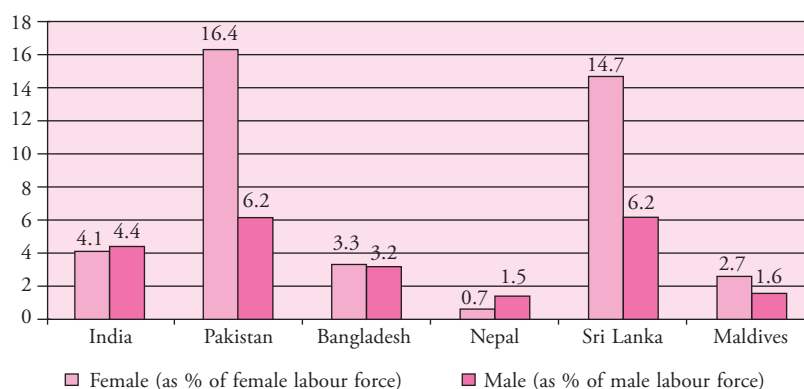
Since 1990, there has been an increase in labour force participation of women in all the countries of South Asia except Bhutan. Bangladesh and Maldives have the highest economic activity rate for women. Two-thirds of the potential female labour force (age 15-64) was active in the labour market in Bangladesh and Maldives. The lowest economic participation rate of women is in Pakistan where only 36.7 per cent of the potential female labour force was active in 2003 (table 3.5).

The LFPR of women is increasing almost in all the countries of South Asia. However, women are significantly more likely to be unemployed in Pakistan and Sri Lanka. The unemployment rate of

women in Pakistan and Sri Lanka is 2.6 and 2.3 times higher than that of men, respectively (figure 3.6).

As women have increasingly started to participate in the labour force, attention has turned to the quality of their employment in terms of types of jobs that they are doing, conditions of work and earnings. Globally, women continue to be engaged in low-paid jobs. In general, women are less likely than men to be employed in paid and regular jobs, and they are more likely to be employed in informal sector which provides very little security in terms of income. Within the informal sector, women are also concentrated in jobs with low and unstable earnings with a high risk of falling into poverty.

Although both men and women play vital roles in South Asian economies, they are not equally distributed across the

Figure 3.6 Unemployment rate by sex in South Asia, 2000-04

Source: World Bank 2006g.

Women are more likely to be engaged in the rural economy, but least likely to benefit from the work they do

Table 3.6 Female employment by sectors in South Asia

	Employment by economic activity					
	Agriculture		Industry		Services	
	Female (%)	Female as % of male rate	Female (%)	Female as % of male rate	Female (%)	Female as % of male rate
India	...	...	...	...	...	...
Pakistan	73	164	9	46	18	50
Bangladesh	77	144	9	82	12	40
Nepal	...	...	...	...	...	...
Sri Lanka	49	129	22	98	27	74
Maldives	5	31	24	149	39	70
Bhutan	...	...	...	...	...	...

Source: UNDP 2005.

productive and higher income sectors, nor are they equally remunerated for their labour. These inequalities in the labour market directly and indirectly impact the economic growth and diminish the effectiveness of poverty reduction programmes. Available data indicates that the majority of women in South Asia are engaged in the agricultural sector; around three-quarters of women in Pakistan and Bangladesh and half the women in Sri Lanka are engaged in agricultural activities in which earnings are more likely to be lower, and women's contribution is least likely to be recognised (table 3.6).

As discussed in *Human Development in South Asia 2002*, although women are the backbone of agricultural sector as labourers and are engaged in all productive activities at home and at the field from dawn to dusk, they are invisible in statistics, underpaid and have almost no right to land and other holdings. Furthermore,

women are the least to benefit from the developments in the agricultural sector as they lack access to inputs and supplies, knowledge and credit. Rural women also carry a heavy burden in terms of their workload. Women in South Asia spend 12-16 hours a day working at home and in the fields. But when an agricultural process becomes less time consuming with the developments in technology, women are excluded from training and are replaced by men. To work in the agriculture sector takes a heavy toll on women in terms of their health. Environmental degradation increases the workload of women and pesticides used in production cause health hazards. In short, women are more likely to be engaged in the rural economy, but least likely to benefit from the work they do.

Women's employment share in high-level jobs is also very low in South Asia where only 1.6 per cent of legislators, senior officials and managers and one-quarter of professionals and technical workers are women (table 3.7). The status of employment is higher for women in Sri Lanka and Maldives.

Lower education and skill levels of women than men lead to lower earnings of women. But women in South Asia are also more likely to work for no pay. Around three-quarters of employed women in Bangladesh, half of employed women in Pakistan and one-fifth of employed women in Sri Lanka, work as unpaid family workers while the

Table 3.7 South Asian women's status in employment

	Female legislators, senior officials and managers (% of total)	Female professional and technical workers (% of total)
India	0.4	...
Pakistan	2.0	26
Bangladesh	8.0	25
Nepal	...	...
Sri Lanka	21.0	46
Maldives	15.0	40
South Asia	1.6	27

Source: UNDP 2005.

proportion of men engaged in unpaid family labour is significantly lower in these countries (table 3.8). Furthermore, even when women work for pay, they earn only 39 per cent of what men earn in South Asia.

In addition, access to income does not mean that women have full autonomy over the use of that money. Women are more likely to use her earnings for food, education and health expenditures. That is why women should have more control over her income in order to make a positive impact on the well-being of their children. Figure 3.7 shows that among women who are employed in a paid job, less than half can decide how to use their earnings. In this respect, urban women have more control over their income than rural women. Studies show that one in eight women in Bangladesh, one in five in Nepal, one in three women in India do not have any say regarding the use of her own earnings.²³

There is a direct relationship between being employed in agriculture or informal sector and being poor. The higher the share of agriculture or informal sector in employment, the higher the level of poverty. ‘Throughout the developing world, informal employment is generally a larger source of employment for women than formal employment and, in general, a larger source of employment for women than men.’²⁴ More than 60 per cent of women workers in the developing countries are engaged in non-agricultural informal sector jobs. The exact figures of women in South Asia are not available. However, since women in South Asia are over-represented in agricultural and informal sectors of the economy—where average income and wage levels are usually low—we can say that women are disproportionately affected by poverty in South Asia.

However, the analytical basis for linking the higher poverty of women to the mere lack of income is rather weak. Women’s position in the labour market indicates that women are poorer primarily because of their lower participation and poorer

employment conditions of work. Thus limiting women’s poverty only to their income will lead to underestimation of poverty of women and girls who are poor not only in terms of income, but also in terms of capabilities and rights. This is the crux of the problem—the pervasive nature of gender discrimination that prevents

Table 3.8 Estimated earned income and proportion of unpaid workers by sex in South Asia, 2000-2004

	Estimated earned income (PPP US\$) 2003			Unpaid family workers (as % of total female/male employment) 2000-04		
	Female	Male	Female/Male	Female	Male	Female/Male
India	1,569	4,130	0.38			
Pakistan	1,050	3,082	0.34	46.9	16.4	2.86
Bangladesh	1,245	2,289	0.54	73.2	10.1	7.25
Nepal	949	1,868	0.51	63.4	23.3	2.72
Sri Lanka	2,579	5,009	0.51	20.9	4.2	4.98
South Asia	1,482	3,803	0.39			

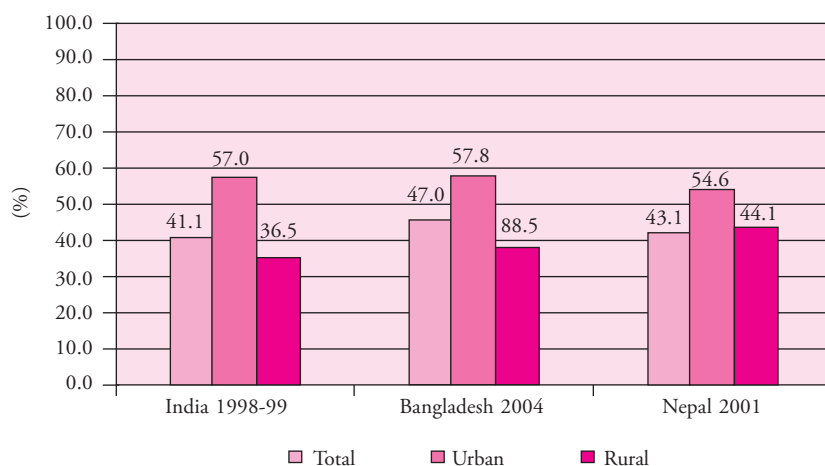
Sources: MHHDC 2004; UNDP 2005 and World Bank 2006g.

Table 3.9 Trends in self-employment as percentage of non-agricultural employment in South Asia, 1980-2000

	1980-90			1990-2000		
	Total	Female	Male	Total	Female	Male
India	44	55	42	37	41	38
Pakistan	51	40	51	43	34	44
Bangladesh	53	53	53	75	83	73
Nepal	59	80	49	...	...	...
Sri Lanka	17	9	19	...	...	...

Source: ILO 2002.

Figure 3.7 Percentage of women in South Asia who decide by themselves about using their earnings



Note: Data is based on the Demographic Health Survey (DHS) of Bangladesh 2004, Nepal DHS 2001 and the National Family Health Survey (NFHS)-II of India 1998-99.

Source: ORC Macro 2006.

Physical and mental integrity of girls are also in danger due to increased likelihood of trafficking, early marriage and physical violence

women from building their capabilities and accessing job opportunities in order to break out of the cycle of poverty.

In the next section, we will discuss the issues of the magnitude of poverty of women and girls in poor households in order to show how poverty affects them, and then will address the issues of poverty of women in terms of their capabilities and opportunities.

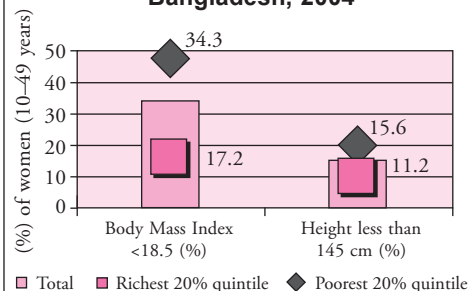
Gender differentiated impact of poverty: Women and girls living in poor households

In South Asia, both men and women suffer as a result of poverty, but its girls and women who mainly bear the burnt of poverty. While women are discriminated against on the basis of their sex, poor women particularly face severe discrimination. Culturally determined gender stereotypes and social discrimination compel girls and women to sacrifice their own well-being for the well-being of male members. The basic rights of women and girls to education and healthcare are more likely to be denied, and their physical and mental well-being endangered when they are poor. A large number of studies have also documented that in poor households the discrimination against girls and women is exacerbated by differentiated tradition and practice in access to education, nutrition and healthcare, particularly in patriarchal societies like South Asia. Girls are first to drop out from school in case of any financial problem. Similarly, in households where food is scarce women are more likely to eat last, and are more likely to suffer from nutritional and micronutrient deficiencies which impair their physical and mental development. Physical and mental integrity of girls are also in danger due to increased likelihood of trafficking, early marriage and physical violence.

The following are some of the gendered manifestations of poverty that take a significant toll on the lives of women in South Asia;

- Poverty and hunger are the major determinants of women's malnutrition and micronutrient deficiencies, which leads to incidence of conditions²⁵ that are responsible for 80 per cent of the maternal deaths and thousands of infant deaths in the world.²⁶
- In India, pregnant women from the poorest households (in the lowest 20 per cent income quintile) are 2.5 times more likely to be severely anemic than the households belonging to the richest 20 per cent income quintile.²⁷
- In Bangladesh, women living in the poorest households are six times more likely to suffer from night blindness that is a symptom of acute vitamin A deficiency.²⁸
- Women are more likely to be underweight or stunted in poor households than they are in better-off households (figures 3.8 and 3.9).

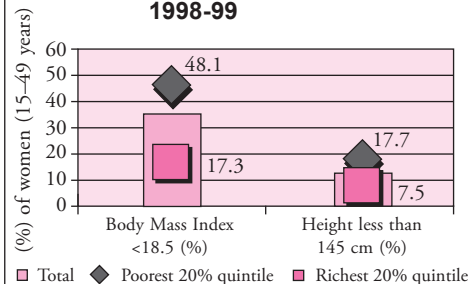
Figure 3.8 Nutritional status of women by income level in Bangladesh, 2004



Note: Data is based on the Demographic Health Survey (DHS) of Bangladesh 2004.

Source: ORC Macro 2006.

Figure 3.9 Nutritional status of women by income level in India, 1998-99

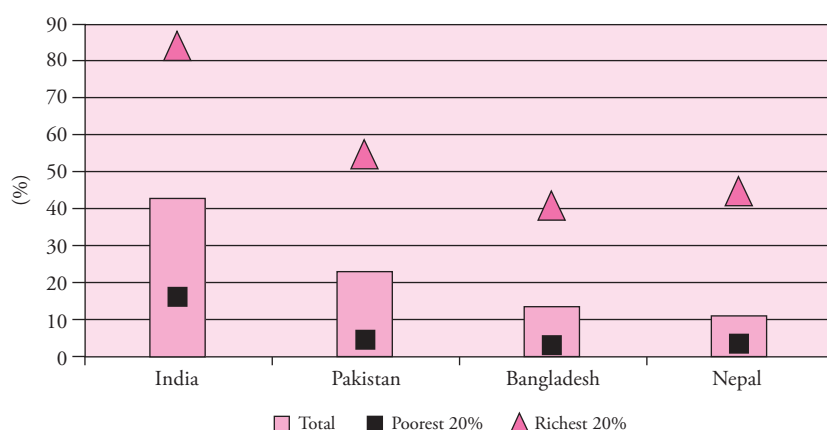


Note: Data is based on the National Family Health Survey (NFHS)-II of India 1998-99.

Source: ORC Macro 2006.

- Poverty increases the chances of maternal mortality and morbidity through lowering the likelihood of women receiving ante-natal care and skilled assistance at birth. For example, in India and Bangladesh, women living in poor households are about four times more likely to receive no ante-natal care as compared to women living in well-off households. Similarly, in India, Pakistan, Bangladesh and Nepal, the number of births attended by skilled health personnel was significantly lower for households that belong to the poorest 20 per cent income group, as compared to the national average and the richest 20 per cent (figure 3.10). In Bangladesh, the proportion of births that occurs at home was as high as 89.9 per cent in 2004, but almost all women living in the poorest income quintile deliver at home limiting the chances of treatment in case of an emergency.
- Poverty causes early marriages and thus early pregnancies. In India, among the women aged 25-49, the age at first birth was 18.5 and 21.2 for women living in the poorest and the richest households, respectively. There is a positive correlation between income and age at marriage in Bangladesh where girls from the poorest households marry at the age of 14.2 while the age at marriage is around two years higher for the girls from the richest households.²⁹
- Under-five mortality rate in poor households is significantly higher than it is in households from the highest 20 per cent quintile. More interestingly, poverty decreases the chances of girls' survival. The gap of under-five mortality rate (U5MR) between girls and boys is high indicating discrimination against girls. However, female disadvantage in U5MR disappears for the highest 20 per cent income quintile (table 3.10).
- Gender gap in education is much larger for poor households. For example, in Nepal, the gender gap in primary

Figure 3.10 Births attended by skilled health personnel in South Asia



Source: UNDP 2005.

school attendance is only 2.2 percentage points for girls and boys living in households that belong to the highest income quintile while it escalates to 20 percentage points in households that belong to the lowest income quintile.³⁰

- Poverty makes women and girls more vulnerable to HIV/AIDS infection because of their lack of knowledge and lack of ability to negotiate for safer sex. For example, women from the poorest household were 3.8 and 3.2 times less likely to hear about HIV/AIDS as compared to women from richest households in India and Bangladesh respectively.³¹
- Poverty has been one of the major factors leading to in-country and cross-border trafficking of thousands of girls and women in South Asia.³²

Table 3.10 Gender differences in under-five mortality rate by income distribution in South Asia, 1990-2001

	Under-five mortality rate (per 1,000 live births)							
	lowest 20%				highest 20%			
	Total	Girls	Boys	Difference	Total	Girls	Boys	Difference
India 1998-99	141.1	149.5	133.6	15.9	45.5	40.4	50.2	-9.8
Pakistan 1990	124.5	120.9	128.1	-7.2	73.8	68.0	79.9	-11.9
Bangladesh 1999	139.7	147.4	132.3	15.1	72.4	65.5	79.2	-13.7
Nepal 2001	129.9	139.9	120.7	19.2	67.7	68.0	67.6	0.4

Source: World Bank 2006c.

Table 3.11 Health differentials for South Asia, 2005

	Female population (millions)	Female population per 100 males	Female Life expectancy (years)	Gap between female and male life expectancy (years)
India	537.593	95	64.7	3.0
Pakistan	76.653	94	63.1	0.4
Bangladesh	69.363	96	63.4	1.6
Nepal	13.687	102	61.7	0.8
Sri Lanka	10.202	97	76.7	5.4
Bhutan	1.067	97	63.9	2.4
Maldives	0.160	95	65.8	-1.1
Total	708.725	...	...	...

Source: UNPD 2006a.

Poverty of opportunity and capability: Education and health

Gender discrimination in health

Human Development in South Asia 2004 documented the impact of gender discrimination on the health of women and girls. In South Asia, gender discrimination in health starts even before birth in the form of female foeticide or infanticide and continues with discrimination in nutritional intake and healthcare practices. It is estimated that as a result of these discriminative practices about 50 million women and girls are simply missing in South Asia.

Women in South Asia have not fully benefited from the biological advantage in life expectancy as compared to their

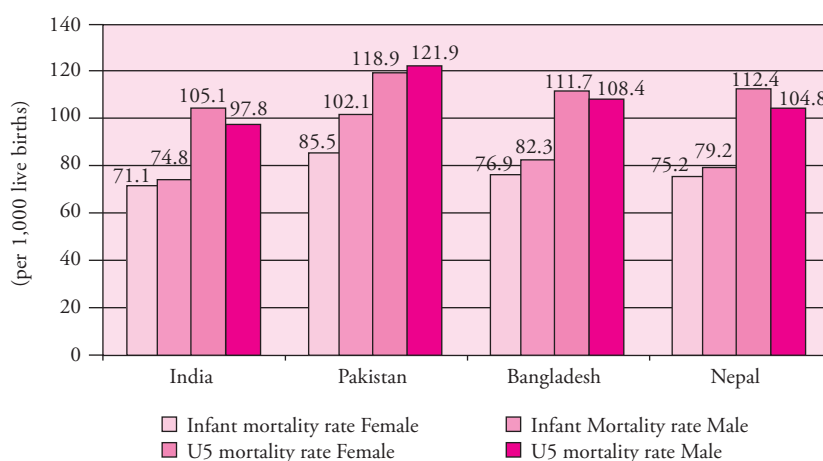
counterparts in the world. The female-male gap in life expectancy is five years in the world while it is not more than two years in South Asia. Furthermore, South Asian women are shown to be less likely to spend this life as healthily as men.

In 2005, there were only 95 women per 100 men in South Asia. The recent estimates indicate that women's life expectancy is higher for all South Asian countries except Maldives. The difference between female and male life expectancy is the highest in Sri Lanka, followed by Bhutan and India (table 3.11).

The pervasive gender discrimination in health is also reflected in infant and under-five mortality rates by sex. Boys are biologically weaker than girls and more boys die at birth or just after birth. Therefore, it is usual to have an infant mortality rate for boys a little higher than girls. But as children grow girls are more likely to die than boys. In India, Bangladesh and Nepal, however, under-five mortality rates are higher for girls than for boys.

Human Development in South Asia 2004 documented the nutritional challenges faced by women in South Asia. The gender discrimination in the early years of life has life-long consequences particularly on the maternal health of women and on the health of children. Women who are underweight, stunted, anaemic or have micronutrient deficiencies are more likely to face maternal and/or infant deaths and deliver low birth children or children with disabilities. One-third of women in South Asia are underweight and 15 per cent are stunted. South Asian women also have the highest prevalence of chronic energy deficiency as compared to their counterparts in other regions of the world. Furthermore, they also suffer from deficiencies of several micronutrients such as iron, iodine, and vitamin.

Gender discrimination also manifests itself in access to healthcare services. Women in South Asia lack access to healthcare even during pregnancy and childbirth. Around half the women do

Figure 3.11 Infant and under-five mortality rate by sex in South Asia, 1990-2001

Source: World Bank 2006c.

not receive any antenatal care. Except Sri Lanka, none of the countries have adequate levels of tetanus vaccination among pregnant women, and the ratio of births attended by skilled personnel is only 38 per cent in South Asia.³³

The nutritional deficiencies and low access to healthcare services during pregnancy exacerbate threats to maternal health. South Asia has the second highest regional share of maternal deaths in the world. Every day 507 women lose their lives during childbirth making a total of 185,000 per year. With this high number of maternal deaths, South Asia has the second highest maternal mortality ratio with 516 (per 100,000 live births) after Sub-Saharan Africa.

The threats to women's health are not limited to their maternal health. Girls who are married at an early age to much older men, or women and girls who are trafficked are highly vulnerable to the threat of HIV/AIDS. Acquiring these viruses also makes women more vulnerable to discrimination due to the stigma attached to the disease.³⁴

Gender discrimination in education

'No society has ever liberated itself economically, politically or socially without a sound base of educated women', said Mahbub ul Haq. Education of girls and women is the first pillar that is to be built in order to break the vicious cycle of poverty. Educated women are more likely to be employed in paid and formal jobs, have higher bargaining power on the decisions regarding their own health, and their children's education and health, as well as higher participation in political and social life. Furthermore, educated women are less likely to discriminate against their daughters. Eradication of poverty, and gender discrimination, therefore, is highly dependent on the education of women. Regrettably, girls and women of South Asia are very poor in terms of their access to education.

Since 1997, each report of Mahbub ul Haq Human Development Centre has

been underlining the importance of the educational poverty of girls and women and suggesting policies to change the situation. *Human Development in South Asia 1998 and Human Development in South Asia 2000* particularly explained the demand and supply constraints in the education sector that are limiting the enrolment of girls in schools. As is now well-known, the demand constraints are mainly related to high costs of schooling and gender preference of parents in educating their children (sons considered as future economic assets while girls can be lost assets once they are married). Lack of female teachers and separate facilities for girls, long distances to girls' schools are the various supply side constraints in South Asia.³⁵

Despite the fact that gender gaps in education are closing, South Asia as a region still contains the highest number of female illiterates in the world. Less than half the women in South Asia were literate in 2004 as opposed to 74.1 per cent in the developing world.³⁶ The literacy rate varies between one-third of adult females in Bangladesh, Nepal and Pakistan to 96.4 per cent in Maldives. The gender gap in literacy is the highest in Pakistan where adult female literacy rate is only 57 per cent of male literacy.

After Sub-Saharan Africa, South Asia is the worst performer in terms of female gross enrolment in primary and secondary schools. Although gross primary enrolment is 97 per cent, female enrolment rate declines to 44 per cent at secondary level and 8 per cent at tertiary level, and the gender gap widens considerably (table 3.13).

Among the countries of South Asia, Sri Lanka and Maldives already have good record in providing education to all, including girls. Except Pakistan, all other countries of the region have very high levels of gross enrolment in primary education. The gender gaps in primary enrolment are also closing. Bangladesh has already closed the gender gap in primary and secondary enrolment. The gender gap in education is the highest in

Table 3.12 Literacy of women in South Asia, 2004

	Adult literacy (ages 15 and above)	
	Female rate (%)	Female rate as % of male rate
India	47.8	65
Pakistan	36.0	57
Bangladesh	31.4	62
Nepal	34.9	56
Sri Lanka	89.1	97
Maldives	96.4	100
South Asia	45.2	64

Source: World Bank 2006c.

Table 3.13 Gender differentials in educational enrolment by region, 2004

	Gross primary school enrolment		Gross secondary school enrolment		Gross tertiary school enrolment	
	Female (%)	Female as % of male	Female (%)	Female as % of male	Female (%)	Female as % of male
Europe and Central Asia	101	98	90	95	52	121
Latin America and Caribbean	119	97	90	107	28	122
Middle East and North Africa	100	93	63	89	...	...
East Asia and Pacific	112	98	68	99	16	89
Sub-Saharan Africa	87	89	26	79	...	...
South Asia	97	90	44	81	8	67
World	101	94	64	94	24	100

Source: World Bank 2006c.

Pakistan, which has the worst record in female primary school enrolment as well. Female enrolment decreases considerably for all the countries of South Asia at the secondary and tertiary levels. Bangladesh is the only country which has shown impressive progress in closing the gender gaps in primary and secondary school enrolments.

Women in South Asia also suffer from limited vocational and technical training restricting their access to better job opportunities. Women are usually trained in the traditional fields such as home economics and health, which are perceived as suitable for women leading to concentration of women in some women-specific jobs.

Table 3.14 Gender differentials in educational enrolment in South Asia, 2004

	Gross primary school enrolment		Gross secondary school enrolment		Gross tertiary school enrolment	
	Female (%)	Female as % of male	Female (%)	Female as % of male	Female (%)	Female as % of male
India	104	94	46	79	9	64
Pakistan	69	73	23	74	3	79
Bangladesh	107	102	54	110	4	44
Nepal	106	88	37	77	3	38
Sri Lanka	101	99	83	105	...	...
Maldives	108	97	78	111	...	...
South Asia	97	90	44	81	8	67

Source: World Bank 2006c.

Discrimination in laws

Law and legal systems besides playing a crucial role in determining women's position in a society also have a significant bearing on women's economic security, and thus on women's poverty. Laws define the rights of women and determine their access to human and financial capital as well as productive assets, and, therefore, have an impact on women's ability to earn income and ensure their own economic security. Similarly, laws related to marriage, divorce, and maintenance of wife and children are also of crucial importance with regard to protecting women's economic security since they define the rights of couples and their children during marriage or when marriage results in divorce.

In societies where women and men are equal under the laws and women's rights are protected adequately by the legal system, women are more likely to have equal opportunities in education, health, employment and access to productive resources such as land and credit, and thus they are less likely to be poor in terms of both income and/or opportunities. On the other hand, discriminatory laws, weak and gender insensitive legal systems, existence of parallel customary authorities, and corrupt and weak law enforcement systems lead to insecurity of women not only in terms of financial means but also in terms of physical and mental health.³⁷

As shown in *Human Development in South Asia 2000 and Human Development in South Asia 2005*, South Asian women encounter acute discrimination within legal system. Despite improvements in legislation aiming to ensure equal rights to women in all spheres of life, South Asian women are still far from enjoying equal rights or having equal economic opportunities with men which is a necessary, but not sufficient, condition for women to fight against poverty. Although the Constitutions of all South Asian countries guarantee the equality of women and men under the law, loopholes in the legislation, existence of parallel judiciary

and customary laws, and women's low access to legal system have been a significant factor in increasing women's vulnerability to poverty in the region. Discriminatory inheritance, land and property rights have limited women's ownership rights and access to productive assets such as land and credit in South Asia. Furthermore, existing family laws are unlikely to protect the rights of women and children, increasing the likelihood of women and children to be poor in case of separation/divorce or they are compelled to live in those conditions that are detrimental to their well-being (such as violence) in order to prevent themselves from falling into poverty.

Within the context of poverty, gender discrimination in laws and legal systems in South Asia has been the main cause of women's lack of access to productive resources, and social and cultural poverty described below.

Lack of access to productive resources and ownership rights

The vast majority of the population in South Asia depends on land to earn living and, therefore, access to land is a crucial factor ensuring people their livelihoods. Furthermore, land or property ownership is also important for access to loans. Women's rights to access to land and other property are constrained by legislation and culture in South Asia. For example, in Pakistan women can inherit only half of the property inherited by men. A recent report³⁸ documents that only 16-19 per cent of women in Punjab and less than 5 per cent in Sindh inherit and retain land from their natal family. The case for widows is also similar; only 16 per cent of women inherit land from their husbands and in most cases women concede their rights to their son.

A recently developed dataset, Gender, Institutions and Development (GID), provides comparable information regarding women's ownership rights across the world. According to women's ownership rights index, South Asia is the

second worst region of the world, after Sub-Saharan Africa, in terms of providing and ensuring women's right to ownership of land and other assets (figure 3.12).

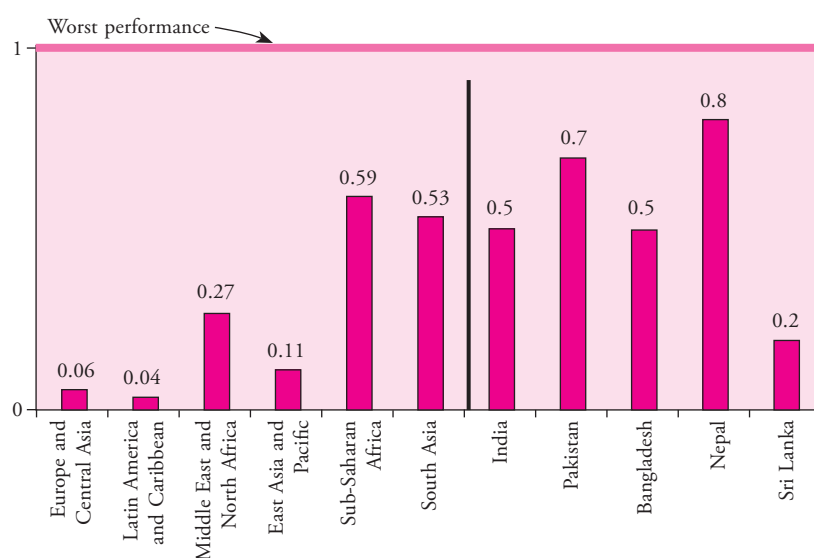
Among the countries of South Asia, Nepal has the worst performance followed by Pakistan. Sri Lanka is the country that has the best record in ownership rights but when compared to the averages of other regions of the world, it can be observed that Sri Lanka's score is still bad as compared to Latin America and Caribbean, East Asia and Pacific, and Europe and Central Asia.

Figure 3.13 shows the situation of women's access to land, bank loans and other property in South Asia. Among the countries of the region, Nepal has the worst record in female access to land. Nepal and Pakistan have the worst record of access to bank loans by women. In terms of women's access to property other than land, women in Nepal are again the least likely to have access.

Social and cultural poverty

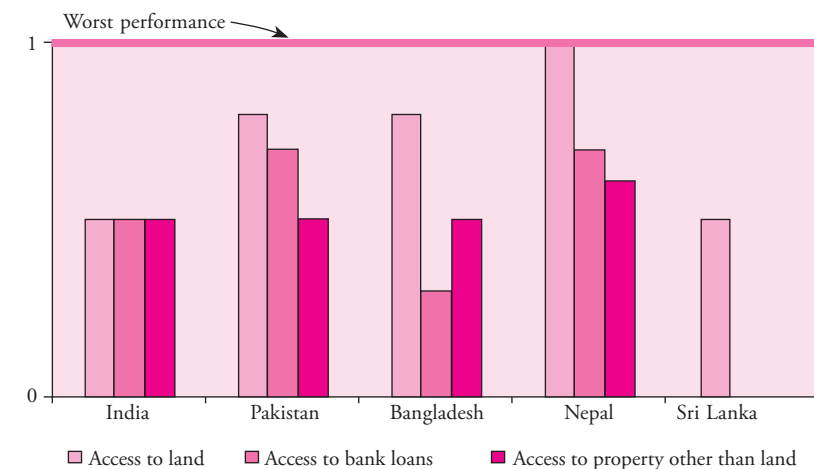
Previous Reports on Human Development in South Asia discussed various aspects of gender discrimination in South Asia, including discrimination in social life.

Figure 3.12 Women's ownership rights index



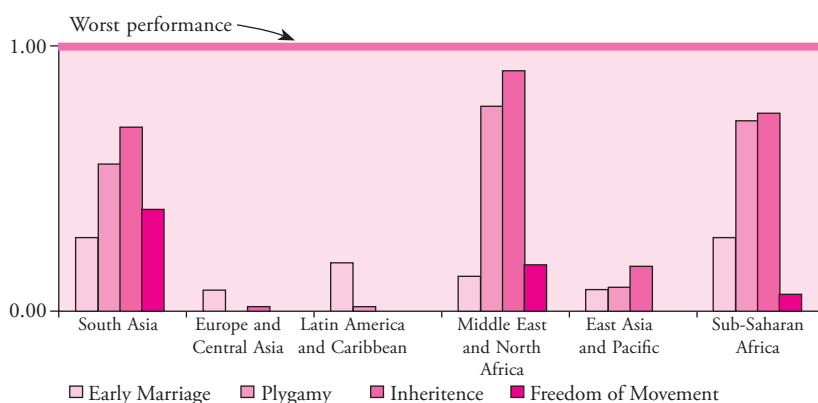
Source: OECD 2006.

Figure 3.13 Women's access to land, bank loans and property other than land in South Asia



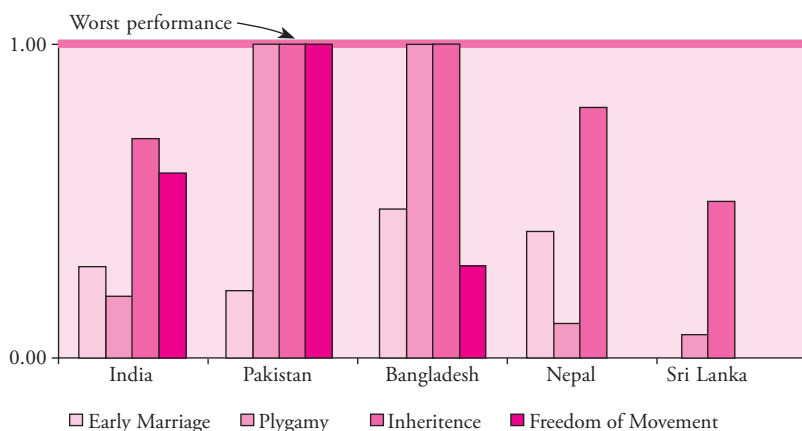
Source: OECD 2006.

Figure 3.14 Poverty of women's rights in the developing world, 2006



Source: OECD 2006.

Figure 3.15 Poverty of women's rights in South Asia, 2006



Source: OECD 2006.

Girls and women in South Asia are socially poor because they do not have as many rights as men. They hardly decide about the timing of their marriage, they are likely to suffer the financial and physiological burden of polygamy, they have almost no right to inherit their parents' or husband's property, and less freedom of movement.

The GID database provides comparable information regarding women's social rights across the world. South Asia is the worst performer in women's right to move freely and in early marriages while it is the third worst performer after Middle East and North Africa and Sub-Saharan Africa in preventing early marriages and polygamy (figure 3.14).

Among the South Asian countries, Pakistan has the worst protection and Sri Lanka has the best protection of the social rights of women (figure 3.15). Women in South Asia are defenceless against poverty. Laws, besides being discriminatory against women in South Asia, cannot be implemented effectively due to weaknesses in the legal system. Women's lower access to land, property and loans, and their poverty in terms of their rights are the results of gender discrimination in laws and weaknesses in legal systems in South Asia

Addressing the poverty of women in South Asia

Poverty of women remained almost invisible in poverty analysis till the United Nations (UN) Decade on Women in 1975-85, and particularly till the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in 1979. During this period, socially and economically disadvantaged position of women and the need for a gender perspective in the poverty research were stressed by scholars and women's rights advocates. Initial studies on gender and poverty recognised women's higher vulnerability to poverty, and have used gender disparities in earnings, education, health, unequal division of work at home

and unrecognised value of their work outside as the indicators of this vulnerability. However, lack of disaggregated data by sex was a hurdle in capturing women's poverty, particularly in developing countries.

During the 1980s and the 1990s, the focus of poverty analysis shifted towards the impact of economic globalisation on the poor households. Indeed, women bear the cost of globalisation the most and enjoy the benefits the least. The negative impact of globalisation on women has been higher than that of men in terms of increased workload of women in reproductive and income-generating activities as a result of cutbacks in the public services and subsidies and reductions in public expenditure on health and education. As described in *Human Development in South Asia 2001*, a small number of educated women enjoyed the benefits from globalisation through increased employment opportunities, but poor, uneducated, unhealthy and unskilled women of South Asia had to bear the costs of globalisation.

Despite women's higher vulnerability to poverty and women's strong agency in the cause of development, the concerns regarding women's poverty have not been addressed seriously by the policymakers not only in South Asia but also in most of the developing countries. For instance, despite the need for better statistics, in none of the regions except Latin America and the Caribbean region the data on income/consumption is available by sex.

Attaining gender equality and eradicating women's income and human poverty do not occur automatically during the course of economic growth.³⁹ Even if countries grow fast, the benefits of this growth are reflected on women partially, the extent determined by the strength of patriarchal structures and institutions, which limit labour market participation of women and women's access to productive resources.⁴⁰ In highly patriarchal societies like South Asia, therefore, the benefits of growth is less

likely to be translated into better education, health or employment outcomes for women without any direct interventions that address the concerns of gender inequality and poverty through a gender lens. Ignorance in this matter, or being gender neutral in policies, however, will be costly to nations that are struggling to alleviate poverty and attain various targets set by the Beijing Declaration and at the Millennium Summit, as gender equality is in a way a tool that fuels progress towards the Millennium Development Goals (MDGs).

Women's participation at all levels of governance structures is crucial for engendering policies and programmes, empowering women and alleviating women's poverty. Lower the representation of women in political sphere, it is less likely that the gender issues will receive necessary attention in national policy making arena. Women hold only 16 per cent of all parliamentary seats worldwide.⁴¹

Women's voices are not being heard in South Asia as well. Political participation of women in South Asia is lower than the world average with women holding only one out of ten seats in parliaments and only 4.3 per cent of ministerial positions (table 3.15). Besides, women in South Asia have very low representation in judiciary, civil service and economic management. This non-representation of women in public service reduces the

Women's participation at all levels of governance structures is crucial for engendering policies and programmes, empowering women and alleviating women's poverty

Table 3.15 Women's political participation in South Asia
(% of total)

	Seats in parliament held by women	Women in government at ministerial level
India	9.3	3.4
Pakistan	20.6	5.6
Bangladesh	2.0	8.3
Nepal	6.4	7.4
Sri Lanka	4.9	10.3
Maldives	4.8	0.0
Bhutan	8.7	11.8
South Asia	9.7	4.3

Source: UNDP 2005.

chance of focusing the minds of policy makers on poverty alleviation of women.

Governments in South Asia have been setting targets to mitigate gender disparities along with other human development goals in line with the international declarations including the Beijing Declaration, the Platform for Action (PFA)⁴² and the Millennium Declaration and Goals. At the sub-regional level, all the countries agreed to 'strengthen policies and programmes that improve, broaden and ensure the participation of women in all spheres of political, economic, social and cultural life, as equal partners, and improve their access to all resources needed for the full enjoyment of their fundamental freedoms and other entitlements' as stated by the Social Charter of SAARC.⁴³ Eliminating gender disparities in education and health, preventing trafficking of women and girls and expanding rural credit to women have been particularly discussed at sub-regional level during SAARC Summits and included in the Declarations following the summit.

All the governments have also addressed gender issues in their respective national policies and poverty alleviation programmes. The main steps taken with regard to women's poverty can be listed as engendering policies and programmes, such as in PRSPs and gender responsive budgeting initiatives, and economic empowerment of women mainly through microcredit programmes.

Gender mainstreaming in policy-making

South Asian countries have increased their efforts in engendering their policy-making processes. In this regard, the main documents reflecting their commitments to poverty reduction i.e. the Poverty Reduction Strategy Paper (PRSP)⁴⁴, and the development plans are becoming more gender sensitised. But there is still a need for mainstreaming gender in macro-economic policies which is not being done yet.

India's Tenth Five-Year Development Plan (2002-07)⁴⁵, continuing with the major strategy of empowering women since the Ninth Plan, adopts attaining women's social empowerment, economic empowerment and gender justice as three strategies to address women's poverty. In order to attain social empowerment and to realise women's full potential in social life, provision of easy and equal access to basic services for women and creation of an enabling environment for development of women are defined as essential. The Plan defines the pathways to reach economic empowerment of women as ensuring provision of training, employment and income-generation activities. Reaching gender justice, according to the Plan, requires taking actions for elimination of all forms of gender discrimination in all spheres. India's Eleventh Five-year plan (2007-2012) has been drafted. Engendering process of this plan has been led by National Alliance of Women's Organisation (a network of various organisations), UNDP (United Nations Development Programme) and UNIFEM (United Nations Development Fund for Women) which conducted five regional and two national consultations. The Eleventh Plan particularly focuses on the areas of violence against women, women's health and economic empowerment of women. However, the Approach Paper of the Eleventh Plan is described as a disappointment with regard to gender mainstreaming.⁴⁶ Various programmes in India aim at empowering women and addressing women's vulnerability to poverty during the Tenth Plan. These include; i) the programmes such as Swyamsidha, Swa-Shakti and Rashtriya Mahila Kosh (RMK), which mainly aim at creating income-generating activities for women through credit distributed through self-help groups; ii) Hostels for Working Women, which aim at providing safe and cheap accommodation for women to increase their mobility in the labour market; iii) Short-stay homes programme for establishment of shelter for women and girls who are victims of

violence; and iv) Swadhar Programme which provides rehabilitation services to women in difficult circumstances. However, according to mid-term evaluation report, the progress under these schemes has been unsatisfactory.⁴⁷

Pakistan is currently under the process of preparing PRSP-II. Gender was missing in the Interim PRSP and was added later on. The PRSP half-heartedly recognises women's higher vulnerability to poverty and thus fails to provide a concrete poverty alleviation strategy for women. Various gender specific programmes have been launched to empower women and mitigate their vulnerability to poverty. Some of these are: a) National Programme for Women's Political Participation; b) National Framework for Family Protection; c) Gender Reform Action Plan; d) Gender Management Information System; e) Tawana Pakistan; and f) Gender Responsive Budgeting Initiative. In order to increase women's political participation in local bodies, Local Governance Ordinance was promulgated in 2001. Government also aims at increasing women's-particularly female household heads' and disabled women's access to credit through provision of soft-loans through First Women's Bank and Khushhali Bank.

The PRSP of Bangladesh recognises the need for strengthening the focus on women's rights and advancement, improving service delivery in education and health sectors, access to justice and increasing their access to microcredit. In order to attain these, the PRSP suggests creating a supportive environment by increasing labour standards and work environment, enhancing good quality employment opportunities for women, closing education and skill gaps, eliminating discrimination in legal and regulatory frameworks, and increasing women's access to land as main tools. Bangladesh also has various programmes that aim to address women's poverty. These include; i) Social safety nets (Widow Allowance Scheme, Rural Maintenance Programme, The Vulnerable Group

Development Programme); ii) Education-related programmes (Food for Education/ Cash for Education programme, Female Secondary Stipend Programme); iii) Health-related programmes (Health, Nutrition and Population Sector Programme); iv) Others (Vulnerable Group Feeding programme, Food Security Enhancement Initiative, Rural Social Service, Urban Social Service, The Rural Mother Centre, Programme for Acid Burnt Women, Social Investment Programme Project). The implementation of these programmes is hampered due to inadequate financing and the potential impact is not realised due to limited coverage, lack of integrated national policy on social safety nets and unsustainability of programmes.

Nepal's Tenth Plan (PRSP) recognises women's development as a crosscutting theme in the PRSP and requires all ministries to monitor the impact of their sectoral programmes by gender. The Plan aims at ensuring equal opportunities to women and men through empowering women and removing barriers to economic and social empowerment of women. The Plan states that economic empowerment of women would be attained through interventions that are mainly based on agricultural growth strategy (increased access to land, irrigation policies etc.) as well as by the expansion of ongoing targeted programmes in the areas of entrepreneurship development and skill training, income generation, loans and marketing. The Plan also gives priority to female household heads in accessing the existing programmes that aim to enhance women's economic well-being. In order to attain social empowerment of women, PRSP of Nepal aims to undertake various interventions (such as scholarships, mobile clinics etc.) in the social sectors, particularly through improving education and health infrastructure. Eliminating legal discrimination against women is also one of the areas that was specified in the PRSP.

Women affected from conflict, particularly female-headed households,

Gender budgeting ensures adequate allocation of resources for gender-specific programmes

have received top priority in the Poverty Reduction Strategy of Sri Lanka. Besides this, gender mainstreaming, prevention of violence against women and ensuring equal access to land are the other gender-specific targets of the PRSP of Sri Lanka.

All South Asian countries have considered gender in their respective PRSPs or in development plans in varying degrees. While social sectors are engendered effectively, the areas related to macroeconomic policies and social safety nets remain weak. Among the countries of South Asia, the PRSP of Bangladesh is more gender sensitive and comprehensive than the PRSPs of other countries. Social areas (education, health and nutrition) are engendered more effectively than the areas related to economic growth and macroeconomic policies. For example, the impact of macroeconomic reforms (discussed in the PRSPs of Pakistan, Nepal and Sri Lanka) have not been analysed by gender. Similarly, social protection and social safety net policies fail to take note of women's concerns except for a small group of widows.⁴⁸

Gender budgeting: A tool for alleviating women's poverty

Since the Beijing Conference in 1995, gender budgeting has become a strong tool for engendering macroeconomic policies and programmes, and has been accepted as a sign of whether, or how much, governments are willing to transfer their gender-related programme commitments into the budgetary ones. Gender budgeting does not mean that there has to be separate budgets for women and men. It means having a budget that considers the impact of future expenditures and revenues to women and men, and allocates adequate resources for programmes that aim to uplift the status and improve the well-being of women and girls.

Gendering the budget process is useful for a number of reasons. Firstly, it facilitates the understanding on gender-differentiated impact of budgetary

allocations on both sexes, and thus helps policy makers to avoid any negative impact of certain expenses/revenues on women and girls and/or on gender relations. Furthermore, gender budgeting ensures adequate allocation of resources for gender-specific programmes and thus increases the effectiveness of policies aiming to eliminate gender discrimination and alleviate women's poverty. It can also be used as an accountability measure as without budgetary allocations promises are hard to be accomplished as in India National Commission for Women takes up gender budgets as a tool to hold governments accountable. More importantly, gender responsive budgets also improve data availability, as during the process both male and female members of households are considered individually, and women's contribution to household activities, including non-market work and care economy, are also incorporated in the survey analysis.

The need for a gender sensitive macroeconomic policy and gender responsive budgeting was first highlighted during the Fourth World Conference of Women held in Beijing in September 1995. Since then it has been reiterated in various other international, regional and national platforms. Another firm step taken to incorporate gender into budgets was taken in 1999 by CEDAW Committee's General Recommendation 24, which required State parties to ensure realisation of women's rights to healthcare and to allocate adequate budgetary resources to women's healthcare in health budget. By 2005, more than 60 countries had initiated Gender Budget Initiatives and/or gender audits at various levels and with varying scopes and actors. During the gender budgeting process, various tools are utilised involving gender sensitisation of stakeholders to gendered analysis of budgets, data collection and inclusion of gender statement in budgets. Although, most of the countries that has initiated gender budgeting processes have not done more than conducting some gender sensitisation workshops, some of

the countries, including India, have succeeded in producing a gender budget statement.

Sri Lanka was the first South Asian country, and one of the pilot countries, that initiated the gender budgeting process in the 1990s. However, Gender Budget Initiative has taken its actual start in South Asia in 2000 with the First Regional Workshop on Gender Budget, which was conducted in India by UNIFEM. Ever since, all the countries of South Asia have been involved in gender budgeting and currently are at different stages of incorporating gender into their budgets.

In India, Gender Budget Initiative (GBI) started in 2000-01. After initial stages, which mainly included capacity building, gendered analysis of previous budgets, Indian government has included a separate statement on gender budgeting in 2005-06 union government's budget, stating that 2.8 per cent of the total expenditure was allocated to gender specific programmes/schemes. The allocation increased to 5.1 per cent of the total budget estimates for 2006-07 fiscal year. The initiative has been welcomed but is also criticised for being misleading as the gender budget statement includes allocation for programmes/schemes that also cover men and children.

Civil society in India is also being involved in gender budgeting mainly through empowering women at grassroots levels. One of such examples is Karnataka Women's Information and Rescue Centre (KWIRC), a Bangalore based NGO. KWIRC has conducted various studies and has found that after the 1993 constitutional amendment, which ensures reservation of one-third of the council seats to women, there has been an increase in the number of women elected to village councils but their involvement in budget discussions is negligible although their priorities are different from those of men. They have introduced a project that trains women representatives at local levels at

Karnataka to construct budgets from below.

Gender Responsive Budgeting Initiative was launched in Pakistan by the Ministry of Finance and Punjab Department of Finance in 2005. The initiative will be taken at three levels including health, education and population sectors of federal, provincial (Punjab) and district levels (Gujrat and Rajanpur).

In Nepal, the Tenth Plan (2002-07) for the first time used the term gender budgets and stated that all the policies, programmes and budgets will be analysed with a gender perspective. In 2003-04, a report 'Gender Budget Audit in Nepal' was finalised and disseminated to government officials and other stakeholders, and various capacity building workshops were conducted. A plan of action has also been developed in order to take the gender responsive budgeting initiative further. As a result of these efforts, the government departments in Nepal have made gender impact as a part of their programmes.

After the pilot stages during the 1990s, the government of Sri Lanka invited UNIFEM to facilitate the gender budgeting initiative again in 2002. Since then, three gender budget analysis (of the 2002-03 Budget, of the National Poverty Alleviation Programme and of a programme relating to migration of women) have been carried out, and various workshops for gender budget training and dissemination have been conducted. The gender budget analysis showed that despite equality in access and usage of social services, funding was inadequate and women's access to government programmes in agriculture and industry sectors was low as a result of gender neutral policies. 'Building Budgets from Below' project of KWIRC in Karnataka is also going to be replicated in Sri Lanka in order to ensure involvement of women in budget preparation.

Civil society in India is also being involved in gender budgeting mainly through empowering women

Microcredit: An effective tool for poverty alleviation and empowerment of women

Encouraging the entrepreneurship and self-employment of women through increasing women's access to collateral-free small loans is proven to be a successful strategy for alleviating poverty and empowerment of women. The potential of microcredit in poverty alleviation and women's empowerment has been realised only during the 1990s and since then international organisations, governments and the NGOs have increased their efforts to raise awareness about the importance of microfinance for poverty alleviation, to develop pro-poor sustainable financial institutions and increase the outreach of microfinance institutions (MFIs).

The Grameen Bank in Bangladesh and ACCION in Brazil have been the first microcredit programmes that has started operating in the mid-1970s with the aim to provide small loans to the poor, mainly women and the marginalised groups who have no access to formal credit markets due to lack of collateral. Grameen Bank covers all the villages in Bangladesh, and reached 6.6 million borrowers, 97 per cent of whom were women.⁴⁹ The group lending methodology of Grameen Bank, which is based on social collateral rather than financial, is now replicated in more than 50 countries of the world (see box 3.2).

The number of microcredit institutions has increased extensively overtime but the task of providing microfinance services to the poor is quite challenging. In 2002, more than a billion people—one-fifth of world's population—were living with less than US \$1 a day.⁵⁰ According to the Microcredit Summit Report of 2005, 3,164 microcredit institutions reported reaching around 92.3 million clients, of whom 72.2 per cent were the poorest of the poor when they first received the loan. Among these, 55.6 million (83.5 per cent) were women.⁵¹ These numbers show that though poor women are more likely to benefit from microcredit programmes,

the overall outreach of microcredit institutions is still quite low.

MFIs in South Asia mainly serve women. In 2003, 83 per cent of active borrowers were women in South Asia as opposed to 62.1 per cent in Africa, 76.5 per cent in East Asia and Pacific and 58 per cent in Latin America and Caribbean. The proportion of women among the active borrowers was almost universal in Bangladesh, India and Nepal and 75 per cent in Sri Lanka. Pakistan had a very low coverage of women; majority of active borrowers were men (52.2 per cent).⁵²

The potential benefits of women's access to financial services are widespread. Microfinance empowers women not only economically but also socially. It increases women's economic security and decreases vulnerability of women and their families to financial shocks. It also has wider social impacts that go beyond the individual women to their families and communities in terms of better education and health outcomes and empowerment. Microcredit also enhances women's status, self-confidence and self-worth through increasing women's bargaining power within the household and in community.⁵³ Women's increased representation outside domestic sphere also improves their position in the community. These financial and social benefits make microcredit a strong tool for achieving not only the MDG on halving the number of people living in poverty but also the other MDGs related to education, nutrition and health and empowerment of women. To give some examples of the gendered impact of microcredit programmes in the region⁵⁴;

- In rural Bangladesh, women's access to credit programmes provided by Grameen Bank and Bangladesh Rural Advancement Community (BRAC) has increased the use of contraception contributing positively to the health of mothers and children.⁵⁵ Another study has shown that being a Grameen member for a decade increased the women's role in household management as well as their mobility.⁵⁶ The analysis

The potential of microcredit in poverty alleviation and women's empowerment has been realised only during the 1990s

Box 3.2 Grameen Bank, poverty alleviation and women's empowerment

The Grameen Bank of Bangladesh has emerged as an international model for microcredit programmes. Muhammad Yunus, creator of the Bank, received the Nobel Peace Prize for 2006. In 1976, Yunus and his colleagues at the Chittagong University initiated an experimental project targeting 42 landless persons in a nearby village. The action research project was designed to test the hypothesis that the rural poor could generate productive self-employment for themselves if they were provided with appropriate amounts of credit along with proper counseling. That was the beginning of Grameen Bank which emerged as a formal financial institution in 1983.

Currently the Grameen Bank has 6.6 million borrowers, 97 per cent of whom are women. The 2226 branches being operated are providing services to every single village in Bangladesh. Since its inception, the Grameen Bank has disbursed a cumulative total of US \$5.72 billion as loans. The loan recovery rate is unprecedentedly high at almost 99 per cent. The Grameen Bank not only lends money to the poor but also these poor borrowers own 94 per cent of the total equity of the Bank. The Bank is financially self-reliant and has been making profits almost every year. Since 1995 it has not been accepting any loans/grants from any source.

Sources: Yunus 2002, 2005 and 2006.

The foundation of the Grameen Bank process is the concept of group lending. The borrowers are required to form a group of five co-borrowers. All the members of a group are of the same gender in accordance with the cultural norms of Bangladesh. These members must live in the same village, have similar economic resources but must be from different households. Lending decisions are determined on the basis of group credit worthiness. Each group elects a chairperson and a secretary to ensure attendance by all group members at meetings which bring together six to eight such groups. Within a certain group, the two neediest members get the loan first and they must repay on schedule before the next two receive the loan. The group chairperson is often the last one to receive the loan. The loan size ranges between US \$100-300.

The Grameen Bank believes that the best way to improve the standard of living in Bangladesh is to primarily focus on women's economic status. Though women are considered riskier borrowers, the Bank has found that the recovery rate on loans made to female members has been consistently higher than that on loans made to male members. Hence, the Bank has increasingly focused on providing credit to women. In keeping with its philosophy, there is a social dimension in addition to the economic

impact as to why the Grameen Bank chooses to emphasise female membership. The Bank views the improvement in women's economic status as the foundation on which better social and political status can be built.

Statistics prove beyond doubt that Grameen participation has positively and significantly improved the well-being of many of its borrowers (who of course are predominantly female) and their families. According to a study, five per cent of the borrowers on the average move out of poverty each year. Grameen borrowers also have access to better sanitation and clean drinking water, dwell in better homes, their nutritional status and maternal care have improved, their children have better education, they are more likely to consult private doctors in the event of illness, they have greater access to information through mobile phones, and their ownership and control of income and wealth (in particular land) has increased. Evidence also indicates that women's social status and their empowerment within the family have improved due to Grameen lending. As women make greater financial contributions to the family, they exercise greater role in household decision-making, and have more control over important areas of their lives.

of the gender impact of credit programmes of Grameen Bank, BRAC and Bangladesh Rural Development Board showed that when the borrower is a woman the impact of credit on the household well-being is higher. Particularly it has very important effects on children's nutrition and health.⁵⁷

- In Nepal, lending through Microcredit Project for Women has increased the decision making power of women in the household and community.⁵⁸
- A study of five countries, including India and Nepal, showed that

microcredit services that targeted poor women had significant improvements in the health, nutrition and education of the most disadvantaged children, specially when microcredit services were linked with basic social services and communication.⁵⁹

- A study analysing the impact of Khushhali Bank in Pakistan showed that when the borrower is a woman the educational expenditures, particularly on girls' education were higher, woman's financial independence and decision-making power were enhanced and the

The outreach of the MFIs is still very small as compared to the potential demand in South Asia

arguments between the spouses were decreased.⁶⁰

Extreme patriarchal ideologies and structures continue to hamper realisation of the benefits of microcredit to its full potential in South Asia. Women earn income but continue to lack full control on it. Although they have access to financial means, they lack education, skills and access to other productive assets to be able to maximise their returns. Similarly, gender stereotyping regarding what type of jobs women should get limits the areas in which women can work, and thus usually they end up investing in low-return home-based work. Various studies in South Asia showed that;

- Microcredit Programmes may exacerbate gender-based violence when empowered women challenge the rigid gender norms as shown by an ethnographic study in rural Bangladesh.⁶¹
- The impact of microcredit on women's status might also be hampered when women have little say in the control of loan. Some studies from the region showed that although women receive the loan, it is mainly used by the male relatives of the women.⁶² Three-quarters of women participating in South Asia Poverty Alleviation Programme (SAPAP) were also handing their earnings to their husbands or parents-in-law.⁶³
- The analysis of SAPAP has indicated that there is no difference between member and non-member households in distribution of food and clothing; 90 per cent of women and girls continue to eat last. Women also continue not to own assets.⁶⁴

The impact of microcredit will be felt more strongly at the country level when the outreach of the MFIs expands universally and microfinance is available over a long-term. Microfinance sectors all over the world, as well as in South Asia, have two main challenges: to increase the outreach and to be able to cover the expenses of the institutions.

The outreach of the MFIs is still very small as compared to the potential demand in South Asia.⁶⁵ Furthermore, sustainability of MFIs is crucial for long-term gains and availability of financial opportunities for the poor. In South Asia, 96 per cent of active borrowers in Bangladesh, 75 per cent in India, Nepal and Sri Lanka were covered by sustainable MFIs. However, the proportion was only 42 per cent for Pakistan.⁶⁶

Attaining potential benefits of microfinance on women's status requires taking some gender specific measures. Some of these are; i) promoting literacy, education and skill building among women; ii) providing training in areas where there is demand for services; iii) combining microcredit programmes with efforts to monitor distribution of food, healthcare and education within the household; iv) sensitisation of men on gender-specific needs and about sharing responsibilities with women; v) informing women of their legal rights; vi) developing strategies to strengthen women's access to land and other ownership rights, and vii) developing strategies to increase women's control of money.

Growth, Poverty and Inequality

The process of economic growth in South Asia has not fully benefited the poor. Despite achieving an impressive growth rate that is comparable to some of the East Asian economies, the region has the largest concentration of the world's poor. More than 40 per cent of the world's poor live in South Asia. Infact, the pace of poverty reduction in the region has been much slower than the pace of economic growth. Due to the liberalisation policies undertaken by South Asian countries, growth rates have been quite impressive, particularly in the recent decade. Most countries in the region, however failed to experience a significant and consistent decline in poverty. Examples of countries where the benefits of economic growth do not reach down to the poor in a considerable manner point to the fact the relationship between economic growth and poverty is not that simple. Economic growth is a necessary but not a sufficient condition for poverty reduction. Income distribution and non-income dimensions of inequality (access to health, education, credit, safe water, sanitation etc.) are now being increasingly recognised in the academic and policy discourse as the determinant factors for the ultimate success of growth in reducing poverty. In addition to the distribution of income, it is the structure and composition of growth that matter and the level of human development in terms of skills and education that determines the beneficial impact of economic growth on the poor.

The Report on *Human Development in South Asia 1999* noted that South Asia remains a divided region—divided between the hopes of the rich and the despair of the poor. Seven years later, the situation has not changed. The division is greater than ever before. Income inequality

and social exclusion based upon gender, ethnicity and geographical regions are on rise in South Asia. High and persistent inequality in the region is not only restricting the poor to benefit from economic growth but also, by fuelling civil and political conflicts, is posing a serious threat to the process of growth itself.

This chapter first looks at the theoretical and conceptual underpinnings of the relationship between economic growth, income inequality and poverty. It then explores the dynamics of this relationship in the context of South Asia. The chapter then discusses factors that can make growth pro-poor in South Asia, including the role of public policies in ensuring a broad-based participation of the poor in the process of growth.

Growth, poverty and inequality: Theoretical linkages

The dominance of the role of economic growth in poverty alleviation dates back to the 1950s when economic policy discourse emphasised economic growth as the ultimate and sole policy objective. Poverty reduction and social and human development, though desirable, were considered as mere by-products of the growth process. The channel was supposed to work as follows: productivity-led-growth, economic liberalisation and market-oriented policies increase investment, create employment opportunities and raise wage/income levels thus reducing poverty. Initially rising levels of inequality were explained away as an undesirable but necessary characteristics of the process of growth. As impressive rates of economic growth were sustained overtime, benefits in the form of higher incomes were (via the automatic

*Income inequality
and social exclusion
based upon gender,
ethnicity and
geographical regions
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Asia*

The diverse experiences and outcomes of economic growth have forced a rethinking of the mechanisms and channels of the process

functioning of market mechanisms) supposed to gradually reach the lowest strata of society.

The subsequent experience of countries like those in South Asia, for example, showed that the hypothesis did not quite work as had been theoretically envisaged.¹ Underlying the model were very strong assumptions about the functioning of institutions and markets. In practice, markets do not function perfectly—wages are rigid, access to credit is restricted, and labour markets imperfect. The role of distribution of income, access to opportunity to build capability and jobs, and the contribution of institutions and government policies in ensuring that the poor benefit adequately from economic growth must be emphasised directly rather than being implicitly assumed. Furthermore, on an empirical level, it is now clear that while growth reduces poverty on average, the size and direction of impact is not uniform across countries. For instance, economies undergoing structural transformation have recorded episodes of rising poverty levels alongside high rates of economic growth.² Likewise, given the similar rate of economic growth, some East Asian economies have been much more successful in reducing poverty than some of the South Asian countries. Infact, the reduction in poverty involves much more than economic growth alone. A study based on a sample of 51 developing countries found that less than half of the variation in poverty can be explained by economic growth.³

The diverse experiences and outcomes of economic growth have forced a rethinking of the mechanisms and channels of the process. Supported by empirical evidence is the growing consensus that inequality in access to opportunities (in addition to the level of income) is the determining factor that helps explain cross-country differences in poverty reduction.⁴ A divergence from the earlier view of the 1950s, this literature makes poverty reduction a function of economic growth as well as of income distribution.⁵ The impact of growth is

therefore transmitted via two channels— income growth and the changes in inequality. In so far as growth increases the mean incomes, it reduces poverty. However, growth also contributes to changes in income distribution and these changes matter for poverty reduction. If the process of growth increases inequality by concentrating the gains in a few hands, it has an adverse impact on poverty reduction. Thus, the level of inequality, often linked closely to the pattern of growth, determines the pace and the extent of poverty reduction.⁶

The non-income dimension of inequality is the lack of access to opportunities that empower the poor and equip them with skills necessary to participate in growth. Accumulation of human capital suffers because of the denial of sustenance, shelter, education and health to large proportions of the populations that get marginalised in highly unequal economies. Restricted access to assets and to the factors of production also perpetuates poverty by denying the poor their share in the growth process. Many studies have established asset inequality as a major causal determinant of countries' growth performance as well as the sensitivity of poverty levels to economic growth.⁷ Ownership of assets like land, livestock and human capital can help the poor to cope with shocks and protect them from being affected by adverse circumstances.

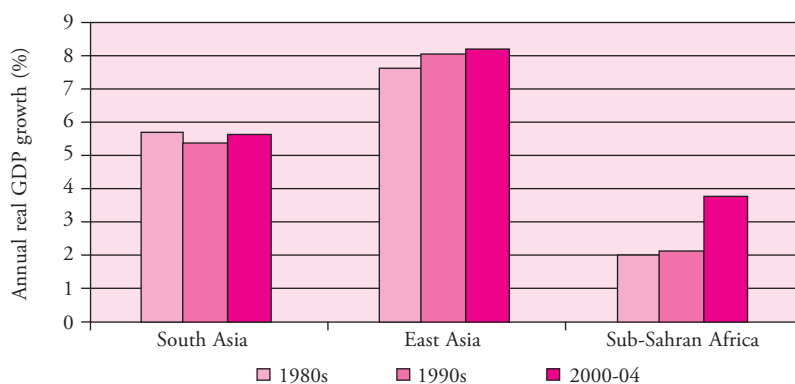
The role of initial inequality particularly in the ownership of land and human capital is also being increasingly recognised in the development literature as an important factor in determining the extent to which growth reduces poverty. Ravallion and Datt (2002) studied the influence of initial conditions (including inequality in the ownership of physical/ human assets due to credit market failure) on the extent to which the non-farm growth in Indian states was effective in reducing poverty from 1960 to 1994. The growth process was found to be more pro-poor in states with initially higher farm productivity, lower urban-rural income

disparities and higher literacy. Amongst these initial conditions, the role played by female literacy is particularly notable (also see box 4.3). Also the existence of consumption/income disparities between the urban and rural sectors is clearly an important dimension of overall inequality in South Asia limiting prospects for pro-poor growth.

Countries with falling inequality levels are able to achieve greater decline in poverty as compared to countries with rising levels of inequality. Among growing economies, the median rate of decline in the US \$1 a day headcount index is 10 per cent per year among countries that combined growth with falling inequality, while it is only 1 per cent per year for those countries for which the growth was accompanied by rising inequality.⁸ This evidence represents a divergence from the earlier perceptions that worsening inequality is an undesirable but temporary phenomenon and that eventually gains of growth get distributed throughout the population. Reducing inequality is now understood to have a two-fold positive impact on poverty levels. It results into an immediate increase in the resources and access of the poor, and also increases the poverty reduction impact of subsequent growth.

Inequality in the distribution of income, as well as in the ownership of assets, leads to elitism and encourages rent seeking behaviour by the powerful interest groups. This leads to serious distortions in the economy whereby a handful of powerful elites promote their own vested interest to the detriment of the weaker sections of the society. The outcome is that the benefits of public policy largely bypass the poor culminating into their exclusion from the process of growth. If left unchecked, this can potentially lead to social tensions and finally conflicts and a reduction in future growth.

Figure 4.1 Regional comparison of long term growth rates, 1980-2004



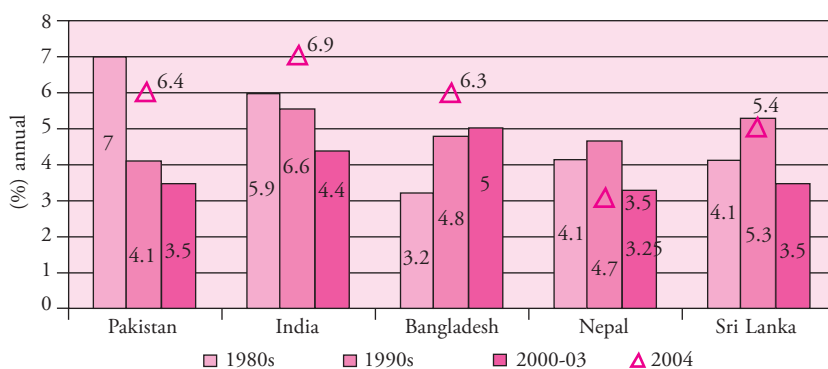
Source: World Bank 2006g.

Growth, poverty and inequality: Evidence from South Asia

South Asia has exhibited impressive economic growth since the 1980s (figure 4.1). The performance in terms of GDP growth has been particularly remarkable during the last five years. Figure 4.2 shows that in 2004, the majority of South Asian countries experienced a spurt in GDP growth. Countries such as India, Pakistan and Bangladesh all achieved a high growth rate of 6.9, 6.4 and 6.3 per cent respectively. Economic forecast predicts that Pakistan at least is set to sustain these rates in the future.⁹

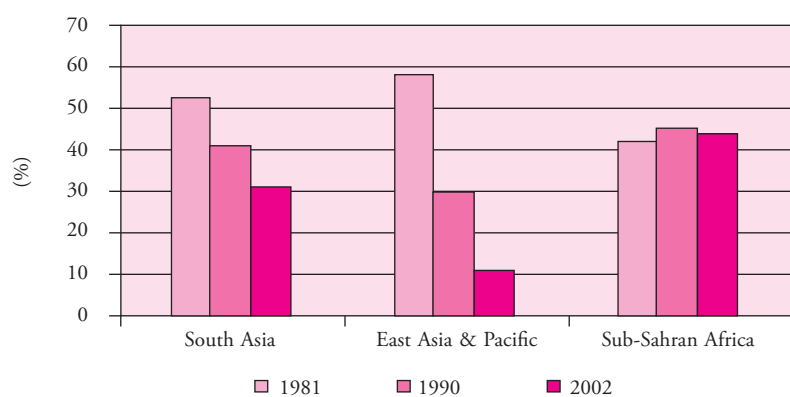
India has been leading the GDP growth in South Asia. The country has consistently managed to sustain high rates of economic growth since the 1980s.

Figure 4.2 Trends in GDP growth in South Asia, 1980-2004



Source: World Bank 2006g.

Figure 4.3 Regional comparison of poverty incidence (people living below US \$1 a day), 1981-2002



Source: World Bank 2006g.

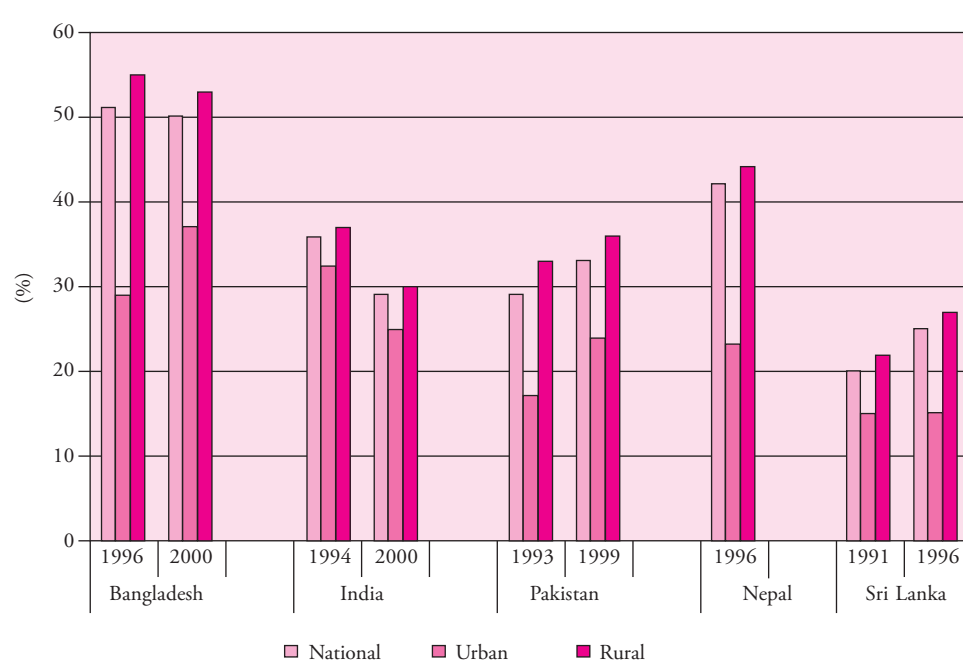
Bangladesh also maintained a healthy average growth rate of 4.8 per cent through the 1990s that has improved slightly over the last five years. Pakistan's GDP growth rates, though lower on the average than those of Bangladesh and India since the 1990s, have nevertheless stayed in the range of four per cent. Trends in Nepal's GDP growth reflect the political instability that plagues the country periodically, with a clear slowdown in growth at present. However, the true

potential for economic growth in Nepal is evident in years of relative stability. Economic growth in Sri Lanka appears to have lost its pace over the years, with average growth rates declining to under four per cent between the years 2000 and 2003.

Although the progress of South Asia in terms of economic growth has been reasonably good in the context of global economy, the performance in terms of poverty reduction has been at best moderate compared to other regions with similar economic growth trends. There is no denying, however, that growth has had a positive impact on poverty reduction in South Asia. But, the decline in the incidence of poverty has been slow and even reversed in Pakistan's case (figure 4.4):

- India has shown marked decline in poverty, the national poverty headcount ratio having fallen by seven percentage points between 1994 and 2000.
- The incidence of poverty in Pakistan went up by four percentage points (from 29 per cent to 33 per cent) between 1993 and 1999.

Figure 4.4 Geographical distribution of poverty incidence in South Asia, 1994-2000



Source: World Bank 2006g.

- More than half of the population was below the national poverty line in Bangladesh in 2000. This indicated that the poverty incidence fell by a negligible one per cent in four years since 1996.
- In Sri Lanka, poverty increased by five percentage points between 1991 and 1996. Data from national sources show that some decline in poverty was observed later on from 1996 to 2002 (see chapter 8).
- In Nepal, the percentage of population living below national poverty line went down by 11 percentage points between 1996 and 2004.

These statistics depicting the trend in the incidence of poverty however must be interpreted with caution. Frequent changes in the methodology and survey design restrict the comparability of poverty estimates over time. Moreover, the national averages of poverty estimates in South Asian countries almost invariably

mask the wide rural urban disparity in the incidence of poverty. As chapter 2 shows, poverty in South Asia is predominantly a rural phenomenon. Not only is the majority of the South Asian population dwelling in rural areas, the proportion of rural population in poverty outstrips the national average (figure 4.4). Pakistan, Sri Lanka and Nepal have registered a substantial increase in rural poverty incidence. India and Bangladesh are, however, notable for the substantial reduction in rural poverty. In Bangladesh's case, the phenomenal success of microcredit institutions in the rural sector is largely responsible for the improvement in living standards and providing the poor with better access to economic opportunities (see chapter 7 for details). India's evident success in rural poverty alleviation over the last thirty years is largely explained by the growth in average consumption and a relatively smaller consumption inequality (box 4.1).

Box 4.1 How much does consumption equality matter to poverty reduction in South Asia?

The change in poverty can be decomposed into change in the mean consumption level of a given distribution and a change in the distribution of consumption around the mean. This 'growth-equity decomposition' throws light on the relative contributions of economic growth and variations in inequality to aggregate changes in poverty. It is worthwhile to note the results of such poverty decompositions carried out for India and Pakistan.

The sizable reduction in rural poverty in India between 1977 and 1990 can be largely attributed to the growth in mean consumption expenditure per capita. Such growth accounted for nearly two-thirds of the drop in the headcount index for rural India over this period. The remaining decline in poverty was attributed to the greater consumption equality. Changes in distribution in rural India, therefore, reinforced the favourable

effects of the increase in mean consumption. But roughly over the same period, the 'growth-equity decomposition' suggests a continued worsening of the distribution from the point of view of the urban poor in India. Substantial consumption growth, however, ensured that the urban headcount poverty in India continued to fall.

Similar standard methodology has been used to understand poverty changes in Pakistan between 1990 and 1999. The growth in average consumption was found to be all but non-existent over this period in Pakistan. Again, as in the case of India, urban and rural poverty decompositions for Pakistan exhibit differing patterns. Poverty reduction in the rural areas was impeded by growth stagnation at more or less a constant consumption distribution. In the urban sector, potential gains in poverty

alleviation were wiped out by rising inequality.

The significance of the 'growth-equity decomposition' technique for South Asia lies in the quantification of the possibility that rapid strides of growth in the region might have so far failed to touch the poor adequately in the wake of adverse variations in inequality. The phenomenon has been found to hold for the urban sectors of India and Pakistan. While in case of India, changes in distribution tended to increase urban poverty, there was sufficient growth in mean consumption to counteract their effect. In urban Pakistan, however, consumption growth could not compensate for the adverse effects of increasing inequalities. Evidently, economic growth in the two major South Asian economies has not been adequately linked with poverty reduction by deliberate redistributive public policy.

Sources: Datt and Ravallion 1992; Ravallion 2000 and World Bank 2002a.

Table 4.1 Trends in the Gini coefficient for South Asia, 1980-2004

Countries	Year	Gini
India	1983	0.31
	1992	0.32
	2000	0.33
Pakistan	1985	0.32
	1991	0.31
	1999	0.33
	2004	0.30
Bangladesh	1989	0.28
	1992	0.28
	2000	0.32
Nepal	1995	0.36
	2004	0.47
Sri Lanka*	1980	0.44
	1991	0.44
	2002	0.46

Note: *A value of 0 signifies perfect equality and 100 perfect inequality when interpreting the Gini Index.

Sources: Deininger and Squire 1998; WIID 2005 and World Bank 2005e and 2006g.

The estimates of poverty incidence in South Asia as discussed above need to be supplemented with the measure of poverty headcount at US \$2 a day. This measure can be interpreted as an indicator of vulnerability and the number of the vulnerable in South Asia is colossal by this count. Well over three-fourths of the population in Bangladesh, India and Pakistan is living below US \$2 a day.¹⁰

The discussion so far points to the fact that economic growth in South Asia has not been successful in making a significant dent in the level of poverty. The region continues to suffer from a high level of poverty, human deprivation and vulnerability. One reason why the connection between growth and poverty has been relatively weak is the rising level of inequality in the region. Table 4.1 shows that income inequality as measured by the Gini coefficient has increased in all South Asian countries. The change is most pronounced in Nepal where the Gini coefficient has shot up by more than ten percentage points signalling a significant worsening of income distribution levels.

Another important feature of South Asian economies that is related to overall income inequality, and is potentially responsible for the limited impact of economic growth on poverty reduction, is the widening level of regional inequality. Within South Asian countries, growth has mostly occurred in certain geographical areas that are better equipped with infrastructure facilities and human capital. Growth is low and poverty remains concentrated in backward and underdeveloped areas. In India, for instance, the per capita GDP of the two poorest yet largest states (Bihar and Uttar Pradesh) is less than half the national average.¹¹ In Sri Lanka, the incidence of poverty is as high as 32 per cent in the poorest district of Monaragala as compared to a mere 5 per cent in the more prosperous district of Colombo. In Nepal, poverty is more endemic in the Mid-western and Far-western regions (44.8 and 41.0 per cent respectively) as

compared to the Central Province (27.1 per cent).

Inequality in South Asia is also visible within particular regions/provinces. In the Punjab province of Pakistan, for instance, Central and Northern Districts are much better-off than the Southern districts. These levels of regional inequality dampen the impact of growth on poverty reduction. A study based upon India, for instance, shows that had it been not for the sectoral and geographical imbalance of growth, the reduction in poverty as a result of economic growth would have been twice the rate India had achieved in the past.¹² Similarly for Bangladesh, it is estimated that had growth been distribution-neutral in the 1990s, poverty would have fallen by twice the actual rate.¹³ In Nepal, it turns out that from 1995-96 to 2003-04 the reduction in poverty could have been more than twice as large had the distribution of consumption expenditures remained the same.¹⁴

Neither the growth process nor the government policies appear to have addressed the issue of asymmetric income distribution in South Asia. The concern is that the growth has happened in sectors and followed patterns and channels that are traditionally not pro-poor. Furthermore, the rising level of inequality has dulled (and will continue to dull) the impact of economic growth on poverty, rendering the high economic growth rates in the region unsustainable in the long run.

What makes growth pro-poor in South Asia

What makes growth pro-poor is a question of central importance in the context of South Asia. In the previous section, we discussed the role of income distribution in ensuring that the benefits of growth reach the poor. There are other, mostly related, set of factors that determine whether the growth is pro-poor. First, it is the structure and pattern of growth that determines whether the poor participate in the growth or are marginalised. For

growth to reduce poverty it must follow a pattern that favours the sectors/regions where the poor are concentrated and also the factors of production that they possess (or are able to acquire). The vast majority of the poor in South Asia are in rural areas, depend on agriculture for their livelihoods and mostly use/possess labour (sometimes land).¹⁵ Pro-poor growth therefore, needs to focus on rural areas, develop agricultural sector, and make intensive use of labour.¹⁶ Box 4.2 delineates the critical role of agricultural development in poverty reduction. Labour-intensive growth can also occur in manufacturing and services sector and can, over time, increase non-farm incomes in urban as well as rural areas. The experiences of fast growing countries like China, India and East Asia show that poverty decline was the largest when growth made use of the assets possessed by the poor.¹⁷

Second, growth is pro-poor when it is accompanied by policies and programmes that mitigate inequalities and facilitate income and employment generation for the poor, particularly for women and other traditionally excluded groups.¹⁸ Figure 4.5 shows the necessary inputs for pro-poor growth including the role of public policies in distributing gains equally and to reduce poverty. Analyses of the structure and pattern of growth in the developing countries reveal uneven sporadic spurts in growth rates. Concentrated growth spurts in isolated sectors allow the economy to grow but these spurts also create inequality.¹⁹ Here the role of equalising long-term growth strategies and redistributive policies becomes more important as an avenue of pro-poor growth. Through taxes, transfers, investment incentives and social spending the government can create an enabling environment whereby the pace of growth and that of poverty reduction are both equitable and sustainable. Last, but not least, it is the level of human development, in particular the level of skill and educational attainment that determines whether the poor are able to participate in the process of growth (see box 4.3).

The structure of growth in South Asia

The significance of the structure of growth has increased over time as evidence has built up to suggest that certain sectors and production processes contribute more to rates of economic growth while others make a larger contribution to the rate of poverty reduction. To analyse the structure of growth in South Asia, we first examine the sources of growth to see whether the production processes in South Asia utilise the factors of production that the poor possess. Secondly, we examine the composition of growth to see whether growth in South Asia has been occurring/favouring sectors that are most likely to benefit the poor.

Sources of growth

There are two major factors of production that are used in various combinations in any production process—capital and labour. Growth in total output is either accounted for by growth in capital or in labour or both. In addition to these, empirical studies on growth accounting find another important source of growth that is neither accounted for by growth in capital nor by labour. This third source is termed as the total factor productivity that captures both the efficiency with which labour and capital is used as well as the improvement in technology.

In South Asia, labour force has been growing at a reasonable rate by international standards, yet the comparison of the level of skill and education of the labour force in South Asia reveals the real dilemma. Nearly, half the employed population in Bangladesh, India and Pakistan is illiterate.²⁰ The percentage of those with secondary education is also woefully low when compared with other regions such as East Asia.

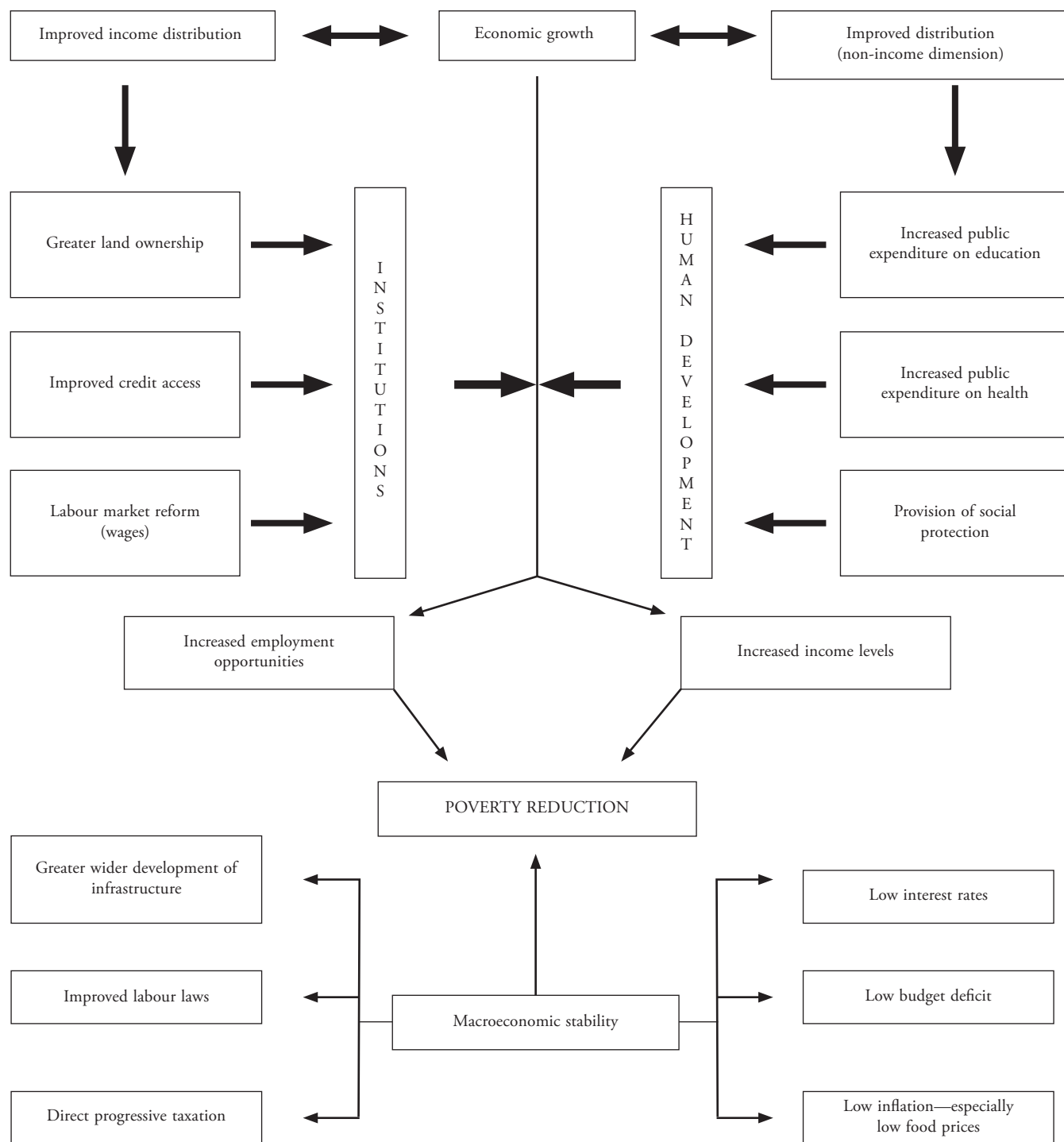
Taking gross capital formation to be a proxy of capital accumulation in an economy²¹, it is clear that South Asia as a whole spends little—23 per cent of the GDP—on building productive capacity (figure 4.6) which is quite low compared

Pro-poor growth needs to focus on rural areas, develop agricultural sector, and make intensive use of labour

to other regions (34 per cent of the GDP in East Asia) and countries in comparable income brackets (30 per cent of the GDP in low and middle income countries). Furthermore, overall investment level in

South Asia is quite low and has in fact slipped since 1995. Most South Asian countries have saving and investment rates of about 25 per cent which compare unfavourably with other countries, such

Figure 4.5 From growth to pro-poor growth



Box 4.2 Agricultural growth and poverty reduction

Empirical evidence indicates that the rate of agricultural growth is the key macroeconomic determinant of the degree of pro-poor growth. Such evidence is not perplexing since most of the world's poor, particularly in South Asia, live in rural areas. They spend most of their income on food in general and food staples in particular. Agriculture employs (or self-employs) most of the poor. Substantial number of the poor is also found engaged in rural non-farm activity largely dependent upon the growing demand of the farm-based producers and consumers. Those employed in agriculture are frequently paid in kind or through provision of access to local products. As compared to others sectors, agriculture also has a much higher average labour to capital ratio.

Agricultural output per worker and the per capita food production have a large and statistically significant impact on reducing poverty. Increases in domestically produced food supplies contribute directly to increases in average caloric intake per capita. The growth in agricultural productivity not only raises

farm incomes but also bears linkages to the non-farm rural economy. Besides stimulating economic growth, these production and consumption linkages affect poverty and spatial growth patterns. A growing agricultural sector demands non-farm production inputs, and supplies raw materials to transport, processing, and marketing firms. Likewise, increases in farm incomes lead to greater demand for consumer goods and services in general. Non-farm linkages generated by the technological transformation of agriculture can, therefore, enhance both growth and its poverty-reducing effect.

The historical evidence confirms this logic. Countries with rapidly increasing food production have much better records of poverty alleviation. A study encompassing 14 countries from East Asia and South Asia establishes that overall rapid economic growth propelled by impressive agricultural growth always caused a sharp fall in poverty during the 1970s, the 1980s and the 1990s. But whenever agriculture lagged behind other sectors in achieving rapid growth, the performance with respect to poverty

reduction was much more modest and the rate of decline in poverty in such cases was merely one-third of what was achieved on the average when agriculture performed strongly. Hence, for the same rate of economic growth, the impact on poverty is likely to be more pronounced the faster the rate of agricultural growth.

The crucial role of agricultural growth in the process of poverty reduction is not merely confined to the direct impact within the rural economy but extends to the urban economy through spillover effects. Empirical evidence on the nature of the cross-sectoral distribution effects for India reinforces the importance of rural growth to poverty reduction in the region. Between 1951 and 1991, both the urban and rural poor gained from rural consumption growth (predominantly emanating from the agricultural sector). By contrast, urban growth had no discernible impact on rural poverty. Moreover, the most significant gains to India's poor were delivered by the primary and tertiary sectors of the rural economy and not by output growth in the secondary sector.

Sources: Eastwood and Lipton 2001; Pasha and Palanivel 2004; Ravallion and Datt 1996 and Timmer 2005.

as China, that has saving and investment rates of 39.8 per cent and 36.9 per cent respectively²². Pakistan has the lowest investment level in the region.

Foreign direct investment (FDI) is also an important source of capital as it complements domestic private investment, creates new job opportunities, enhances technology transfers and boosts overall economic growth in the recipient countries.²³ In the absence of sound financial institutions and stable economic policies, reverse FDI flow can be devastating for the economy and can push significant portions of the population into poverty also (as was witnessed in Argentina and East Asia in the 1990s). As table 4.2 indicates, the FDI flows are largely concentrated in East Asia and Latin America and represent a negligible

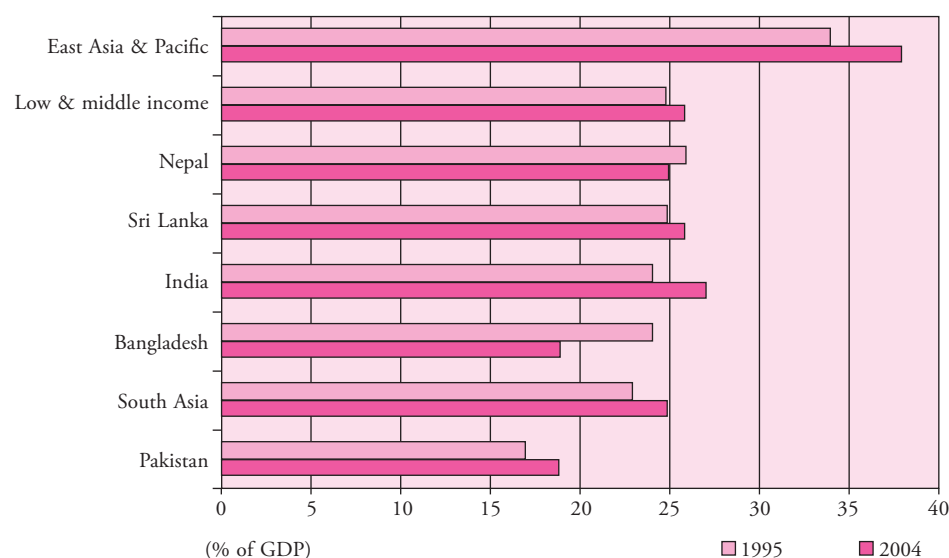
proportion of the GDP in South Asia. There are two major factors restricting the flow of foreign direct investment in the region—infrastructure bottlenecks and poor investment climate in the region.

Table 4.2 Regional trends in Foreign direct investment (FDI), 1990-2004
(Net inflows as % of GDP)

Countries	1990	2004
India	0.1	0.8
Pakistan	0.6	1.2
Bangladesh	0	0.8
Nepal	0.2	0
Sri Lanka	0.5	1.2
South Asia	0.1	0.8
East Asia & Pacific	1.6	2.5
Latin America & Caribbean	0.8	3.0

Sources: World Bank 2006g and MHHDC staff calculations.

Figure 4.6 Regional trends in gross capital formation, 1995-2004



Source: World Bank 2006g.

Infrastructure bottlenecks such as poor quality roads and power outages are not only crippling the productive capacity of domestic firms but also discouraging foreign investment. In Bangladesh, firms experience power outages 250 days a year and in Nepal everyday.²⁴ Investment climate in South Asia is also being affected adversely due to high levels of administrative barriers to start up and

manage business. In India, for instance, it takes nearly two and a half months to start up a business. It takes 124 days to register property in South Asia²⁵—an average that is the highest in the world. Resolving insolvency and closing a business is also tremendously time consuming. It takes five years to close a business in South Asia²⁶—again an average that is the highest in the world.

Box 4.3 Linking growth to poverty eradication: The critical role of human development

In order for the poor to benefit from growth, it is absolutely essential that they have the skills and the level of educational attainment that are required to capture the employment opportunities created by the process of growth. A study conducted by the ILO (International Labour Organization) finds that the major reason why growth did not benefit the poor in South Asia as much as in East Asia is that growth in South Asia is much less employment intensive in South Asia as compared to East Asia. The major reason behind the low 'employment intensity' of growth in South Asia turns out to be the neglect of human resource development in the region.

The significance of human development as a precondition for pro-poor growth is also borne out by another important study conducted for India by Gaurav Datt and Martin Ravallion. Utilising data from Indian states between 1960 and 1994, the authors examined how growth from non farm income affected poverty in Indian states. The findings of the study revealed that growth from non-farm incomes reduced poverty much more effectively in states that were better in terms of rural development and human capital. Factors such as low farm productivity, low rural living standards and poor basic education and health all restricted the poor from participating in the

growth of non-agricultural sector. More specifically, it was found that more than half of the difference in the elasticity of poverty with respect to non-agricultural output for Bihar and Kerala was attributed to Kerala's high literacy rate. Interestingly, female literacy turned out to be a stronger predictor of pro-poor growth.

These studies highlight the role of governments in South Asia to invest in human development. This is critical not only to ensure that the poor are able to participate in the process of growth but also to sustain as well as facilitate further economic growth.

Sources: Datt and Ravallion 2002 and Islam 2003.

Total factor productivity has been growing in all South Asian countries due mainly to the liberalisation policies in the 1990s.²⁷ Despite the growth, however, total factor productivity is still lower than that of East Asia. In general, a major source of technological improvement is the growth in manufactured goods. South Asia's record in terms of growth in manufacturing value added is quite poor. Between 1968 and 2001, manufacturing value added in India and Pakistan increased by a factor of 6 and 7 as compared to a factor of 40 and 27 in South Korea and Malaysia.²⁸ The share of high technology goods in the manufacturing sector is also quite miniscule.

Composition of growth

The concentration of the poor in specific regions and/or sectors points to the importance of the pattern of growth for overall poverty reduction. The following analysis shows that the pattern of growth followed in South Asia has decelerated agricultural growth that is the major source of employment and income for the majority of the poor in South Asia and accelerated the services sector that is urban-oriented, thus reinforcing disparity of income between rich and poor people and regions.

Agriculture

Growth in agricultural productivity is the surest way to reduce poverty by increasing incomes and stimulating links with the non-farm rural economy (box 4.2). Given the sheer weight of the poor in South Asia that are concentrated in rural areas and draw their sustenance directly or indirectly from the agricultural sector, growth rates in this sector truly matter for poverty reduction in South Asia.

Despite the significance of the agriculture sector in reducing poverty in South Asia, growth in this sector has been staggering. Table 4.3 shows that output from the agricultural sector as a proportion

of the GDP has declined significantly in all countries of South Asia. Not only has the contribution of the sector to aggregate income lessened over the years in all countries, agricultural productivity has also remained stagnant. Table 4.4 shows that South Asian countries have gained only marginally in terms of cereal yield and agricultural output per worker over the 12-year period from 1993 to 2005.

Given that the demographic makeup of the rural population has not changed (majority of the South Asian population is in rural areas) and agriculture still accounts for the largest chunk of employment in rural areas, the decline in incomes accruing to the sector and those

Growth in agricultural productivity is the surest way to reduce poverty by increasing incomes and stimulating links with the non-farm rural economy

Table 4.3 Trends in the structure of output in South Asia, 1990-2004
(Value added as % of GDP)

Countries	1990	2004	% change
India			
Agriculture	31	21	-32.3
Industry	28	27	-3.6
Manufacturing	17	16	-5.9
Services	41	52	26.8
Pakistan			
Agriculture	26	22	-15.4
Industry	25	25	0
Manufacturing	17	18	5.9
Services	49	53	8.2
Bangladesh			
Agriculture	30	21	-30
Industry	21	27	28.6
Manufacturing	13	16	23.1
Services	48	52	8.3
Nepal			
Agriculture	52	40	-23.1
Industry	16	23	43.8
Manufacturing	6	9	50
Services	32	27	-15.6
Sri Lanka			
Agriculture	26	18	-30.8
Industry	26	27	3.8
Manufacturing	15	15	0
Services	48	55	14.6

Sources: World Bank 2006g and MHHDC staff calculations.

Table 4.4 Trends in cereal yield and agricultural productivity in South Asia, 1992-2004

Countries	Cereal yield (kilograms per hectare)		Agricultural value added per worker (constant 2000 US \$)	
	1993-95	2003-05	1992-94	2002-04
India	2104	2391	362	391
Pakistan	1946	2438	603	688
Bangladesh	2572	3533	251	309
Nepal	1841	2284	191	208
Sri Lanka	2993	3428	713	743

Source: World Bank 2006g.

associated with it explains the urban and rural differences in poverty levels (figure 4.4). The trend of falling international prices has meant that the domestic prices of agricultural commodities have declined thus lowering farm incomes. The removal of agricultural subsidies has made production more efficient but it has also exposed farmers to international price volatility.

In India, the pattern of structural adjustment has been associated with reduced rate of agricultural growth and inadequate employment generation. The fall in agricultural productivity is directly attributed to inadequate investment in infrastructure caused by a drastic decline in public resource allocation for the sector. The post reform strategy has entailed a reduction in the central government's expenditure on rural development including agricultural programmes and rural employment and antipoverty schemes; substantial declines in public infrastructure and energy investments; and reduced transfers to state governments forcing them to cut back spending on social expenditure on education, health and sanitation.²⁹ The slowdown in the agricultural sector and resource cutbacks are reflected in the growing inequality of access and income in India between the rural and urban sectors. The reduced spread and rising prices of the public distribution system of food have seriously affected the household food consumption in rural areas. On top of all this, financial liberalisation has further restricted the availability of credit.

In Pakistan, the 1960s and the 1970s were periods of rapid productivity growth for the agricultural sector. Introduction of the high-yielding varieties (HYVs) of crops, mechanisation of agriculture and widespread use of irrigation systems increased agricultural output per hectare. The gains from agricultural productivity were however not distributed uniformly across all income groups. Due to highly unequal pattern of land ownership, it was mostly large and powerful farmers and landowners who captured a disproportionate share of agricultural growth.

The slowdown in agricultural growth in Nepal is attributable to a decline in the use of fertilisers and pesticides brought about by the sharp increases in prices of inputs due to the removal of subsidies and deteriorating seed provision for major food crops.³⁰ The ongoing civil conflict in the region also had an adverse impact on agricultural output by destroying transportation infrastructure and the violence and militia presence in rural areas have kept people away from working on their land.

Bangladesh is one pleasant example from within South Asia that geared its agricultural policies towards reduction of rural poverty.³¹ The design of the structural adjustment policies was quite conducive to agricultural growth. The reduced cost of inputs encouraged private sector participation and supported the sub-sector reforms. Improved agricultural policies enhanced the availability of irrigation facilities as well as the supplies of seeds and fertilisers. Not surprisingly, agricultural productivity increased despite fluctuations due to climatic conditions. The most important reform, complimentary to the structural adjustment, originally came from non-governmental sources, in the form of micro-credit revolution in rural Bangladesh. Greater availability of credit facilitated the purchase of inputs and participation in the increased activity in the sector thus raising income levels in rural areas. This is reflected in the progress

Bangladesh has made in reducing rural poverty over the decades.

Industry and manufacturing

While the contribution of industry and manufacturing in overall GDP have remained more or less stagnant in most South Asian countries, they have grown in Nepal and Bangladesh indicating the expansion in economic activity in these countries (table 4.3). India has registered a decline in industrial contribution to overall output led by the shrinkage in the manufacturing sector. The manufacturing in Pakistan has grown marginally due to the growth in large-scale manufacturing, cement and textile sectors.

Nepal's case is particularly notable as industrial growth has happened despite the ongoing civil conflict and political instability in the country. The industrial sector in Nepal has made an impressive recovery from its weak performance in the 1990s. Following the structural reform policies of liberalisation and privatisation³², numerous enterprises were then forced to shut down. Since then the emphasis has been on policies to attract foreign investment.

It was envisioned that the structural reform and liberalisation policies would set the South Asian countries on the track from being predominantly agricultural to industrial economies and in doing so would provide increased opportunities for people and improve their income levels. Linking the industrial/manufacturing growth rates to the income levels of those employed requires an analysis of the wage rates in the sector. Figure 4.7 shows that the manufacturing sector wage rates in the region are volatile and have been on the decline for most part of the post-reform period. The sharpest decline occurred in India where manufacturing wages declined by nearly 40 per cent over the 1990s. With the nominal wages (not shown here) having gone up, the trend is clearly indicative of rising prices and has implications for poverty. The larger impact of declining real wages is that the

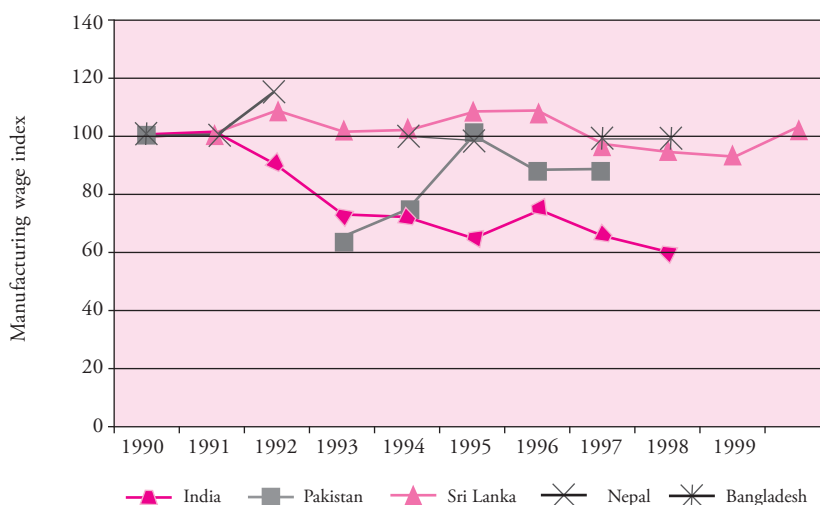
benefits (in terms of higher income flows) of economic growth, a substantial part of which is due to the growth in the manufacturing sector, have not reached the workers. Manufacturing wage indices also show much variation in the level of wages paid across countries in South Asia. The rise in wage inequality is attributed partly to the trade-induced skill-biased technological progress.³³ Given that the majority of labour in South Asia is either semiskilled or unskilled, the bias has negative ramifications for income levels of majority of the people in the region.³⁴

Services

High growth rates in India in recent years have been driven predominantly by acceleration in the services sector that now contributes 52 per cent of the total domestic output (table 4.3). Industry and agriculture have remained strong but the contribution of both sectors has declined comparatively. The stability in the services sector growth rates has reduced volatility in overall economic growth rates in India.

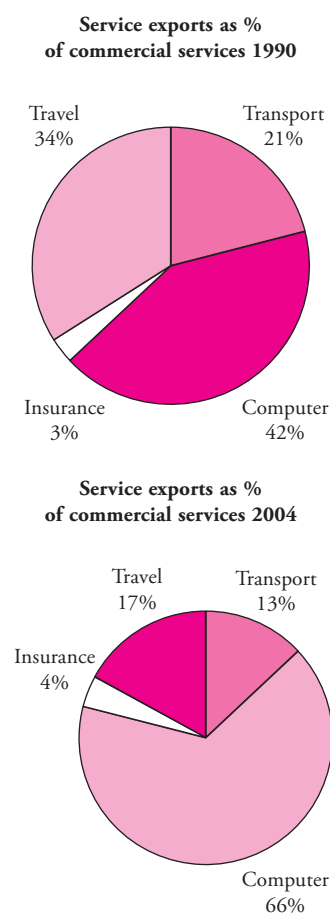
India has become the second largest exporter of services after China in 2004 (see table 4.5). Computer and information

Figure 4.7 Trends in real manufacturing wages in South Asia, 1990-1999



Source: World Bank 2006g.

Figure 4.8 Trends in the structure of service exports in India, 1990-2004



Source: World Bank 2006g.

technology (IT) related services have registered the largest increase over the decade, which is in keeping with the IT boom in the country (figure 4.8). Huge middle class urban population in India with good education and skill levels is responsible for the high growth rates of the services sector. The boom in the urban-based services sector has translated into increased income levels for the urban middle classes in large cities in India with the result that urban poverty has reduced substantially from 32 per cent to 26 per cent between 1994 and 2000 (see figure 4.4).

Worker remittances are also a significant contributor to the GDP of South Asian countries. Movement of people through migration is a significant part of integration, and migrants contribute to the economy of the host country as well as to their own. Officially recorded remittance flows have increased dramatically in South Asia since 1990 (figure 4.9). The region recorded the highest level of remittance flows in 2004 (3.5 per cent of the GDP) after Middle East and North Africa. Within South Asia, remittances make up one-eighth of the total income generated by the economy in Nepal, with Sri Lanka a distant second.

Table 4.5 Regional comparison of growth in the services sector, 1990-2004

Countries	Commercial service exports (US \$ million)		
	1990	2004	% change
India	4,610	39,638	759.8
Pakistan	1,218	1,697	39.3
Bangladesh	296	420	41.9
Nepal	166	356	114.5
Sri Lanka	425	1,506	254.4
South Asia	6,847	44,325	547.4
East Asia	22,615	129,117	470.9

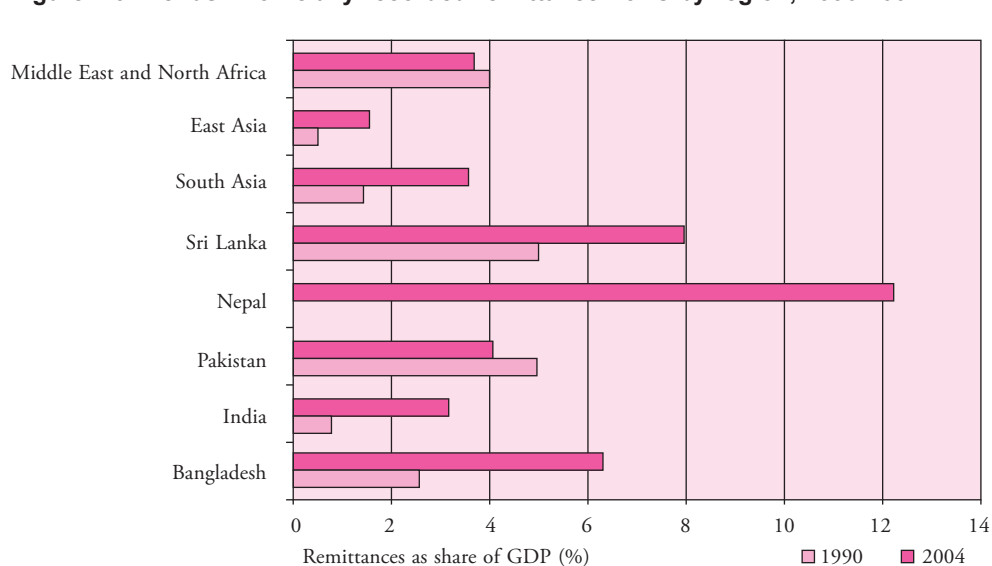
Note: International transaction in services is the economic output of intangible commodities that may be produced, transferred and consumed at the same time. Commercial services include transport services (sea, air, land, movement of goods), travel services, insurance and financial services and computer, information and communications services.

Sources: World Bank 2006g and MHHDC staff calculations.

From growth to pro-poor growth: The issue of access in South Asia

The previous analysis of the sources, patterns and composition of growth has shown the sectors that have fuelled economic growth in South Asia. More important from the perspective of poverty impact of economic growth is to determine whether the majority of the people,

Figure 4.9 Trends in officially recorded remittance flows by region, 1990-2004



Note: The data refer to the worker remittances and compensation of employees received and comprise current transfers by migrant workers and wages and salaries earned by non-resident workers.

Sources: World Bank 2006g and MHHDC staff calculations.

especially the poor, (unskilled, those lacking access to credit and productive assets, the minorities, women and children) have participated in the growth process. The first chapter of this Report provides an index of poverty of opportunity (POPI) to highlight the fact that despite increasing income levels, the lack of access to opportunities is a more pervasive problem afflicting the South Asian countries. The only way to ensure sustained economic growth, as well as improved and continued well-being of the marginalised majority in the region, is to provide access to the people to opportunities that will allow them to benefit from growth. This section discusses the non-income dimensions of inequality that not only highlight the role of the institutions and government policies in making growth pro-poor, but that also continue to worsen and obstruct the potential beneficial impact of economic growth on poverty reduction in South Asia.

Access to jobs

Economic growth creates jobs that are necessary for increasing income levels and standards of living to allow people to pull themselves and their families out of the poverty trap and to enable them to accumulate wealth over time. As discussed in the Report on *Human Development in South Asia 2003*, without a serious commitment to employment generation and human development, economic growth is neither sustainable nor deliverable in a socially just manner.³⁵ Low levels of employment generation do not just result from but also contribute to low aggregate demand and can, therefore, intensify tendencies towards stagnation or recession. Labour is often the only asset that the poor possess. Hence, wages represent the most important source of their income. Whether the poor are able to participate in the process of growth and benefit from it depend very directly on what happens to employment levels (in the agricultural as well as manufacturing sectors) and the real wages.

Table 4.6 Trends in jobless growth in South Asia, 1980-2001

Countries	Labour force (millions)	Labour force participation rate (%)
India		
1980	272	68.9
1990	333	66
1995	372	66.4
Pakistan		
1980	21	50.2
1990	28	50.3
2000	36	51.4
Bangladesh		
1980	36	80.8
1990	44	78.9
2000	51	73.8
Nepal		
1980	5.8	74.9
1990	7.3	72.9
1998	9.2	88.4
Sri Lanka		
1980	5.2	58.5
1990	6.6	64.5
2001	6.4	59.6

Source: ILO 2005.

Trends in employment and labour force participation rates show whether economic growth has been pro-poor. If economic growth fails to create employment opportunities to absorb the increasing number of people added to the labour force each year (due to rapidly increasing population in most developing countries), a major direct link between growth and poverty reduction collapses. This phenomenon known as 'jobless growth' has been common in South Asia. The labour force participation rates (LFPRs) for South Asia have historically been lower than those for countries in Sub-Saharan Africa and East Asia. The LFPRs indicate employment opportunities for all eligible people to work. Defined as a ratio of the sum of employed and unemployed to the total working age population (or the labour force), recent trends in LFPR in South Asia show that apart from Nepal and Sri Lanka, labour force participation is going down in all South Asian countries (table 4.6).

Accompanying the increase in the labour force is the rising trend in unemployment rates (table 4.7). Taken

Table 4.7 Trends in unemployment rates in South Asia, 1990-2003

Countries	Unemployment rate (%)
India	
1995	5.4
2000	7.8
2002	8.3
Pakistan	
1990	3.1
2000	7.8
Bangladesh	
1996	2.5
2000	3.3
2003	4.3
Nepal	
1998	1.1
Sri Lanka	
1990	14.4
1995	12.5
2001	11.2

Source: ILO 2005.

Table 4.8 Trends in the percentage of the working poor among the total employed in South Asia, 1980-2015

	Below US \$1 a day				Below US \$2 a day			
	1980	1990	2003 ^a	2015 ^b	1980	1990	2003 ^a	2015 ^b
South Asia	64.7	53	38.1	19.3	95.5	93.1	87.5	77.4

Note: a—estimate; b—projection.

Source: ILO 2005.

together, these figures imply that increasing number of people in South Asia who are willing and able to work, have simply not found any job. Despite the fact that there has been economic growth, an increasing proportion of the population is being marginalised from reaping its benefits in terms of increased employment (and consequently better income levels).³⁶ Unemployment rates went up sharply in Bangladesh between 1996 and 2003 and nearly tripled in Pakistan during the 1990s. In India, unemployment has increased despite sustained economic growth. Though there has been a slight reduction since 1990, Sri Lanka has the highest level of unemployment (11.2 per cent) in the region.

The vulnerabilities of South Asian workers

Apart from jobless growth, another important dimension of the employment-poverty nexus is the working poor. The concept of the working poor looks at the

people who are employed but are unable to earn enough to lift themselves and their families above the poverty line. This is an important indicator as the estimate can be taken to represent the people who work in the informal economies with very low earnings. The International Labour Organization (ILO) estimates for 2003 show that 1.39 billion people in the world work but are unable to pull themselves out of poverty.³⁷ This implies that nearly one-half of the world's workers are not earning enough to lift themselves and their families out of poverty. There is a high concentration of the working poor in South Asia among those employed. Table 4.8 shows that 38.1 per cent of the total employed labour force is living below \$ 1 a day. This ratio is as high as 87.5 per cent for those living below \$ 2 a day. This shows how vulnerable the employed labour force in South Asia is. A sudden shock in income or a sudden occurrence of natural disaster or illness can push as many as 87.5 per cent of the workers into extreme poverty.

Another indicator of how vulnerable the workers are in South Asia is the existence of an extraordinarily large informal sector in the region. Informal sector is often characterised by low productivity, low wage rates and long working hours. Workers employed in this sector are not protected by any labour laws or safety nets. Table 4.9 shows that out of the total employed labour force, the percentage of those employed in the informal sector is as high as 73 per cent in Nepal; 66 per cent in Pakistan and 56 per cent in India.

A crucial link in the chain between investment and employment is the intermediating technological choice that determines the pattern of labour use. If economic growth favours capital-intensive production process that employs highly skilled labour, it runs the risk of worsening inequalities in countries, like those in South Asia, where most labour is uneducated and unskilled, the subject we discuss in the next section.

Table 4.9 Employment in the informal sector in South Asia, 1999-2000

Country	Year	Coverage	% of total employment
India	2000	National	55.7
		Urban	51.3
		Rural	61
Pakistan	2000	National	65.8
		Urban	63.8
		Rural	68
Nepal	1999	National	73.3
		Urban	64.8
		Rural	76.2

Source: ILO 2005.

Access to education and skill training

Access to education is one of the most important components of human development. It is not only a source of social and economic progress but is also a precondition for pro-poor growth. If people are better equipped with skills and education, they are better able to capture the employment opportunities that are created as a result of economic growth. In technologically driven growth, higher skill levels translate into a higher probability of employment and income. Higher skill level improves productivity and allows access to better-paid jobs and improved living. The stellar economic performance of the East Asian economies is to a large degree due to its highly skilled workforce.

South Asia is lagging far behind its regional counterparts in the provision of education. Universal primary education is far from being a reality as evidenced by the gap in targets and achievements of educational goals (see chapter 2). The systems of education and training in South Asia have failed to produce a critical mass of qualified workforce to compete in the global market.³⁸ Not only are the levels of educational attainment very low (as evidenced by low enrolment and completion rates and high drop-out rates) but also the inequality in educational opportunities is glaring for either gender (table 4.10). The disparities in educational attainment between classes are similar across countries in South Asia. While more than 50 per cent of women from the top income quintile received primary education in South Asia, the proportion falls to less than 10 per cent for women belonging to the lowest income quintile. Similarly, men from the richer classes are considerably more likely to receive primary education than their counterparts from the lower income strata.

Poverty limits access to good quality education. Even the public sector provision of low cost education has failed to reverse the negative impact of poverty levels on educational attainment. For most

developing countries, the quality of public education facilities and services is so low as to be ineffective and has forced the poor to switch to private schools that charge high fees. The absence of markets for educational financing is exacerbating the situation. The result is a self-perpetuating poverty trap that persists across generations (as the subsequent generations of poor households are also likely to be less educated and less skilled). Unemployment in South Asia is highest among those with primary level education and it declines at higher levels of educational attainment.³⁹ Given that the poorest are likely to be the least educated and the least skilled, the probability of a poor person attaining the required skill level and entering the higher income bracket is very low.

Also, the more unequal the income distribution, the higher the population share that is excluded from schooling and, consequently, the higher the inequality in educational achievements. The gender gaps in educational attainment means that women in South Asia, who account for half the population, are left without skills to access income generating activities and without awareness to enforce their rights, making them more vulnerable to poverty and abuse. Only an improved access to education can raise the income earning capabilities of the lowest strata and thereby reduce income inequality.

Unemployment in South Asia is highest among those with primary level education and it declines at higher levels of educational attainment

Table 4.10 Inequality in educational opportunities in South Asia, 1999-2001

		(% literate)		
Country	Year		Richest 20%	Poorest 20%
Bangladesh	1999-00	F	75.9	9.8
		M	84.7	16
India	1999	F	85.6	9.7
		M	94.9	36.0
Pakistan	1990	F	66.5	3.2
		M	82.6	24.4
Nepal	2001	F	54.8	8.8
		M	80.3	33.8

Note: F-female; M-male.

Data refers to the percentage of men and women in household age 15-49 who have completed fifth grade.

Source: World Bank 2006c.

Access to land

Although the poor in South Asia share many characteristics, one overarching similarity is the lack of access to land. The link between access to land and incidence of poverty is well established⁴⁰. Eighty-five per cent of the most economically disadvantaged groups in India are marginal farmers with farm sizes less than two hectares.⁴¹ Households that depend on agricultural wage labour make up almost half of those living below the poverty line in India. In Pakistan, the landless account for 47 per cent of the poor households.⁴² A similarly strong negative relationship between landownership and poverty is observed in Bangladesh where the expenditure levels of households with half an acre and more than 2.5 acres of land are 7 per cent and 44 per cent higher, respectively, as compared to landless rural households.⁴³

Land holds significance not just as a productive asset and a major source of income generation but, in South Asia as well as in other parts of the world, is also associated with political power and social standing and is a means of access to credit as well as insurance against natural disasters. In Pakistan, land is the direct means of livelihood for over three-fifths of the rural workforce and is established as a crucial determinant of reduction in poverty and inequality. In India, land in addition to being valuable as a productive asset, confers collateral in credit markets and influence over other rural institutions (labour markets and insurance). Access to land has also been associated with increased empowerment among women in rural agricultural settings, traditionally one of the most disenfranchised social groups.

Countries with high levels of income inequality usually exhibit highly unequal distribution of land. Unequal land distribution becomes an impediment to agricultural productivity and growth in the same manner as income inequality impedes overall growth and economic development.⁴⁴ The high values of the

Gini coefficient for land reflect the inequality in access to land in South Asia (table 4.11). The extent of inequality is higher in rural areas. More importantly, in so far as access to land has implications for poverty reduction, equitable distribution of land is directly associated with increased rural agricultural incomes, increased access to credit, increased political participation and improved governance outcomes. Equitable distribution of land, achieved via well-structured and comprehensive land reforms, benefits the landless by increasing agricultural wages. An extensive study of rural India from 1955 to 1988 establishes a robust link between poverty reduction, tenancy reform and abolition of intermediaries.⁴⁵

Land reform is one way of improving the distribution of land in the region. Despite the significance of land reform for rural development, poverty reduction and economic growth, land reform has not yet become a part of the architecture of rural development programmes in South Asia. Strong political opposition, lack of comprehensive policy design and faulty implementation has made land reforms largely ineffective in most areas. In some cases, reforms have even had unintended consequences when the large landlords (fearing transfers of land) evicted their tillers and tenants, increasing unemployment and poverty levels in many parts of rural India and Pakistan. It is important to note that where land reforms have worked, for instance in West Bengal and Kerala in India, they have been associated with increased income

Table 4.11 Inequality in access to land in South Asia

Country	Gini coefficient
India	0.62
Pakistan	0.57
Bangladesh	0.42
Sri Lanka	0.64

Note: *Data refers to latest available land-holding Gini coefficient between 1960 and 2004.

Source: Erickson and Vollrath 2004.

levels and higher agricultural productivity feeding into increased growth rates.

Access to credit markets

Lack of access to credit by the poor in South Asia is a major cause of rural poverty and is associated closely with lack of access to land. With low and often unpredictable income flows, there is a dire need for credit in rural areas. Formal credit institutions require tangible assets, predominantly land, as collateral for disbursing loans. Given the disparities in land ownership and access, significant proportions of the rural population (specially women) are marginalised. In Bangladesh, out of the 879,000 loans taken out from commercial banks in 1994 only 64 were obtained by women.⁴⁶ Similar patterns are found in countries across South Asia, where unequal concentration of land is a major source of distortion in the functioning of rural credit institutions.

Access to credit is crucial for agricultural growth as it facilitates the purchase of inputs, upgrading technology and machinery, renting land, and ensuring against price shocks and natural disasters. Failures of rural credit markets in South Asia mean that the poorest with the least access to credit also remain the most vulnerable. The credit constraint impedes adoption of modern technology and high yield inputs thus making the smaller, poorer farmers less competitive. The informal credit market in rural areas is notorious for its exploitative nature with exorbitant interest rates that burden the poor trapping them in intergenerational debt cycles. The plight of women is again the worst in these cases. A rural credit review study for Nepal reveals that 84 per cent of the credit borrowed by women was from non-institutional sources of which 40 per cent was from moneylenders.⁴⁷

The policy response to credit constraints has been similar across South Asia with governments creating special financial institutions for agricultural credit,

lowering interest rates for formal sector loans and in some cases advancing credit at zero rates of interest.⁴⁸ Taking the cue from the Grameen Bank in Bangladesh and its success in providing access to credit in rural environments, other countries in South Asia have also made significant strides in improving coverage, efficiency and sustainability of their microcredit initiatives. Establishing microfinance banks with their focus on reaching small farmers and women has had significant poverty reduction impact. In India, institutional credit has been a major source for providing access to small and marginal farmers encouraging them to adopt modern technology and improved agricultural practices. Microcredit programmes alleviate poverty by enabling the poor and the disadvantaged groups to acquire income-generating assets by providing access to credit, marketing and other inputs. Another very important impact of improved access to credit brought about by microcredit schemes is the empowerment of women.

In addition to their contribution to rural development, microfinance institutions (MFIs) have made great strides in improving credit access and poverty reduction outcomes in urban areas. The microfinance institutions in Bangladesh, such as the Grameen Bank and BRAC Bank, lead South Asia in providing credit. In India, Nepal and Sri Lanka around 75 per cent of the total credit demand is met by sustainable MFIs, compared to 42 per cent in Pakistan.⁴⁹ Despite the setting up of microfinance banks and increased involvement of the private sector, only five per cent of the credit needs of the rural poor in Pakistan are estimated to have been met.⁵⁰

Macroeconomic policies and poverty in South Asia

Given the mixed outcome of the market-oriented framework currently in place in South Asia, the vital role of public policy in balancing priorities of economic growth and poverty reduction cannot be

Failures of rural credit markets in South Asia mean that the poorest with the least access to credit also remain the most vulnerable

Table 4.12 Trends in fiscal imbalances in South Asia, 1995-2004

	Cash surplus/deficit (% of GDP)		Interest payments (% of revenue)		Central Government debt (% of GDP)	
	1995	2004	1995	2004	1995	2004
India	-2	-4	32	32	48	66
Pakistan	-5	-2	31	40	79	77.4
Bangladesh	...	-1	...	...	...	36
Nepal	...	...	13	12	66	67
Sri Lanka	-8	-8	26	44	95	106

Source: World Bank 2006g.

emphasised more. The design of the fiscal, monetary and other policies has not only direct implications for subsequent growth rates but also for ensuring broad-based participation of the poor in the growth process. The discussion that follows shows that economic policies pursued by the South Asian governments in recent years have, in general, not favoured the poor.

The fiscal dilemma

Structural reform policies in South Asia emphasised the need to reduce fiscal deficits drastically.⁵¹ Efforts at fiscal discipline in the region have mostly focused on cutting back expenditures rather than improving the capacity of the states to increase tax revenues. Previous reports on human development in South Asia have noted that market-oriented policies negate the role of government investment in promoting economic activity and impede government's ability to support and develop the social sector. Achieving fiscal discipline to promote macroeconomic stability and increase revenue is important, but not on the backs of the poor. That is exactly what might have been an unintended consequence of current efforts to reduce fiscal deficit; deficit has hardly reduced, but poverty has definitely increased.

The core objective of improving the fiscal health of the South Asian governments has hardly been achieved. Fiscal adjustment in India, despite impinging heavily on public investment and welfare expenditures, has enlarged the size of the revenue deficit (table 4.12). The reduction in fiscal deficit in Pakistan

over the 1990s was brought about mainly by reduction in development expenditures with no increase in tax-to-GDP ratios. Stabilisation policies in Bangladesh have had better results precisely because the government improved the fiscal balance by reducing current rather than development expenditures and increasing tax revenues while maintaining outlays on human development and physical infrastructure.

Given that public spending is often desirable for pro-poor outcomes, fiscal deficits are not unnecessary. The important caveat is that government spending should focus on development, public service delivery and infrastructure development (in both rural and urban areas). In South Asia, burgeoning defence budgets, accounting for 28 per cent of the central government's expenditure in Pakistan and 15 per cent in India, are responsible for the large fiscal deficits.⁵² Along with military spending, the rising fiscal cost of public debt is an important constraint on human development and poverty reduction programmes. Interest payments on debt have increased in Pakistan and Sri Lanka to take up more than 40 per cent of the total revenues earned by the state (table 4.12).

Pro-poor reforms should target a better composition of public expenditure rather than the levels of fiscal deficit per se. Preoccupation with reducing fiscal deficits has led governments in South Asia to opt for quick fix policies, such as privatising state-owned industries and altering tax structures. There has, however, been no structured policy reform that prioritises public service delivery and pro-poor outcomes. The result is that employment opportunities and income distribution within most countries have only worsened.

Taxing the poor

Apart from being the main source of income for the government, a progressive tax structure is a major instrument of redistribution. In South Asia, the taxation

system is highly regressive, rewarding the rich at the expense of the poor and the middle class. Out of every dollar spent in South Asia, 60 cents are raised through taxes, of which only one-fourth comes from taxes on income.⁵³ In a region with 1.4 billion people, a work force of more than 650 million and estimated potential taxpayers numbering more than 130 million, only 17 million pay income taxes.⁵⁴ The major chunk of tax revenue is derived from levying taxes on goods and services thereby exerting a disproportionate burden on the poor. In Bangladesh, India and Pakistan, for instance, indirect taxes (mostly comprising of taxes on goods, services and transactions) represent 76, 56 and 70 per cent of the total taxes respectively.⁵⁵ The outcome of such a tax policy is undoubtedly an increase in the burden on the poor. In Pakistan, for instance, the burden of taxes on the poor has over the years increased by 10.3 per cent while it has declined by 4.3 per cent for the rich.⁵⁶

The design of the tax structure has implications for economic growth—tax rates impact private investment decisions, matter for level of imports and saving decisions in households. South Asia does not generate adequate resources through taxation to cover its expenditures. Figure

4.10 reveals that the collected tax revenue accounts for only one-tenth of the total GDP in South Asia. What is even more alarming is the fact that this proportion is nearly stagnant for the past twenty years or so. Infact, the ratio has gone down in Pakistan from 13 per cent in 1990 to 10 per cent in 2004; and in Sri Lanka, from 19 per cent in 1990 to 14 per cent in 2002⁵⁷. Within South Asia, Bangladesh has been faring the worst in terms of collection of tax revenue. Given the overall weak tax collection, the region is generating inadequate resources internally to cover its expenditures.

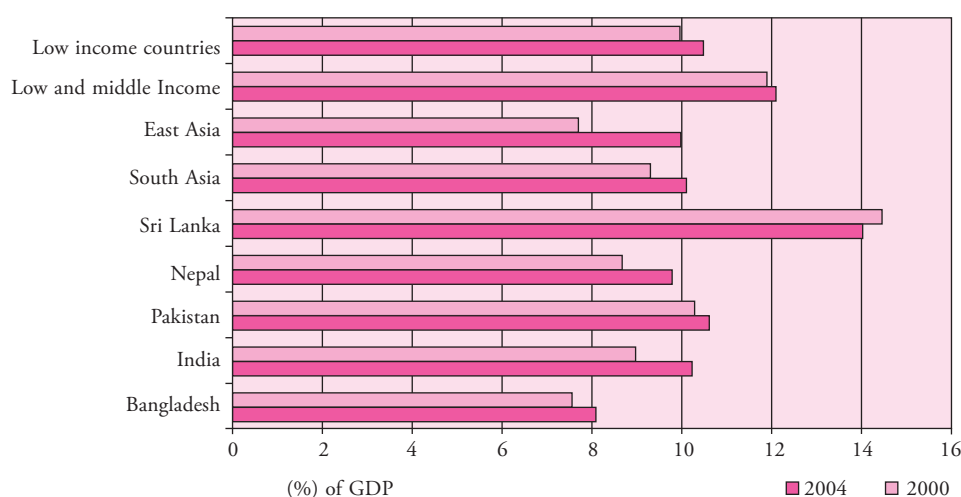
Defective tax structures and poor tax administration have been a significant source of corruption and a serious constraint on poverty reduction. The tax structures are inefficient, regressive and based on arbitrary exemptions that encourage tax evasion. Significant revenue losses occur due to various tax concessions. The fiscal costs of such concessions are considerable, close to two per cent of GDP in Pakistan and about three per cent in Sri Lanka.⁵⁸

Privatisation policy

Privatisation policies in South Asia have been pursued with the objectives of

Defective tax structures and poor tax administration have been a significant source of corruption and a serious constraint on poverty reduction

Figure 4.10 Regional trends in collection of tax revenue by the Central Governments, 2000-2004



Source: World Bank 2006g.

greater economic efficiency, achieving higher levels of economic growth and employment and reducing budgetary deficits. It is questionable, however, whether the countries have been able to achieve all of these objectives. South Asia has recorded impressive economic growth rates and registered high levels of investment and productive activity. However, there have been a number of negative consequences of these policies. Privatisation in South Asia has taken place without adequate regulatory reforms accompanying it, with the result that malpractices thus far associated with the public sector have carried through to the newly privatised environment. Instead of increased investment opportunities, productivity and employment opportunities, many privatised units are operating at losses. Given that the state is the largest employer in South Asia, privatisation has often been associated with massive layoffs, less job security and loss of pension benefits. Privatisation has also led to worker redundancy, retrenchment of workers and stagnation of employment in the organised sector, growing casualisation of labour, and weakening of labour unions. A study of privatisation in India notes the heightened job insecurity due to increased use of contract labour. Privatisation policies have been pursued without a social dialogue with the workers and trade unions in these countries. This has led to increased disenchantment among the poorer working classes who have lost their jobs and incomes and have found no support

in terms of unemployment benefits or social welfare.

Nearly one-half of the privatised units in Bangladesh had to be shut down, while six public sector units had to be closed subsequent to privatisation in Sri Lanka.⁵⁹ In Pakistan, the privatisation of manufacturing units, financial enterprises, Water and Power Development Authority (WAPDA) and the telecommunications sector has threatened jobs for more than half a million workers associated with these enterprises.⁶⁰ Privatisation has also hit employment and wage levels in India. In Sri Lanka, the spill over effects of privatisation were felt also in industries with backward linkages to the sectors being privatised. No surprise, therefore, that the perceptions of the privatisation process have been increasingly negative in South Asia, the promise of better working conditions and higher salaries notwithstanding.

Trade liberalisation

The South Asian region was comparatively closed off from the rest of the world until the early 1990s. In 1990s, all South Asian countries undertook major structural reforms including trade liberalisation, financial sector reform, privatisation and removal of restrictions on foreign private investment. Tariff rates declined significantly by 2004 implying a rather fast paced integration⁶¹ (table 4.13). In India, Pakistan, Bangladesh and Sri Lanka, the tariff levels declined by two-

Table 4.13 Trends in trade openness in South Asia, 1990-2004

Country	Simple Mean Tariff (%)		Weighted Mean Tariff (%)	
	1990	2004	1990	2004
India	79	28.3	56.1	28
Pakistan	50.1*	15.9	44.4*	13
Bangladesh	106.5*	16.5	88.4*	15.9
Nepal	21.8*	14.5	15.6*	8.5
Sri Lanka	27.4	10.2	27	6.8

Note: *Data refers to the years 1989 for Bangladesh, 1995 for Pakistan and 1993 for Nepal. Simple mean tariff is the unweighted average of effectively applied rates or most favoured nation (MFN) rates for all products subject to tariffs calculated for all products. Weighted mean tariff is the average of effectively applied rates or MFN rates weighted by the product import shares corresponding to each partner country.

Source: World Bank 2005e.

thirds or more signalling fast-paced integration into the world markets.

These moves to liberalise, decentralise and privatise markets were initiated and supported by the international financial and development institutions. The reforms were customised to address the different initial conditions in different economies but the ultimate objective remained one of accelerating growth, reducing fiscal/current account deficits and integrating the economy into the world markets. These reforms helped South Asia in transforming itself as a more open region. The trade-to-GDP ratio indicates that the South Asian economies have integrated considerably into the global markets (figure 4.11). However, despite a shift towards outward looking policies, South Asia still remains the least integrated of all the regions.

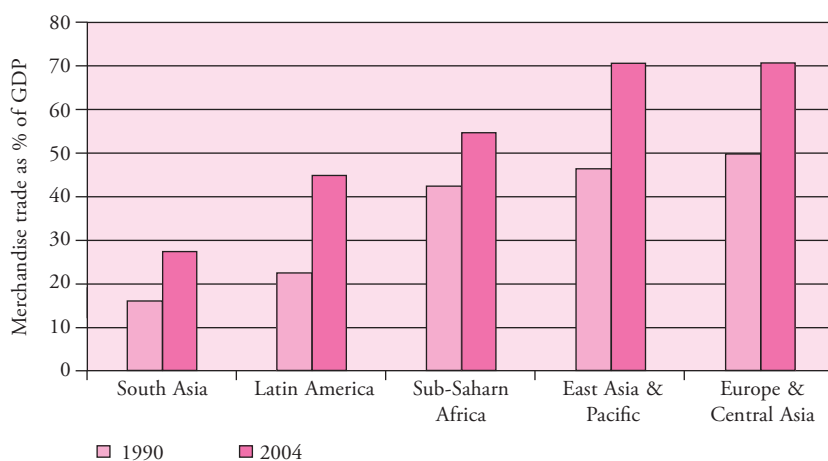
Trade openness is generally acknowledged to have spurred growth in South Asia. The rise of the manufacturing sector in Pakistan and the global domination of the services sector by India are cases in point. While the positive impact of trade and market liberalisation on macroeconomic growth is clear, openness to trade has rendered the poor in South Asia vulnerable to price/income shocks thus increasing the probability of falling into poverty. The growth has been sector-specific in nature with little or no accompanying surge in employment and wages. Trade liberalisation in Pakistan, for instance, has been accompanied by serious increase in income inequality.⁶² In India, only the skilled and the educated have been able to benefit from the services sector driven growth. While employment has increased in the manufacturing sector, the wages have actually declined (see figure 4.7). The increased demand for the main exports of Bangladesh—ready-made garments and shrimp farming—has not increased the demand for rural unskilled labour.

The period of increasing openness in the South Asian countries coincided with the establishment of the World Trade Organisation (WTO) in 1995. WTO

promised greater market access through removal of quotas, formalisation of trade in agricultural commodities and increased trade in services utilising the abundant and cheap labour in South Asian countries. It was expected that South Asia would be the net gainer from the benefits accruing to them from liberalisation of agriculture, textiles and services. Benefits were particularly expected from a more open and less distorted global agricultural trade, given that most South Asian countries are low cost producers of agricultural products. However, a decade later, the promises and expectations remain unfulfilled. The failure of the WTO in generating the expected levels of benefits is evidently reflected in the increasing unemployment in South Asia (see table 4.6). The much anticipated Doha trade talks also ended without any agreement and the development agenda which might have benefited the less fortunate in developing countries is now nowhere in sight.

Trade policy impact analysis in South Asia reveals that the opening up of the agricultural sector has exposed the small and medium farmers to external shocks. The Report on *Human Development in South Asia 2003* noted that because of continued subsidisation of the agricultural sector by developed countries the

Figure 4.11 Trends in comparative global market integration, 1990-2004



Source: World Bank 2006g.

Given its overwhelming significance, trade-related policy changes in the textiles and clothing sector also have significant welfare implications for South Asia

international commodity prices are on a steady decline since 1996.⁶³ As a result of this steep decline, a large number of producers of agricultural crops in South Asian countries are becoming increasingly non-competitive. Furthermore, the increased use of capital-intensive modes of cultivation by larger farmers in an open trade regime has reduced the demand for agricultural workers in the region. The already prevalent disguised unemployment in the rural agricultural setting and the absence of insurance/credit markets have all exacerbated the vulnerability of the poor.

Given its overwhelming significance, trade-related policy changes in the textiles and clothing sector also have significant welfare implications for South Asia. Textiles and clothing is the biggest and the fastest growing source of export earnings for the liberalising South Asian countries. The sector accounts for 83 per cent of the total export earnings for Bangladesh, 72 per cent for Pakistan, 55 per cent for Sri Lanka and almost 30 per cent for India.⁶⁴ It provides employment to 38 million people in India and is the source of 40 per cent of the manufacturing sector employment in Pakistan.⁶⁵ In this context, the abolition of the Multi Fibre Arrangement (MFA) has proven to be a mixed blessing for the region. While the relaxation of quotas has provided increased market access and improved technological usage for the textile industry, exports have not gone up as originally estimated. The impact on employment levels has been modest at best. This is largely because despite reduction in tariff and quota barriers, the industrial countries have maintained high non-tariff barriers that bar South Asian access to international markets.

That globalisation in general and trade openness in particular is not a win-win situation is now well-accepted. A number of countries, many of which hail from the developing world, have been marginalised in the process. The overwhelming evidence from the literature is that these countries failed to improve their institutions,

invested inadequately in the social sector and did not prioritise eradication of poverty and inequality through government policy. Rodrik (2004) notes that the successful globalisers have been the ones who followed policies that prioritise the strengthening of institutions of social justice as much as the growth process itself. Local economic and social institutions also determine whether people get pulled out of or pushed into poverty by trade openness.⁶⁶ Suffering from the malaise of bad institutional structures, South Asia has not been able to gain the potential benefits from trade liberalisation, particularly from the point of view of reducing poverty.

Monetary policy

While in the short run high rates of inflation may spur economic growth, in the medium and long run, high inflation rates are detrimental for growth and, more importantly, have significant negative welfare effects on the poor. The threshold level of inflation, the level beyond which inflation impedes economic growth, is estimated to be in the range of 7-11 per cent for most developing countries.⁶⁷ Beyond the threshold range, inflation rate acts as an additional tax on savings and effectively reduces income levels by reducing real wages.

Has the monetary policy in South Asia been able to maintain the inflation rate at the desirable level so as not to hurt the poor? As table 4.14 shows, India and Sri Lanka are experiencing inflation levels much higher than what is desirable. The economies of Pakistan and Nepal also faced inflationary pressures throughout the 1990s. The poor in South Asia have been suffering disproportionately from rising prices of necessities. Lacking the wealth to diversify into inflation proof assets, the poor have only their labour to offer. Given that wages are sticky in the short run, high inflation has tended to lower the income share of the bottom quintile by pushing down the real minimum wage and hence contributed

towards poverty. The manufacturing wages have been declining/stagnant over the 1990s in most countries in South Asia (see figure 4.7). Similarly, growth rates of agricultural wages have lagged far behind inflation rates indicating a decline in real wages.

To avoid an inflationary spiral that has been further curtailing the purchasing power of the deprived, the economic decision-makers in South Asia have to choose a line of action somewhere between contractionary policies to reign in inflationary pressures and expansionary policies to avoid the crowding out of public and private investment. An important tool of choice in this regard is the interest rate. A consistent trend in interest rates signals macroeconomic stability and is vital for policymakers when treading the fine line between contractionary and expansionary economic policies.

Conclusion

The recent growth spurt in South Asia—resulting from the liberalisation policies—has not translated itself adequately into a consistent and significant decline in poverty in the region. Economic growth has largely bypassed the poor and has benefited the privileged class resulting in a marked increase in inequality both in income as well as non-income dimensions. At present, high and persistent inequality in the region is not only restricting the poor to benefit from economic growth but also, by fuelling civil and political conflicts, is posing a serious threat to the process of growth itself.

There are four major reasons why economic growth in South Asia has exacerbated inequalities and has not led to a marked improvement in the lives of the poor. First, economic growth has mostly occurred in certain geographical areas (mostly urban) that are better equipped with infrastructure facilities and human capital. Growth remains low and poverty remains endemic in backward and underdeveloped areas. Second, growth in

Table 4.14 Trends in inflation rates in South Asia, 1990-2004 (average annual percentage growth)				
	GDP Implicit Deflator		Consumer Price Index	
	1990-2000	2000-2004	1990-2000	2000-2004
India	16.1	7.9	13.5	9.1
Pakistan	10.2	5.1	7.7	4
Bangladesh	3.7	4.2	4.9	3.7
Nepal	6.6	3.8	7	3.7
Sri Lanka	8.9	8.5	9.5	9.1

Source: World Bank 2006g.

South Asia has followed patterns and favoured sectors that are traditionally not pro-poor. The major chunk of growth in South Asia is accounted for by growth in manufacturing and services sector that mostly benefits the urban based skilled and educated class. Productivity in agricultural sector, the major source of sustenance for the majority of South Asia's poor, remains stagnant.

Third, economic growth in South Asia is marked by low employment generation. With stagnant (or even declining) labour force participation rates, the phenomenon of jobless growth has reached an alarming level in South Asia. The plight of those that are employed is also not encouraging. Close to 40 per cent of the employed labour force in South Asia lives below \$1 a day. A significant proportion of the labour force is employed in the informal sector that is characterised by low wage rates and is not protected by any labour laws or safety nets.

Last but not least, economic policies in South Asia have mostly been anti-poor. Take the fiscal policy for instance. The taxation system is highly regressive. The burden of the tax mostly falls on the poor and the middle class whereas the benefits of public subsidies often bypass the poor. Similarly, the privatisation policy is being pursued in the region with the objective of reducing fiscal deficits and gaining economic efficiency without any realisation of its consequences on employment and the plight of the poor. Given that the state is the largest employer in South Asia, privatisation has resulted in massive layoffs, a heightened level of job insecurity and loss of pension benefits. Monetary

It is extremely important to ensure an equitable access to education and skill training for a wider spectrum of population

policy, likewise, has been pursued mostly with the objective to reduce budget deficits without tackling the welfare implications on the poor with the result that the poor in South Asia continue to suffer disproportionately from rising prices of necessities.

It is time that governments in South Asia realise the urgency of tackling growing inequalities in the region by promoting pro-poor growth. The reform agenda in this direction must start off with a simple realisation that economic growth in South Asia, by itself, is not sufficient to reduce poverty. It must be complemented with policies that ensure broad based participation of the poor. There are three broad policies that must be given top priority if the region is to attain high economic growth as well as to eradicate poverty at the same time. First, South Asia needs to invest heavily in its rural sector. Given that 80-90 per cent of the South Asia's poor reside in rural areas, a strategy that focuses on agricultural and

rural sector may well be the first essential step to break the vicious cycle of poverty in the region. Second, the region must focus on investing in the skill and education of its people. Only an educated and skilled population can capture the employment opportunities and benefit from the fruits of economic growth. Currently, South Asia is characterised by huge disparities in access to quality education and skill training with the poor often being denied the access to these opportunities. It is extremely important to ensure an equitable access to education and skill training for a wider spectrum of population. Third, poverty reduction in South Asia will remain a distant dream without implementing land reforms in a comprehensive and effective manner. It must be realised that without putting these policies in place, income inequality and polarisation will continue to grow threatening the pace of future economic growth in the region.

Poverty Reduction in India: A Critical Analysis*

One of the most striking aspects of Indian growth in the past two decades is the uneven distribution of gains across people, which is a major factor that reduces the efficacy of poverty alleviation programmes. In addition, there is a growing concentration of poverty in underdeveloped areas and the stagnant sectors within India. These are agriculture and allied activities, casual rural and urban workers, informal sector workers and women, scheduled castes, tribes and other economically and socially disadvantaged groups.

In recent years, there is a growing and remarkable separation between indicators of human development and indicators of economic development. Areas with relatively high per capita gross domestic product (GDP) growth rates have performed relatively poorly in literacy, school enrolment and health, and vice versa. There is also a disjunction between the head count ratio (HCR) poverty measures and human development: India has done far worse in human development improvement than it has in reducing HCR poverty. Even as HCR poverty declined, albeit at a slackening pace, inequality and relative poverty became more intensive. Gender related development index (GDI) too is very low in many states of India. Poverty alleviation must address this gender disparity quickly in order to succeed. Poverty is more in rural areas, though it is also alarming in urban areas. In rural areas, farmers and farm labourers are more susceptible to poverty than workers with non-farm income.

Poverty and human development

Measuring poverty in India by the international definition of one dollar a day shows that India's poverty ratio has reduced, though much faster in the 1980s than in the 1990s (table 5.1). However, the incidence of poverty in India is officially measured by the HCR, or the percentage of population whose consumption expenditure falls below the poverty line.

The Gini coefficient which is a measure of income inequalities is low in India at 0.33 in 2000. The share of the poorest quintile in national consumption at 9.5 per cent in both years and the ratio of the richest to poorest quintile at 4.0, are also not very high (table 5.2).

The proportion of underweight children under five years of age in India has

One of the most striking aspects of Indian growth in the past two decades is the uneven distribution of gains across people

Table 5.1 Trends in poverty ratios for India at US \$1 a day definition, 1981-2001

Year	Poverty rate			Annual change (%)	
	1981	1990	2001	1981-1990	1990-2001
	53	40.6	35.5	-2.92	-1.22

Source: World Bank 2006e.

Table 5.2 Income/Consumption inequality by quintile groups and Gini Index in India, 1990-2000

Year	Share of income or consumption		
	Poorest 20%	Richest 20%	Ratio of richest to poorest
1990	9.46	37.58	4.00
2000	9.52	38.50	4.00

Source: SAARC Secretariat 2006a.

*This is an edited and abridged version of a paper prepared by Smita Gupta.

Table 5.3 Trends in malnutrition, HDI, HPI and GDI for India

	Percentage of malnourished children below 5 years of age		Human development index (HDI)				Human poverty index (HPI)		Annual change in HPI value (%)	Gender-related development index (GDI)		Annual change in GDI value (%)
Year	1990	2004	1980	1990	2000	2003	1998	2003	1998-2003	1998	2003*	1998-2003
India	25.00	21.00	0.44 (n.a)	0.51 (121)	0.58 (124)	0.60 (127)	34.60 (58)	31.30 (58)	-1.98	0.55 (108)	0.59 (98)	1.46

Note: Figures in brackets are country rank out of 143 Countries.

Sources: GOI 2002a and UNDP 2000 and 2005.

Despite huge gains in increasing the literacy rate, still over a third of Indians remains illiterate

declined from a fourth to a fifth of their total number, but this is still unacceptably high. This is caused by malnutrition, easily curable diseases like diarrhea and inadequate care (table 5.3).

The human development index (HDI) measures the average achievement in life expectancy at birth, adult literacy rate, the combined primary, secondary and tertiary gross enrollment ratio and GDP per capita. Despite high GDP per capita, India has a low HDI rank due to poor performance in social sector indicators. The Human Poverty Index, the inverse of the HDI, shows a third of the population suffers from human deprivation (table 5.3).

It is unfortunate that even though policy makers acknowledge the importance of economic and social empowerment of women in tackling poverty, it is yet to be fully integrated into policies and programmes at the state and national level, apart from some microcredit

initiatives. The lack of control and access to means of production and subsistence including land, credit and income earning opportunities must be reversed in order to reduce gender related income disparities. Using the same indicators as the HDI does, the gender-related development index (GDI) incorporates inequality between women and men in attainments. A low GDI relative to HDI reflects greater gender disparity.

Literacy and education are ends in themselves but also play an important role in increasing labour productivity and accessing more remunerative employment opportunities. The adult literacy rate has improved substantively in India. The gap in gender attainments in literacy is high though narrowing.

Net enrolment ratio (NER) in primary education (number of children of school age in primary schools as a ratio of total population of children in that age cohort) has increased. The proportion of enrolled students who start in grade one and reach grade five is the 'retention ratio'. India has done better in improving literacy rates than its performance in retention rates. (table 5.4).

Despite huge gains in increasing the literacy rate, still over a third of Indians remains illiterate. There are also wide regional variations in literacy, and though the South has higher literacy rates, Andhra Pradesh is a laggard. Kerala, the Northeast and Himachal Pradesh have done well, as have Rajasthan and Madhya Pradesh, while Bihar and Uttar Pradesh who are home to a large share of India's poor people, have done badly.

Table 5.4 Literacy and enrolment in India, 1980-2004

Year	1980	1990	2000	2003	2004
Adult literacy rates	41	48	57	61	—
NER in primary education per 100 children of enrolment age	—	55	—	—	71
Percentage of children reaching grade 5	—	57	—	—	65
Youth female literacy rate as percentage of youth male rate 2004	—	64	—	—	76
Average annual change in NER primary education per 100 children of enrolment age (%)			1.98		
Adult female literacy rate as percentage of male rate 2003			65		

Note: NER-Net Enrolment Ratio.

Sources: GOI, *Economic Survey* (various issues), GOI 2002a and UNDP 2005.

Life expectancy at birth increased by four years and the crude death rate declined. The infant mortality rate (IMR) and the child mortality rate (CMR) or the under-five mortality rate and the maternal mortality ratio (MMR) all declined between 1990 and 2004, though they continue to be far above the world average (tables 5.5 and 5.6).

Safe drinking water increases the quality and years of human life in general and is particularly important for children, while unsafe drinking water causes several water born diseases. The proportion of the population with sustainable access to an improved water source has overtaken the world average, but 17 per cent of the country is still not in this category. Improved sanitation is available to a small, though growing, percentage of the population.

Incidence of poverty in India

There are two methods of poverty estimation in India, the direct and the indirect. In the direct method, the minimum norm of 2400 calories for rural and 2100 for urban persons (this person is an adult male involved in manual labour, with suitable fractions for females, children, elderly and sedentary persons) is used to identify the poor from NSS data on the calorie intake corresponding to the quantities of foods consumed. The indirect official method uses the 1973-74 poverty line, or the per capita monthly expenditure whose food expenditure part gave 2400 calories per day in rural areas and 2100 in urban areas at that time. For later years a price index was applied to the old poverty line to update it.

There is an increasing divergence between the direct and indirect estimates. The estimated official poverty line corresponds to far lower calorific norms. A study in 1991 concluded that 'there is no doubt that the poverty estimates based on actual consumption data are superior to those derived from a price-adjusted poverty line, particularly as the use of a

Table 5.5 Trends in health indicators for India, 1990-2003

Crude death rate per 1,000		Expectation of life at birth (years)	
1990	2003	1990	2003
9.7	8.0	58.7	63.3

Sources: GOI 2002a and UNDP 2000 and 2005.

deflator poses many problems...'.¹ Another study² used the 1993-94 NSS consumption expenditure groups and calorie levels to show that 69.7 per cent were below the group with an average of 2410 calories. They too questioned the logic of continuing with the indirect method.

However, some economists put forward the argument of voluntary dietary diversification for all rural population segments, with a shift away from high calorie coarse cereals to protein intensive food like poultry etc., as well as a reduction in calories needed on account of less strenuous lifestyles due to mechanisation, easier transport availability, etc.³

For ease in presentation, we refer to poverty estimates using the direct calorific method as 'nutritional' poverty and the indirect method based estimates are referred to as HCR poverty. Official estimates suggest that India has achieved great success in alleviating poverty in the past few decades. The poverty ratio fell from 36.0 per cent in 1990, to 26.1 per cent in 2000. Thus, poverty fell at 3.2 per cent per annum during the 1990s. According to official accounts, this was achieved by the following three means: (1) economic growth in labour-intensive sectors; (2) provision of basic services like water, sanitation, shelter, connectivity,

The poverty ratio fell from 36.0 per cent in 1990, to 26.1 per cent in 2000

Table 5.6 Trends in infant, child and maternal mortality rates in India, 1990-2004

Infant mortality rate per 1,000 live births		Under-5 mortality rate per 1,000 live births		Maternal mortality ratio per 100,000 live births	
1990	2004	1992	2004	1992-93	2000
80	63	125	87	424	407

Sources: GOI 2002a and UNDP 2000 and 2005.

Table 5.7 Selected development indicators for States of India

States	Sex ratio (females per 1000 males)	Literacy rate	Male literacy rate	Female literacy rate	Infant mortality rate	Households with electricity (%)	Per capita consumption of electricity in KWH	Villages connected by roads (%)	Road density
Andhra Pradesh	978	61.11	70.85	51.17	66	46.30	434	86	62.77
Arunachal Pradesh	901	54.74	64.07	44.24	44	54.69	69	41	12.23
Assam	932	64.28	71.93	56.03	78	24.90	101	75	86.79
Bihar	921	47.53	60.32	33.57	67	10.25	147	48	49.21
Chhattisgarh	990	65.18	77.86	52.4	76	53.10	677.66	100	26.18
Goa	960	82.32	88.88	75.51	36	93.57	725	100	201.43
Gujarat	921	69.97	80.5	58.6	64	80.41	841	94	68.28
Haryana	861	68.59	79.25	56.31	69	70.40	530	99	63.12
Himachal Pradesh	970	77.13	86.02	68.08	64	94.82	340	45	53.19
Jammu & Kashmir	900	54.46	65.75	41.82	45	80.60	269	66	12.86
Jharkhand	941	54.13	67.94	39.38	62	24.30	564.26	26.01	21.28
Karnataka	964	67.04	76.29	57.45	58	52.5	367	100	74.43
Kerala	1058	90.92	94.2	87.86	16	48.40	315	99	365.02
Madhya Pradesh	920	64.11	76.8	50.28	97	69.98	353	28	44.86
Maharashtra	922	77.27	86.27	67.51	49	77.49	572	71	116.75
Manipur	978	68.87	77.87	59.7	25	60.04	70	46	48.19
Meghalaya	975	63.31	66.14	60.41	52	42.74	161	45	37.41
Mizoram	938	88.49	90.69	86.13	23	69.63	121	83	32.78
Nagaland	909	67.11	71.77	61.92	23	53.4	83	89	82.83
Orissa	972	63.61	75.95	50.97	98	26.91	334	49	135.02
Punjab	874	69.95	75.63	63.55	54	82.30	924	97	115.47
Rajasthan	922	61.03	76.46	44.34	83	54.69	340	52	39.34
Sikkim	875	69.68	76.73	61.46	52	77.76	192	79	25.85
Tamil Nadu	986	73.47	82.33	64.55	53	78.18	548	51	158.16
Tripura	950	73.66	81.47	65.41	49	41.84	96	51	140.43
Uttaranchal	964	72.28	84.01	60.26	85	60.33	825.1		39.23
Uttar Pradesh	898	57.36	70.23	42.98	82	31.90	179	50	80.62
West Bengal	934	69.22	77.58	60.22	53	37.45	207	49	87.41
Delhi	821	81.82	87.37	75	51	92.86	1542.04	100	1792.45
INDIA	933	65.38	75.85	54.16	71	46.84	365	57	70.15

Sources: GOI, *Economic Survey* (various issues), GOI 2002a and UNDP 2000 and 2005.

Table 5.8 Poverty ratio and poor persons in India by official estimates, 1987-2000

Year	Poverty ratio (%)			Number of poor (million)		
	Rural	Urban	National	Rural	Urban	National
1987-88	39.1	38.2	38.9	231.9	75.2	307.1
1993-94	37.3	32.4	36.0	244.0	76.3	320.3
1999-00	27.1	23.6	26.1	193.2	67.0	260.2

Source: Planning Commission, Government of India.

Table 5.9 The poverty gap and the squared poverty gap indices for India, 1987-2000

Year	Poverty gap index		Squared poverty gap index	
	Rural	Urban	Rural	Urban
1987-88	9.11	9.94	3.15	3.60
1993-94	8.45	7.88	2.78	2.82
1999-00	5.11	4.84	1.47	1.59

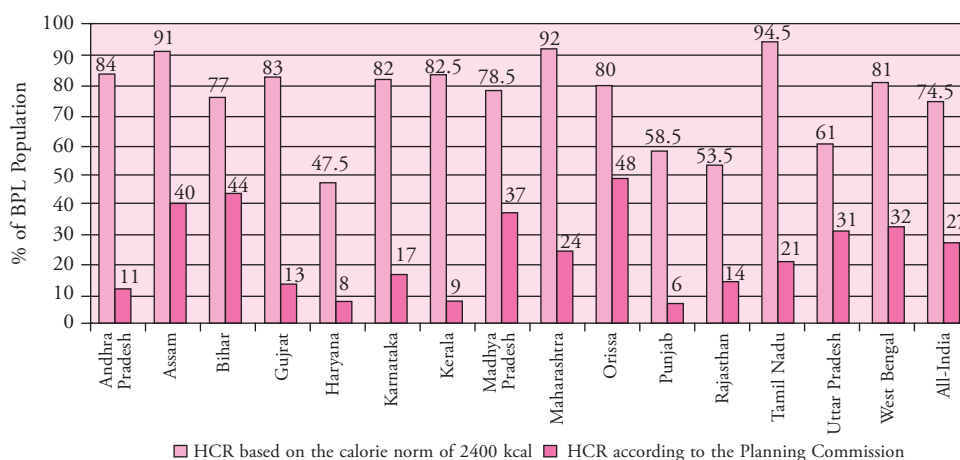
Source: Planning Commission, Government of India.

health, education; and (3) targeted poverty alleviation programmes (table 5.8).

The Planning Commission measures the depth of poverty by the poverty gap index, which is equal to the per capita deficit in consumption below the poverty line for all poor as a percentage of the poverty line. Thus, the lower the poverty gap index, the less poor the poor are in terms of the shortfall of consumption below the poverty line. The official data shows that the depth of poverty has reduced in the 1990s (table 5.9).

Another feature of poverty that is measured is its severity, which is the square of the poverty gap index and reflects inequality among the poor. The higher the value of the squared poverty

Figure 5.1 Comparison between India Planning Commission's estimates of poverty and poverty estimates based on calorie norm



Source: Ram 2004.

gap index, the greater the inequality of consumption. This too decreased in the 1990s (table 5.9).

Nutritional poverty

However, when headcount ratios are computed on the basis of the direct method using the 2400 calories per day norm, there is discernible increase in the poverty ratio in most States (figure 5.1). There are other indicators of nutritional deficiency like anemia, stunting and low birth weight that are reflected in the National Family Health Survey indicators, which confirm the higher nutritional deficiency.

This is the most incredulous feature of the Indian experience, where it is found that the decline in the incidence of poverty has been accompanied by a reduction in calorie intake in all states. This has led to a huge debate in the methodology of poverty estimation.

The annual per capita absorption of foodgrains has also fallen from 177 kg. in the early 1990s to 155 kg. in the early 2000s, *before* the severe drought of years (table 5.10).

Not unexpectedly, Scheduled Castes (SCs) and Scheduled Tribes (STs) experienced a far higher incidence of poverty in the 1990s. However, the causes

of poverty were somewhat different. While the STs suffered due to the historic neglect they faced in development policy, the SCs, on the other hand, were absorbed and bound at the lowest level in the caste hierarchy and in activities which were considered lowly and had little productivity (tables 5.11 and 5.12).

The poor are a heterogeneous group, ranging from tribal cultivators, dalits,

Table 5.10 Net output and availability of foodgrains in India, 2000-2002

Period	KG Per Capita	
	Output	Availability
Average of the Years 2000-01 & 2001-02	173.30	155.15

Source: Patnaik 2004.

Table 5.11 Percentage of population living below poverty line in India by Scheduled Castes (SCs), 1993-2000

Category	Rural		Urban	
	1993-1994	1999-2000	1993-1994	1999-2000
Total	37.27	27.09	32.38	23.62
SCs	48.11	36.25	49.48	38.47
Gap	10.84	9.16	15.82	14.85

Source: GOI 2001.

Table 5.12 Percentage of population living below poverty line in India by Scheduled Tribes (STs), 1993-2000

Category	Rural		Urban	
	1993-1994	1999-2000	1993-1994	1999-2000
Total	37.27	27.09	32.38	23.62
SCs	51.94	45.86	41.14	34.75
Gap	14.67	18.77	7.48	11.13

Source: GOI 2001.

Table 5.13 Percentage distribution of the poor in India by occupation, 1993-2000

	1993-1994	1999-2000
Rural		
Artisans	11.2	12.3
Agricultural Labour	40.7	46.8
Non-agricultural Labour	8.4	7.8
Self Employed in Agriculture	33.2	28.1
Others	6.5	5.3
Overall Rural	37.2	27.1
By Caste		
Scheduled Tribes	14.8	17.5
Scheduled Castes	27.6	27.3
Other Castes	57.6	55.3
Urban		
Self Employed	36.91	26.47
Regular wage & Salary earners	20.93	12.21
Casual Labourers	62.64	50.61
Others	26.48	16.81
Overall Urban	32.4	23.6

Source: Dev 2003.

agricultural labourers, female-headed households, etc. A large section of marginal farmers and agricultural labourers belong to the Scheduled Castes, and even if one were to go by the official estimates of poverty, the gap between the percentage of SC population in poverty and overall poverty ratio is reducing only marginally, and SC population in poverty in urban and rural areas are 10 percentage points higher than the total population. The Scheduled Tribe population, on the other hand, has got more impoverished, and the gulf between the total population and STs has widened. This is most disturbing because it reflects neglect of the plateaus and uplands of the rainfed areas that are predominantly dominated by landowning tribal peasants, where the productivity is low and falling. In other words, it reflects cultivator poverty in the ecological zones characterised by high degree of concentration of tribal peasants. The growing impoverishment of agricultural labourers and Scheduled Tribe population can be seen in table 5.13 too, with the former growing from 41 to 47 per cent of the rural poor and the latter from 15 to 18 per cent of the rural poor between 1993-94 and 1999-2000.

The proportion of landless agricultural workers in the rural population increased from 25 per cent in 1981 to over 40 per cent in 2002. A number of these workers are Scheduled Castes. This indicates the growing pauperisation of the poorer sections of the peasantry and their growing alienation from land, which forces them to join the ranks of landless agricultural labourers.

Table 5.14 Trends in the shares of agriculture and non-agriculture sectors in employment and GDP in India, 1980-2004

	Agriculture		Non-agriculture	
	Employment	GDP	Employment	GDP
1980	70.90	40.00	29.10	60.00
1990	64.00	32.00	36.00	68.00
2000	60.30	24.00	39.70	76.00
2004	60.10	22.00*	39.90	78.00*

Source: Calculated from data from the National Sample Survey Organisation (NSSO).

Determinants of poverty

Performance in poverty reduction varies across the Indian states. It has been most impressive in the South, in Andhra Pradesh, Karnataka, Kerala and Tamil Nadu, and in Haryana, Gujarat, Punjab and Rajasthan. On the other side, the absolute number of poor increased despite falling poverty rates in central and eastern India, in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh, due to disappointing poverty reduction.

Urban poverty is a relatively ignored aspect of Indian poverty, even though the share of urban poverty in the total increased by four percentage points. Roughly half the urban poor are casual workers and the self-employed. The increase in urban poverty comes even with a significant fall in the pace of urbanisation in the 1980s and 1990s, periods of high GDP growth.⁴ However, people who are migrating from rural areas where income and work is declining to cities for employment, mostly end up in slums with very poor working and living conditions, in informal, unorganised low paid work.

Declining share of agriculture in gross domestic product (GDP) and employment

The most crucial issues are employment and labour productivity in agriculture, both of which have done badly during the past 15 years, with stagnant low GDP growth rates or even deceleration. Slow agricultural growth has grave consequences on employment as over sixty per cent of the workforce is agriculture-dependent. A disturbing aspect of the 1990s and 2000s is a far more rapid decline in agriculture's share in GDP than agriculture's share in employment, implying a falling per worker productivity in agriculture and higher disparity between the agricultural-nonagricultural sector's labour productivity (table 5.14).

There is a shift of workers out of agriculture. Low and falling employment elasticities in agriculture are a cause for

Table 5.15 Trends in employment growth in India, 1981-2002

Employment trends by employment status				Recent trends in employment growth in the formal and informal sectors, including agriculture			Recent trends in employment growth in the formal and informal, non-agricultural sectors	
Employment status	Average annual growth rates			Segment	Average annual growth rates		Average annual growth rates	
	1983 to 1987-88	1987 to 1993-94	1993 to 1999-00		1981 to 1995	1995 to 2002	1981 to 1995	1995 to 2002
i) Self-employed	0.93	2.07	0.40	1. Government (formal)	1.87	-0.56	1.90	-0.54
ii) Employees	2.76	3.23	2.00	2. Private formal	-1.02	0.66	-1.15	0.82
a) Regular	3.50	-0.69	2.18	3. All formal (1 + 2)	2.20	1.17	1.45	0.39
b) Casual	2.59	4.15	1.97	4. Private informal	1.44	0.35	2.20	1.19

Source: SAARC Secretariat 2006a.

concern because the failure to productively absorb rural workers in cultivator and agricultural labour households is resulting in distress out-migration and, since urban India is witnessing jobless growth, onto low-paying service sector self-employment. Without an increase in both land and labour productivity in agriculture and remunerative work in the non-farm sector, this tendency is likely to grow.

Given that three-fifths of the workforce is dependent on agriculture, which is the declining sector, the situation is pretty desperate for much of rural India. According to official data, only farmers operating areas above 4.0 hectares can meet their consumption expenditure exclusively from farm incomes. This covers only six per cent of Indian farmers.

Largely on account of trade liberalisation and structural adjustment policies, the state did away with all forms of protection to the Indian farmers. The measures include reduction in public investment; privatisation; removal of subsidies for fertilisers, energy, water, and power;

restructuring of credit norms for agriculture and reduce in flows; dismantling land reform legislation; fall in public expenditure on public services and rural infrastructure etc.

Rising unemployment/ underemployment

Unemployment rates rose continuously in India, on the basis of Usual Principal and Subsidiary Status (UPSS). On the basis of Current Daily Status (CDS), unemployment declined in the 1980s, but hit an unprecedented peak in 2004.

However, a far bigger problem in India is that of disguised unemployment and underemployment apart from open unemployment.

The most distressing aspect of the labour market in India is that employment growth rates after 1990 continue to fall below the rate of growth of the labour force, and even open unemployment rates have increased continuously since 1990. This has happened even as GDP growth rates are high and rising, with near zero

Table 5.16 Changes in the absolute number of unemployed people and unemployment rates in India, 1980-2004

Change in absolute number of unemployed (millions)							Unemployment rate (per cent of labour force)						
1980-90		1990-00		2000-04		1980	1990	2000	2004	1980	1990	2000	2004
UPSS	CDS	UPSS	CDS	UPSS	CDS								
1.6	-4.7	1.6	9.4	0.1	5.4	1.91	8.28	1.96	6.03	2.23	7.32	2.3	9.13

Source: SAARC Secretariat 2006a.

Table 5.17 Trends in average annual employment growth rates in India, 1980-2004

Year/Sector	Average annual employment growth rates (%)				
	Agriculture	Non-agriculture	Industry	Services	All sectors
1980-90	0.85	4.10	4.34	3.84	2.16
1990-00	1.42	3.01	2.10	3.79	0.68
2000-04	0.01	0.22	0.22	0.24	0.19

Note: "Industry" includes manufacturing, electricity gas and water supply, and construction. Growth rates for 'all sectors' differ slightly because is less than total workers by the number of workers not classifiable by sector.

Source: NSS data, UPSS basis.

growth in agriculture and inadequate employment growth rates in the non-agriculture sector.

The non-farm sector, i.e. industry and services, has experienced improved skills and wage rates even as the rate of growth of employment has dropped. This is due to decline in employment growth in the organised sector to levels that are characterised as job-displacing (negative) rather than jobless, as in agriculture.

Employment growth rates by employment status

There has been a change in the employment status, with hired workers growing more rapidly than the self-employed. This reflects a shift of workers from self-employment in agriculture to casual hired labour. This group is also most afflicted by poverty. While it is a truism to say that some employment growth is better than none, the aim of poverty reduction is unlikely to be met by employment growth in low productivity and low wage sectors.

Labour productivity and real wages

Labour productivity or GDP per worker and wages are far higher in non-agriculture than agriculture. One important reason for this is that a large number of those who report themselves as employed are underemployed.

Services have the highest and improving productivity levels since 1980, closely followed by industry, with low and stagnant agricultural productivity. The result is that non-agricultural productivity has increased from four times the agricultural productivity in 1980 to five times. Furthermore, the high productivity segments are located in the urban areas, and these productivity trends imply that urban-rural disparities are growing.

Rural real wage rates in the non-farm sector are about one and a half times real wages in agriculture, and are rising at a faster pace. After peaking in the 1980s, real wage rates for casual labourers in agriculture slowed down in the early 1990s, to rise again after the mid-1990s. The improvement in real wages was more for farm sector wage rates, and for females, resulting in a reduction in male-female wage disparity.

The 1980s and 1990s saw a significant fall in the pace of urbanisation, which coincided with a distinct increase in the rate of GDP growth.⁵ More disturbing was the twice as high growth of the rural population in states with low GDP growth and a lower initial average per capita income. The decade of 1990s witnessed a growing disparity across states

Table 5.18 Trends in population, labour force, employment and unemployment in India, 1980-2004

Description	Absolute numbers (millions)								Rate of growth (%)					
	1980		1990		2000		2004		1980-90		1990-00		2000-04	
	UPSS	CDS	UPSS	CDS	UPSS	CDS	UPSS	CDS	UPSS	CDS	UPSS	CDS	UPSS	CDS
Population	683.30		846.30		1028.60		1090.60		2.16		1.97		1.63	
Labour force	307.00	243.20	379.90	323.10	406.10	363.30	407.60	385.30	2.15	2.88	0.67	1.18	0.10	1.48
Employed	301.10	221.40	372.50	305.90	397.00	336.80	398.50	353.30	2.15	3.29	0.64	0.97	0.09	1.21
Unemployed	5.90	21.80	7.40	17.20	9.10	26.60	9.20	32.00	2.43	-2.37	1.97	4.45	0.30	4.72

Source: Bhalla 2006.

in the growth rate of GDP. The pace of urbanisation has slowed down during the 1990s due essentially to worsening job prospects. The self-employed cultivators' share in workforce is being replaced by casual hired workers.

Clearly, low employment elasticities of growth mean that much higher growth rates are required to attain the same employment growth. In some sectors, India has jobless growth, with very low elasticities. However, the most disturbing fact from the data is that comparatively high employment growth rates do not by themselves translate into speedy poverty reduction in India, nor can they explain inter-regional variations in poverty reduction.

Employment elasticity

The 'Task Force on Employment Opportunities' reports the rapidly declining employment elasticity to GDP in the 1990s, from 0.53 in the period 1977-78 to 1983 and to 0.41 in the period 1983 to 1994 to 0.15 in the period 1993-2000, or a fall in labour intensity by 5.5 per cent per annum.⁶ Employment absorption in the economy has declined, essentially on account of increased capital

Table 5.19 Real wage rates of rural farm and non-farm casual labourers in India, 1983-2000

Sector	Sex	Real wage rates in Indian Rs. (at 1993-94 constant prices)			
		1983	1987-88	1993-94	1999-00
Agriculture	Male	25.72	31.47	34.27	40.45
	Female	17.44	20.80	23.99	28.56
Non-agriculture	Male	38.05	44.04	47.94	59.52
	Female	18.19	25.51	27.62	37.29

Source: Himanshu 2005.

Table 5.20 Growth rates of real wage rates for casual labourers in rural India, 1983-2000

Growth rates (%)					
Sector	Sex	Growth rates			
		1983 to 1987-88	1987-88 to 1993-94	1993-94 to 1999-2000	
Agriculture	Male	4.59	1.43	2.80	
	Female	4.00	2.40	2.95	
Non-agriculture	Male	3.31	1.42	3.67	
	Female	7.80	1.33	5.13	

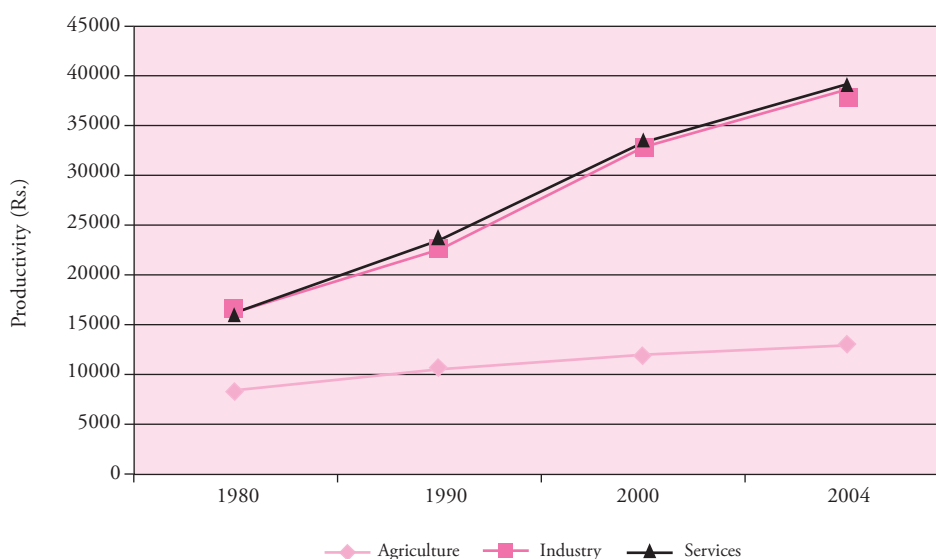
Source: Himanshu 2005.

Table 5.21 GDP growth rates of India by sector, 1980-2004

Year	Agriculture	Industry	Services	All sectors	Average annual rate of growth of per capita GDP at constant 1993-94 prices.
1980-90	3.40	7.10	6.70	5.60	4.00
1990-00	2.50	5.60	7.60	5.60	4.20
2000-04	2.70	5.60	7.90	6.10	4.40

Source: Calculated from GOI, *Economic Survey* (various issues).

Figure 5.2 Trends in labour productivity (at constant prices) in India, 1980-2004



Source: SAARC Secretariat 2006a.

Table 5.22 Annual percentage point changes in the share of urban population

Year	Change in the share of urban population
1971-81	3.4
1981-91	2.4
1991-2001	2.1

Source: Calculated from GOI, *Census of India* (various issues).

Higher government spending during 1976-90 was the principal reason for decline in rural poverty during that period

Table 5.23 Estimated elasticity of employment to GDP for India, 1977-2000

Sector	Estimated elasticities		
	1977-78 to 1983	1983 to 1993-94	1993-94 to 1999-2000
Agriculture	0.45	0.5	0
Mining & quarrying	0.8	0.69	0
Manufacturing	0.67	0.33	0.26
Electricity	0.73	0.52	0
Construction	1	1	1
Wholesale & retail trade	0.78	0.63	0.55
Transport, storage & construction	1	0.49	0.69
Finance, real estate, insurance & business	1	0.92	0.73
Community, social and personal services	0.83	0.5	0.07
All sectors	0.53	0.41	0.15

Source: GOI 2002b.

intensity. This has resulted in jobless or even job-displacing growth. All sectors experienced this decline, except transport and financial services and real estate.

Correlates of poverty

Through an econometric exercise, Abhijit Sen⁷ establishes the importance of relative prices and per capita government expenditure. The latter has a positive impact on non-agricultural employment and the rural real wage and, therefore, rural poverty. In this exercise, poverty was regressed against agricultural output per rural person, per capita GDP, a relative food price index (dividing the index of the food price in the CPIAL by the GDP deflator), an inflation index based on the GDP deflator, and per capita real state development expenditure. All variables except the per capita GDP were significant, and the inflation term was barely significant. The relative food price variable was statistically the most significant variable and also it was the most important in terms of its impact, followed by state

development expenditure and only then agricultural output. Clearly, if government expenditure is important for poverty reduction, the effect of structural adjustment or of further 'marketist reform' on poverty is unlikely to be positive. He also shows the importance of initial conditions for poverty reduction, such as health and education status and land distribution.

It is often argued that that even as aggregate spending is reduced, the composition of government expenditure should be targeted on poverty alleviation. Though desirable, the econometric analysis mentioned above find that aggregate expenditure has a far greater impact on poverty alleviation than expenditure only on agriculture and rural development.

Therefore, the most important determinants of poverty are the relative price of food and the level of government expenditure. After structural adjustment was introduced, relative price of food rose and public expenditure (in per capita terms and as a percentage of state income) declined. The higher government spending during 1976-90 was the principal reason for decline in rural poverty during that period.

Since excess labour supply results in distress wage rates and underemployment or disguised unemployment and not in open unemployment, it is difficult to statistically show a straightforward and positive relationship between poverty and unemployment. For example, Bihar and Madhya Pradesh combine low agricultural development and high rural poverty with low unemployment rates, while Punjab has high agricultural development and high unemployment but lower poverty ratio. The levels of both wages and employment should be high to make any significant dent on poverty. Also the *structure* of employment growth is far more important than employment growth *per se*.

There is a one to one correspondence between index of infrastructure and the incidence of poverty, with the notable exception of Rajasthan, a state with low

infrastructure index and a low incidence of poverty. This is possibly because of the low population density and high area in the desert region, which brings down indicators with area in the denominator. The role of infrastructure development and availability is thus vital for poverty alleviation. According to researchers, during the 1990s, infrastructure (transport, communications, electricity power and finance), explains variations in inter-state poverty ratios, rural wage rates and labour productivity.

Impact of economic reforms

There has been a great deal of discussion on the impact of economic reforms on growth, employment and poverty in rural areas. Experience in the last 15 years has shown the adverse impact of reforms on domestic food security, income distribution and poverty. The pace of decline in rural poverty slackened after the 1980s.

The reasons for this slowdown are not difficult to find. Analysing data over the 20-year period between 1973-74 and 1993-94, the fact remains that though agricultural output and inflation are factors, the more important as determinants of rural poverty are relative price of food and the level of government expenditure, with government expenditure as the most effective choice for poverty reduction. In such a situation, the structural adjustment policies could not have reduced poverty, since both variables worsened. Government expenditure results in 'trickle down' of the growth process far more than growth itself. Furthermore, the positive effect of public expenditure on poverty reduction holds whether it is on social development or on agriculture. After reforms, there has been a substantial fall in public spending, particularly in the social sector, especially on education.

Data also shows that poverty elimination requires higher labour productivity and real wage rates. From this it follows that that the incidence of rural poverty should increase after reforms since the workforce

has expanded in the poorest groups and reduced in the relatively better off workforce categories. The workforce diversification that led to higher real agricultural wage rates between 1976-1990, was reversed in the 1990s with a downward pressure on rural wage rates. Foodgrain prices rose along with an increase in the price for PDS supplies after 1991 which made the principal wage good, namely food, costly. There is no better safety net for the poor than affordable food through the PDS, and this safety net was considerably strained with higher administered prices of PDS foodgrain.

Agriculture alone cannot absorb the entire rural labour force; the development of non-farm employment is inevitably very important. However, the opposite happened after reforms and there was deindustrialisation of the rural workforce in the 1990s. The main impediment to remunerative non-farm employment is the infrastructural weaknesses, especially in backward regions. Many poverty alleviation programmes (e.g. IRDP, NREP, RLEGP, JRY, DWCRA, etc.) have not borne fruit largely because of this.

Another important element in the preconditions for poverty alleviation is food security at the household level, which in turn requires national self-sufficiency. India is often advised to reject the policy of self-sufficiency in foodgrain production and pursue food security through trade. However, it is not as if world trade is free or predictable in terms of price. Food security cannot come by way of trade: it can only come by raising food production from within. The rich countries themselves do not rely on the international market for domestic food needs and have massively subsidised agricultural production regimes.

Much of the literature on determinants of rural poverty in India has zeroed in on agricultural output or productivity and relative prices and the debate has been around their relative significance and specification. The impact of the level and growth of agricultural production on

There is no better safety net for the poor than affordable food through the PDS, and this safety net was considerably strained with higher administered prices of PDS foodgrain

Table 5.24 Trends in Tax-GDP ratio and social sector expenditure in India, 1996-2006

(%)

Year	Gross tax revenue as proportion of GDP	Union Govt. expenditure on social services as a proportion of total expenditure	Union Govt. expenditure on social services as a proportion of GDP	Expenditure on social sectors by the Centre as a proportion to combined State and Centre expenditure	Social sector spending as a proportion to combined total expenditure (Centre + States)
1996-97	9.40	4.83	0.71	—	—
1997-98	9.10	5.15	0.79	—	—
1998-99	8.30	5.28	0.85	—	—
1999-00	8.90	5.82	0.90	—	—
2000-01	9.00	5.56	0.87	3.06	22.3
2001-02	8.20	5.76	0.92	3.24	21.4
2002-03	8.80	5.50	0.92	3.22	20.6
2003-04	9.20	5.40	0.92	3.20	19.7
2004-05	9.80	6.32	1.00	3.39	20.7
2005-06 (RE)	10.50	7.58	1.09	3.54	20.9
2006-07 (BE)	11.20	7.69	1.10	—	—

Sources: Calculated from GOI, *Economic Survey* (various issues) and Reserve Bank of India, *State Finances* (various issues).

Table 5.25 Trends in expenditure on selected social services in India, 1996-2006

Year	Union Govt. expenditure on education, sports, art & culture as a proportion of GDP (%)	Centre's share in total spending on education (%)	Union Govt. expenditure on health and family welfare as proportion of GDP (%)	Centre's share in total spending on health and family welfare (%)	Union Govt. expenditure on water supply and sanitation as proportion of GDP (%)
1996-97	0.24	—	0.081	—	0.026
1997-98	0.29	—	0.089	—	0.034
1998-99	0.35	—	0.100	—	0.035
1999-00	0.33	—	0.111	—	0.035
2000-01	0.32	—	0.118	—	0.039
2001-02	0.32	12.7	0.124	20.9	0.038
2002-03	0.39	13.6	0.123	20.7	0.040
2003-04	0.39	14.2	0.136	19.7	0.044
2004-05	0.44	14.9	0.138	—	0.057
2005-06 (RE)	0.45	18.3	0.177	20.3:100	0.060
2006-07 (BE)	0.55	—	0.206	—	0.062

Sources: Calculated from GOI, *Economic Survey* (various issues) and Reserve Bank of India, *State Finances* (various issues).

Table 5.26 Trends in allocations for rural employment in India, 1999-2007

Year	Total rural employment: SGRY, JGSY, NFFWP, EAS, NREGS	As percentage of total expenditure	As percentage of GDP
1999-00	3729	1.3	0.19
2000-01	2798.4	0.9	0.13
2001-02	4225	1.2	0.19
2002-03	9502	2.3	0.39
2003-04	9639	2.0	0.35
2004-05	6408	1.3	0.21
2005-06 RE	11700	2.3	0.33
2006-07 BE	12870	2.3	0.33

Source: GOI, *Economic Survey* (various issues).

poverty depends to a large extent on the degree of dependence of rural incomes on agriculture and equality in the distribution of agricultural incomes.

The most adverse impact of economic reform has been on social sector expenditure. The States are spending far more on the social sector and the centre barely spends one per cent of the GDP on social services (tables 5.24 and 5.25).

Two important rural employment programmes in rural areas namely, SGSY and SGRY have also been severely curtailed in the last few fiscal years.

The share of Agriculture and Allied activities in GDP and in total budgetary allocations stagnated after an initial increase in 2001-02. The decline in capital expenditure is particularly unfortunate. The same is true of irrigation and flood control, which is woefully inadequate. The share of rural development expenditure in the total expenditure of the government has increased somewhat. This implies that had rural development continued to receive the same share in GDP as in 1985-90, the allocation would be higher by Rs. 50,000 crores in 2000-01. Public sector expenditure has moved against irrigation and rural development in the 1990s under plan and non-plan expenditure, both vital for agricultural growth, and employment.

Poverty alleviation strategy of the Tenth Plan

The Tenth Five-Year Plan (2002-2007), saw the aims of poverty alleviation as inextricably linked to growth; and that poverty reduction was not possible without growth. However, jobless growth is not socially sustainable without equity and poverty alleviation. The generation of demand in the hands of the rural and urban poor is a prerequisite, as is social development.

The government attempted a mid-course correction since the first three years of the Tenth Plan achieved only around one per cent growth of agriculture. The Mid-Term Review recommended thrust

to irrigation, agricultural research and extension, development of degraded forests and wastelands. High productivity sectors are also to be promoted to expand employment and reduce poverty. Particular attention is paid to the policy environment influencing a wide range of sectors, which have a large employment potential, like tourism, transport, construction, small scale industry, IT enabled services, etc. Targeted programmes for vulnerable and disadvantaged groups are also underway, and a reduction in inter-regional disparities through backward area development is to be attempted.

Though irrigation has been a crucial policy intervention and huge investments have been made, only 40 per cent of agriculture is irrigated. The growth rate of irrigated area has gone down in the past 15 years, largely due to dwindling investment. The development of roads, markets, storages, power and other rural infrastructure is another vital requirement, as is the expansion of extension services and credit.

The development of small scale industry (SSI) is not only important for employment and regional equity, it also has an important role in poverty alleviation if wages are high. The National Commission for Enterprises in the Unorganised Sector is meant to examine the developments in the unorganised sector and inject dynamism. One important avenue is credit for SSI units. Construction too is an important area for the poor.

The Tenth Plan aims to increase enrolment at the primary level through education for all and higher expenditure. The 'Sarva Shiksha Abhiyan' aims to

Table 5.27 Allocation in Union Budget on employment schemes as percentage of GSDP in India, 1998-2007

	Rural employment	Urban employment (SJSRY)	Total employment generation programmes
1998-99	0.21	0.01	0.22
1999-00	0.19	0.01	0.20
2000-01	0.13	0.00	0.14
2001-02	0.20	0.00	0.20
2002-03	0.40	0.00	0.40
2003-04	0.37	0.00	0.37
2004-05	0.23	0.00	0.23
2005-06	0.33	0.00	0.34
2006-07	0.33	0.01	0.33

Sources: Calculated from GOI, *Economic Survey* (various issues) and Reserve Bank of India, *State Finances* (various issues).

Table 5.28 Decline in public development expenditures in rural areas of India, 1985-2001

	(% of GDP)				
Year	1985-90 (7th Plan)	1991-92	1995-96	1997-98	2000-01
Rural development expenditure	14.5	11.7	6	5.6	5.9

Source: GOI, *Economic Survey* (various issues).

provide education to all children in the age group 6-14 years. The National Rural Health Mission began recently to make available effective health care to rural people.

Poverty reduction programmes

Policy approaches to poverty reduction

Droughts in the 1960s, and the entire politics of food aid, resulted in a policy shift from institutional reforms to technology-led growth and poverty reduction through anti-poverty

Table 5.29 Trends in expenditures on agriculture and irrigation during the Five-Year Plans in India

	(% of GDP)						
	Third Plan	Fourth Plan	Fifth Plan	Sixth Plan	Seventh Plan	Eighth Plan	Ninth Plan
Agriculture and allied activities	12.7	14.7	12.3	6.1	5.8	5.2	4.5
Irrigation and flood control	7.8	8.6	9.8	10	7.6	6.4	7.5

Note: For the Sixth plan agriculture and allied activities includes only agriculture.

Source: GOI 2003.

The growth process by itself has not resulted in the reduction of poverty since the benefits of the growth process bypassed the poor

programmes like PDS and EGS. The last two decades are marked by attempts by government to establish the effectiveness of targeted poverty alleviation measures in reducing the HCR of the poor. The focus today is shifting once again from HCR to human development and empowerment. These then are the three phases of poverty reduction: the institutional reform or redistributive phase, the direct attack on poverty phase, and the human development phase.

Ideally, these should be sequential with policies and strategies appropriate to each phase.⁸ Administration and government has, however, not usually followed the sequence. Usually, there is a surfeit of programmes, often contradicting each other. In recent years, reforms have tended to contradict the policies for poverty reduction, human development and empowerment.

The early days of poverty reduction faced the following circumstances in rural India: a rigid caste structure and powerful landed elite; growing landlessness and unequal land distribution; bondage and restricted geographical and occupational mobility of agricultural labourers. In such a situation, vital institutional reforms were required, reforms that attacked at the root cause of poverty by way of land reform and better mechanisms to deliver basic needs like food, employment, health, education, etc. Even though there has been some degree of decentralisation, transparency and accountability in delivery institutions, agrarian reforms were by and large a failure, with a few notable exceptions.

The growth process by itself has not resulted in the reduction of poverty since the benefits of the growth process bypassed the poor, particularly after the liberalisation process initiated in early 1990s.

In India, the poverty alleviation and rural development interventions fall into broadly eight categories:

1. Self-employment programmes
2. Wage employment for rural infrastructure development programmes

3. Programmes for the construction of houses for the shelterless poor, and renovation of existing houses
4. Social welfare programmes
5. Schemes to create food and water security
6. Programmes to develop backward and rain-fed drought-prone areas
7. Redistributive programmes like land reforms
8. Decentralised local area development

Public services and infrastructure

It is clear from the discussions above that both employment levels and productivity in the agricultural sector and the non-agricultural sector are linked to each other and mutually reinforcing. Neither can develop at the expense of the other, and they have to grow in tandem. A prerequisite for the concurrent development of both sectors requires rural infrastructure development, which help reduce poverty by increasing land and labour productivity and lower costs of production in both sectors. This in turn puts an upward pressure on real wage rates. In regressions, improvement in infrastructure has the highest 'explanatory' value in poverty reduction, followed by a higher share of non-farm employment.

In recent years, pursuit of macroeconomics and fiscal conservatism has tended to cut public investment. This is due to an obsession with simultaneously reducing deficits and giving the elite tax concessions, and the erroneous argument that public investment has a crowding out impact on private investment. This is a false premise because far from a competitor, public investment is a prerequisite, a concomitant of private investment. Public investment in power, roads, irrigation, education, health, etc stimulates private investment and is an important factor in increasing growth and reducing poverty.

In order to launch such a programme, the government has to raise revenues through greater progressive tax effort reflected in improved tax-GDP ratios. The

approach has to be redistributive: tax the rich to develop infrastructure and provide public services to poorer people, sectors and regions. Most poverty reduction strategies today tend to take a different approach of taking the 'scarce' budgetary resources as immutable, fearing deficits and thus advocating withdrawal of the state from everything but targeted poverty alleviation.

This is despite the fact that evidence suggests that structural adjustment policies and trade liberalisation have been anti-poor and anti-agriculture. Even in the formal sector, industry and services, the benefit was only in terms of income growth, not in terms of employment. India's small-scale manufacturing sector too suffered employment losses. Labour in the manufacturing sector declined through shifts to labour-displacing technology to increase productivity. The privatization of public sector undertakings and state owned enterprises too resulted in unemployment.

Public distribution system (PDS)

Two crucial measures in the Indian context are minimum wage based employment programmes and the public distribution system. Employment and food security are very important for poverty reduction, in the absence of which the threat of hunger and destitution looms large.

The Public Distribution system (PDS) has always been plagued by a number of problems, but has done very poorly after the system of targeting was introduced. Fair Price Shops are irregular, distributing poor quality grains, stocks often run out, and there are reports of huge leakages and diversion of subsidised grain meant for the poor. The interesting aspect is that the difficulties are far less in times of acute crisis, like droughts, etc. In order to provide security at the household level and supply food to deficit areas, the government has the PDS. The principle is very simple: procurement from surplus areas and distribution in deficit areas, and

there is a subsidy at both ends of the transaction. The PDS has continuously focused on rice and wheat, surpluses procured from a few States and transported over long distances. There has been no serious attempt to widen procurement in terms of crops and area. The main problems in the PDS for food security are the reliance on two superior cereals procured in a few States, with long periods of storage and transportation over long distances; and the high prices at which grain is issued resulting in a fall in demand and off-take from the PDS by the poor. Furthermore, the Food Corporation of India (FCI) was overburdened by high costs of stockholding due to stockpile till a few years ago.

The government shifted from a universal to a targeted system, whereby below poverty line households were provided subsidised grain. But the targeted PDS was a disaster for several reasons. Along with a hike in PDS prices and loss in purchasing power, the programme resulted in falling off-take at a time of falling production and availability. Hardly 8.5 million tonnes were sold by 2000-01, compared to 19 million tonnes in 1992 despite population growth and falling production. Off-take as a percentage of allocations has declined too, from 87 per cent to 41 per cent. This falling off-take is even more tragic, given the high share of the subsidy on food being spent on simply holding buffer stocks.

PDS targeting is a problem for a variety of reasons. In an unequal society, targeting always runs the risk of leakages to the elite. The identification of the poor is far from satisfactory, both in terms of the criteria and procedure. The livelihoods of vast sections of the near poor too are extremely precarious and fragile. Droughts and even minor disturbances can push huge sections into poverty, hunger and malnourishment. In areas that are backward due to their ethno-demographic, socio-economic and agro-ecological features, it is important to be inclusive rather than exclusive since livelihood

Evidence suggests that structural adjustment policies and trade liberalisation have been anti-poor and anti-agriculture

security is threatened for a far larger section than those identified.

Land reforms

Appropriate institutional changes are very important, like land reform, land rights, cooperatives and decentralisation. West Bengal has achieved the highest rate of agricultural growth by such institutional reform measures and investment support to small and marginal farmers.

Land reforms of a kind in which ownership and cultivation of land results in greater productivity-cum-equity along with access to food, employment and basic amenities like education, health, housing, and roads and communication facilities, etc. are of course the best. Even if wastelands are acquired, reclaimed and distributed among landless labourers, poverty could be reduced. Small and marginal farm holdings are 90 per cent of the total holdings and nearly a half of the cultivated area, with growing landlessness.

The land reforms in the 1950s and 1970s did little for landless agricultural labourers and marginal farmers since very little surplus land was acquired and even less was distributed. Land of very inferior quality was distributed, requiring huge efforts at land improvement, often not possible for the beneficiaries, and often, land reverted to the original owners. Tenancy reform was also not very effective outside a few areas where there were strong movements. There were rarely any proofs of tenancy, rents were above what the legislation allowed and shorter leases increased insecurity instead of reducing it. Tribal land alienation continues at an even more rapid pace. Even somewhat more successful land reforms would have resulted in greater food and employment security, reduced subservience and exploitation by the elite, better awareness and empowerment for more democratic and effective functioning of local self-government institutions.

In recent years, structural adjustment programme have turned the land reform

paradigm upside down. Corporatisation of agriculture has led to the undoing of many of the fruits of peasants struggles, the most significant being land reform. State governments are changing legislation related to land ownership tenancy etc. These changes have no resemblance to any notion of 'land to the tiller' or protection of the poor and underprivileged landless labourer or tenant. There is no notion of redistribution of land from big farmers/landlords to the direct producer, protection of rights of tenants and rent control.

Many state governments have overturned the land reform process by relaxing land ceiling and tenancy laws to facilitate contract farming and benefit multinational companies and big business. The Karnataka government has reintroduced land leasing, allowing non-agriculturists and industrialists to own land and has removed land ceiling for aquaculture, horticulture, floriculture and the housing industry. Maharashtra has removed restrictions on the conversion of agricultural land to non-agricultural land and has permitted large land holdings. Thousands of hectares of land have been sold or leased to multinational companies and Indian big business. Wasteland development has become a common pretext to give thousands of hectares for hi-tech forestry and cultivation to corporate entities. Twenty lakh hectares of wasteland has been leased out to private corporations in plots of as much as 1000 acres for 30 years.

The question of land distribution has also to be seen in the context of militant peasant movements or 'naxalism' that is said to be affecting a third of the country. The cause of poverty is rooted in the unequal agrarian structures. Even a partial but widespread implementation of land reforms can result in a reduction in poverty. The experience of West Bengal and Kerala are examples of this.

The Kerala and West Bengal experience shows that land reforms not only led to sustained decline in poverty but also improvements in human development in terms of birth rate, death rate, and infant

Many state governments have overturned the land reform process by relaxing land ceiling and tenancy laws to facilitate contract farming

mortality rate and literacy rate. They made social and economic transformation possible in rural areas. The land reforms also allowed a more democratic functioning of Panchayati Raj institutions.

Decentralisation

One of the most problematic aspects of governance in India was a highly centralised and top-down structure, with little people's participation or accountability. The 73rd and 74th Constitutional Amendment Acts attempted to change this by formation and democratisation of the institutions of Local Self-Governments (LSGs) in urban and rural areas. However, democratic decentralisation still has miles to cover, especially in the area of administrative and financial devolution of powers and resources.

Decentralised development through the devolution of financial, administrative and functional powers to the institutions of local self-government is an important strategy to achieve broad based growth. It can increase people's participation and empower the poor.

Improvement in educational status, health, nutrition, capabilities and assets requires institutional mechanisms that include the poor in decisions affecting their lives, and hold government and its personnel accountable for adequate, timely and good quality of services. Though Panchayati Raj Institutions (PRIs) have been given functions, sufficient powers have not been delegated to them. PRIs do not have the power and resources corresponding with their wide-ranging mandate for rural development and poverty eradication.

Since 1993 after the enactment of the 73rd Constitutional Amendment, PRIs have started operating in rural India. However, even though the system sounds very good, decentralisation cannot work without economic security and bargaining power or social mobilisation. Empowerment must mean more than seats in PRIs. Empowerment must enable

the poor to mobilise themselves for demanding their rights. Despite the rhetoric, liberalisation and globalisation has made empowerment even more difficult for the poor, with programmes focused on targeted relief interventions like food and employment security and basic human development inputs.

Social security

There are two approaches to social security in India, the minimalist and the comprehensive. The former defines social security as 'protection against economic and social distress caused by stoppage or fall in income resulting from death, old age, sickness, employment—injury, maternity and temporary unemployment'; while the latter defines social security as a comprehensive anti-poverty package. However, today, there is not even a minimum package of protection for the poor.

Social security must contain the main elements: enhancement of real incomes; basic needs fulfillment and human development; prevention of unemployment and hunger; and protection against old age, sickness, injury, death, maternity; social assistance for the old, disabled and destitute and against usury and indebtedness.

The official approach to social security is piecemeal and insufficient and does not address the undermining of social security by the structural adjustment policies. As of now, social security measures are ad hoc with very low coverage.

Kerala has displayed political commitment and provided a comprehensive package of social security to its poor, with wide coverage, and provided protection against most deprivations like old age, death, sickness, maternity, unemployment, etc.

Developing backward areas

Unequal investment in irrigation and infrastructure across regions has led to inter-regional disparities in productivity

Decentralised development through the devolution of financial, administrative and functional powers to the institutions of local self-government is an important strategy to achieve broad based growth

The spread of agricultural growth to the backward areas will increase both employment and incomes of the poor

levels, bypassing the central and eastern regions. Thus there is an incredible regional variation in agricultural development. These poor and undeveloped areas with high potential for agricultural growth have a bulk of India's dry land areas, fallows and wastelands. These areas require labour-intensive, location-specific conservationist soil and water management strategies for poverty-reducing broad-based agriculture growth.

Agricultural growth in the lagging regions has a higher employment potential and a majority of the cultivating and the underemployed poor live there. The spread of agricultural growth to the backward areas will increase both employment and incomes of the poor. But the strategy has to be different from the one followed in the advanced areas, and must focus on investment in location-specific land and water management for ecological regeneration.

Irrigation has played an important role in reducing rural poverty and inequalities. Given the predominance of small and marginal farms, the government will have to support small farms by ensuring access to water and other inputs. Agricultural growth in the drylands needs watershed based interventions and a genuine breakthrough in dry farm technology. Without state support and enhanced investment in irrigation, extension, research and rural infrastructure, agriculture in the drylands is doomed. The focus should be shifted away from reduction of agricultural subsidies. In backward areas, agriculture is the mainstay of the economy and crisis in this sector not only means distress for everybody in agriculture but will also have a ripple effect across sectors. Since 2002-03, public investment in backward area development has been on the government's agenda (see box 5.1).

Also attention must be paid to common property resources (CPR). Common property resources are very important in the livelihoods of the poor. Many women workers manage CPR-based household work, and the degradation of CPRs

immediately increases their workload. Women face harassment by government officials, especially foresters.

Another area with high potential for the expansion of employment and income, especially for landless labour and small/marginal farming households, is livestock rearing. There is enough evidence to show that gains from animal husbandry are distributed more equally than agricultural income.

Agriculturally backward areas are endowed with more commons and pastures, even though these may be denuded, a greater preponderance of cultivators in total workforce, and a large number of milch cattle with low milk yields, which needs up-gradation and extension support. This makes animal husbandry a promising option.

National Rural Employment Guarantee Scheme (NREGS)

The National Rural Employment Guarantee Act is of immense significance in the context of the widespread rural distress and growing unemployment in the countryside. The legal entitlement to work marks a transition from a supply-driven to a demand-driven employment programme.

Features

The Act guarantees each rural household a hundred days of manual work within a five kilometre radius on a casual basis each year. The household and those of their adult members who are willing to perform casual manual labour are required to register with the relevant authority, and to apply for work, each time specifying the period and timing of work. Though for the moment they will be paid the minimum wage fixed by the State Governments for agricultural labourers, the Centre has the power to notify wages under the Act, provided these are no lower than Rs 60. A failure to provide work within 15 days of application would require the state governments to pay an

Box 5.1 Development of backward areas in India

From the year 2002-03 Rashtriya Sam Vikas Yojana had been introduced as a scheme under Central assistance to State Plans. It was renamed as Backward Districts/Areas Fund and further renamed in the Budget proposals of 2005-06 as Backward Regions Grant Fund on the recommendations of an Inter-Ministerial Group (IMG) in 2005-06. The IMG has identified 170 backward districts based on certain socio-economic variables. It has also proposed that resources under the new facility will be conditional on Panchayati Raj Institutions being properly empowered, including devolution of functionaries and funds. Consequent upon the establishment of the Fund, the existing Rashtriya Sam Vikas Yojana (RSVY), envisaged to end in 2006-07, will be wound up with suitable transition arrangements that will protect every district now covered under RSVY.

The Scheme aims at focused development programmes for backward

areas, which would help reduce imbalances and speed up development. The main objectives of the scheme are to address the problems of low agricultural productivity, unemployment and to fill critical gaps in physical and social infrastructure. The District Administration/Panchayati Raj Institutions accordingly would be required to prepare a Three-Year Master Plan with nested Annual Action Plans. The Plan is to be based on a SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis, review of on-going schemes and identification of a few lead sectors wherein state intervention would help the region overcome major bottlenecks in development. The additionality is to be used to meet local needs through schemes in these lead sectors which would make a dent on the poverty of the region in a time bound manner. People's participation and involvement of Panchayati Raj Institutions, NGOs and Self Help Groups would be ensured at

every stage including plan formulation, implementation and monitoring.

In terms of financial allocations under this head, in 2004-05 Budget proposals, Indian Rs. 3225 crore was earmarked for this scheme, which was revised to Indian Rs. 1969 crore in the same year. In the year 2005-06 too, against the budget estimates of Indian Rs. 5000 crore, the revised allocation stood at only Rs. 2000 crore. In 2006-07 budget proposals, this scheme has been allocated a sum of Indian Rs. 5000 crore out of which Indian Rs. 3750 crore has been placed under Demand No. 67 of the Ministry of Panchayati Raj and Indian Rs. 1250 crore under Demand No. 35 of Ministry of Finance as Transfers to State and Union Territory Governments. This scheme has welcome intentions and one hopes the Union Government would realise this scheme to the extent as envisaged.

unemployment allowance to the worker, which is at least one-fourth of the wage rate for the first thirty days and not less than one-half of the wage rate for the remaining period. Some minimal worksite and welfare facilities will be provided by way of a crèche, safe drinking water, first-aid, hospitalization in case of injury, ex-gratia payment, etc. At the same time, if a worker does not show up for work after application, she will not be entitled to the unemployment allowance for the period of absence. There is also a 33 per cent quota for women.

Expected outcome

Investments made under NREGA are expected to generate employment and purchasing power, improve the quality of life, raise economic productivity, promote women's participation in the workforce, strengthen rural infrastructure, reduce distress migration, and regenerate natural resources.

An expansion in employment through government expenditure will increase the demand for wage goods, resulting in an increase in the production of industrial goods of mass consumption and agricultural output. Thus, the NREGA can not only generate employment but also catalyse economic growth. The NREGS will be a part of the solution to the agrarian crisis in at least three ways. First, by generating demand for wage goods, which include food and local artisanal products; second, by creating complementary infrastructure and assets for agriculture like roads, biomass, etc.; third, by increasing incomes of most farming households since it is rare to find pure agriculturalists in most of rural India, and at the lower and middle ends of the scale, they double up as (often migrant) wage labour and artisans. Maharashtra's experience confirms that even as poor labour households experience increase in incomes and a decline in distress out-migration, the landed people

The existing government machinery is inadequate at the village and block level to handle this Scheme

benefit from the infrastructure created under the Scheme.

Challenges

Since this programme is demand driven it is extremely important that there be an appropriate mechanism for demand estimation. This has three components, namely, registration and application; mobilisation of workers to assess demand for work; and the planning process. Since most of the works under the programme are likely to be earth works, the payment of minimum wages requires piece rate payment in a manner that is both fair and transparent, which is another very important issue.

Difficulties in implementation

Some of the shortcomings in the programme include:

- Non-issuance of individual cards;
- Very low wages in the NREGS and non-payment of minimum wages;
- Inadequate worksite facilities, esp. childcare;
- Arbitrary criteria like age, BPL card, income, or disability etc. for eligibility not permitted by the Act;
- Exclusion of separated/divorced women in natal home and female headed households;
- Exclusion of migrants.

A unique and radical programme of this kind that marks a fundamental departure from the past requires time to take off fully. The financial opposition to the Act has died down. The administrative message that has gone down is: There is zero tolerance for wrongdoing in this Scheme, the Centre is watching.

Inadequate spending

The main characteristic of the Scheme is low spending rather than wastage and 'leakages' (though there are a few instances of the latter, too!). The lower bureaucracy

seems to be in the grips of some kind of fear and lethargy, or simply a resistance to disturbing the pre-existing power equations at the local level. They are terribly worried about litigation and the transparency clauses. Panchayat Presidents complain about non-issuance of work orders by Block Development Officers (BDOs). There is also insufficient staff.

Administration

The existing government machinery is inadequate at the village and block level to handle this Scheme. Far more technical persons are required and PRIs need more staff and funds of all types. In fact, staffing and spending are inter-related. Once there is adequate staff at the GP and Block level, the States can absorb more expenditure, and vice versa. It is important that the Rozgar Sevak be appointed and his/her duties spelt out, this is an important recommendation, because there is a genuine lack of staff at the block and the village level to administer the scheme, so even well meaning officials particularly in backward districts (where the scheme is predominantly located at present) face a problem.

Entitlements

Despite the fact that it is supposed to be a demand-driven programme, unrestrained by budgetary allocations, in practice there is an attempt to keep the entitlements extremely narrow. The three main entitlements under the NREGS are a 100 days of employment per rural household at minimum wages with some minimal worksite facilities (with unemployment allowance if work is not provided). And yet, implementation falters on all three key aspects.

Selection of works

A related issue is the great potential this Scheme holds for local area planning and development. The highly restricted definition of works robs PRIs and gram

sabhas (village assembly) of initiative and results in an obsession with all weather roads and big ponds. It also neglects the provision of social infrastructure. Apart from social development, there should be announcement and wide publicity of a land improvement package that includes land leveling, farm bunding and a farm pond not only for the already permitted SCs, STs, IAY beneficiaries and land reform allottees, but also wholly or predominantly female headed farms.

Applications

An important suggestion made by an activist in Tamil Nadu was that the GP should launch a campaign for spreading information about applications, and for the first two years at least, there should be a door-to-door survey every trimester. This should not only inform people about this crucial aspect of the Programme but also list the approximate times of year when the household wants work, narrowing down to the specific weeks and therefore generate applications.

Women's issues

The most important interventions for women are the following: the payment of minimum wages; the issuing of individual job cards to women within households as well as female-headed single/multi-member households; a door-to-door survey by the GP to ascertain the approximate time of year when they want work and application for it at the time; provision of worksite facilities; selecting women-friendly projects and labour processes, etc.

Other government programmes for poverty alleviation

Rural infrastructure through wage employment using the foodstocks to generate food security and work is a strategy the government has always kept high on its agenda. The National Food for Work Programme in 150 most backward

districts of the country along with the Sampoorna Grameen Rozgar Yojana (SGRY) were meant to do just this. Now as described above, the Government has enacted the National Rural Employment Guarantee Act (NREGA) for the enhancement of livelihood security of the households in rural areas of the country by providing at least 100 days of guaranteed wage employment in every financial year.

The Swarn Jayanti Gram Swarozgar Yojana is a programme for self-employment in rural areas and is implemented in a self-help mode, and there is also a Programme for urban areas. A group lending system is important for social mobilisation of women. Women's Self-Help Groups have played an important role in collective action vis a vis the state. Under SGSY 25 lakh SHGs have been formed, largely in Andhra Pradesh, Tamil Nadu and Karnataka.

Microfinance activities through SHGs are financed by the Rashtriya Mahila Kosh and the National Bank for Agriculture & Rural Development. Housing and shelter are very important for a decent quality of life and self respect. Housing for the urban and rural poor is accorded high priority in policy. The Indira Awaas Yojana provides construction assistance at the rate of Rs. 25,000 in the plains and Rs. 27,000 in the hills. Several state governments give homestead under the IAY. On an average, 15 lakh houses are built every year under the Scheme. The urban poor receive housing assistance through the Valmiki Ambedkar Sahari Awas Yojana.

The Integrated Child Development Services (ICDS) is an excellent programme aimed at health and nutritional development of children up to 6 years of age, and expectant and nursing mothers. It provides awareness on health and nutrition, supplementary meals, health check-ups, immunisation, referral services, non-formal pre-school education at the Anganwadi Centres.

Old-age pension is provided under the National Social Assistance Programme

Rural infrastructure through wage employment using the foodstocks to generate food security and work is a strategy the government has always kept high on its agenda

Panchayats have been assigned an important role in implementation of poverty alleviation schemes and utilisation of development funds

(NSAP), though the amount is inadequate to support an individual. There is also provision for Rs. 10,000 for families who lose their principal bread-winner. Scheduled Castes/Scheduled Tribes, Other Backward Classes and Minorities have problems that are specific to their circumstances, and there are programmes and schemes to address these. There are also programmes for unorganised sector workers, but these are poorly designed and singularly inadequate.

A balance sheet (table 5.30) below provides some details of the programmes.

Implementation of poverty alleviation programmes

There are several problems in the implementation of the poverty alleviation programmes including the lack of awareness about the schemes; the identification of the beneficiaries; nexus between the government functionaries, rural elites, bank officers, the middlemen and the functionaries of the village Panchayats. There is thus a competition for selection as beneficiaries. Other problems include faulty selection of works/activities, inadequate development of capabilities and non-participatory decision-making process.

Panchayats have been assigned an important role in implementation of poverty alleviation schemes and utilisation of development funds. In order to improve the fund utilisation levels and make local people participate more effectively in the poverty alleviation schemes, Panchayats have been empowered to directly handle specific funds without the intermediation of Blocks. Panchayats are also supposed to select the beneficiaries and BPL families through Gram Sabha and village level meetings. The introduction of such decentralised implementation process and fund availability at village/Gram Panchayat level should result in better implementation. However, in reality, one of the biggest shortcomings is that often in practice

Panchayati Raj Institutions (PRIs) are bypassed or relegated to rubber stamps.

Panchayats are required to organise Gram Sabha once in six months to decide about the beneficiaries and conduct regular village meetings to discuss programme details. Violation of this requirement is common. Where such Gram Sabha and village meetings conducted regularly, there is better fund utilisation and programme implementation.

The beneficiaries for various poverty alleviation schemes are selected from the below poverty line (BPL) list that is usually finalised by the Village President in consultation with the Village Level Worker (VLW) rather than by the Gram Sabha. It is a necessary prerequisite that a beneficiary be included in the BPL list. As per the guidelines, the beneficiaries must be from BPL households. There is therefore a high premium for inclusion as a BPL household, and the lists are manipulated.

In general, poverty alleviation programmes suffer from a number of weaknesses:

- The allocation of funds is low, and utilisation is even lower. National level allocations under all the poverty alleviation schemes are declining. There is far greater utilisation of funds in schemes that are fully funded by the Centre
- Under the SGSY, the members of Self help Groups (SHGs) have shown considerable enthusiasm in arranging production space, irrespective of whether income-generating activity is individual-based or group-based. However, most members of SHGs prefer group based activities. In operationalising micro enterprises under SGSY, the local availability of resources and seasonal fluctuation in the availability of raw material is not given due attention. Far too many beneficiaries take up dairy farming despite scarcity of fodder, which makes dairy farming an unviable proposition.

Table 5.30 Anti-poverty, employment generation and basic services programmes in India

Name of Scheme	Year of introduction	Funding pattern	Details	Aim	Expenditure
National Rural Employment Guarantee Scheme	2006	Cost sharing between the Centre and the states; 100 per cent of the wage costs and 75 per cent of the material cost to be borne by the Centre, amounting to 90 per cent of total costs; provision of 2 per cent administrative costs.	Sampoorna Grameen Rozgar Yojana (SGRY) and National Food for Work Programme to be subsumed within the Scheme once the Act is in force.	To provide at least 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work.	
Pradhan Mantri Gram Sadak Yojana (PMGSY)	2005	100% Centrally Sponsored Scheme	Funded mainly from the accruals of diesel cess in the Central Road Fund, with support of the multilateral funding agencies and the domestic financial institutions.	To provide all-weather connectivity to all the eligible unconnected rural habitations. Bharat Nirman envisages connectivity by 2009 to all the habitations with a population of 1000 or more in the plains, and of 500 or more in the hilly, desert and tribal areas. The systematic upgradation of the existing rural road network also is a component of the scheme.	Up to December 2005, Rs 12,049 crore
National Food for Work Programme (NFFWP)	2004	100% Centrally Sponsored Scheme	States receive food grains under NFFWP free of cost.	Supplementary wage employment with food security in 150 most backward districts for the focus of the programme is on works relating to water conservation, drought proofing (including afforestation/tree plantation), land development, flood-control/ protection (including drainage in waterlogged areas), and rural connectivity in terms of all-weather roads.	In 2004-05, allocation of Rs 2,020 crore and 20 lakh tonnes of foodgrains In 2005-06, allocation of Rs 4,500 crore and 15 lakh tonnes of food grains, Rs 2,219 crore and 11.58 lakh metric tonnes of foodgrains released up to January 27, 2006.
Sampoorna Grameen Rozgar Yojana (SGRY)	2001	Centre bears 75 per cent of the cash and 100 per cent of the grain cost with the balance borne by the States/ UTs		To provide additional wage employment in the rural areas, with a cash and food grains component.	In 2004-05, the Centre released Rs 4,496 crore as cash component and about 50 lakh tonnes of foodgrains to the States/UTs. Under the special component of the SGRY, with the States/UTs meeting the cash component, Centre released 26 lakh tonnes of foodgrains to the 13 calamity affected States. Up to January, 2006, the Centre's contributions in terms of the cash and foodgrains components were Rs 4651 crore and 35 lakh tonnes, respectively. Under the special component, about 11.65 lakh tonnes of foodgrains have been released to the 11 calamity-hit States in the current year.
Valmiki Ambedkar Awas Yojana (VAMBAY)	2001	Central Government provides a subsidy of 50 per cent, with the balance provided by the State Government		Construction and upgradation of dwelling units for the slum dwellers, and provides a healthy and enabling urban environment through community toilets under Nirmal Bharat Abhiyan, a component of the Scheme.	Since its inception and up-to December, 31 2005, Rs 866.16 crore had been released as Central subsidy. For 2005-06, up to December 31, 2005, Rs 96.4 crore has been released.

Table 5.30 Anti-poverty, employment generation and basic services programmes in India **(Continued)**

Name of Scheme	Year of introduction	Funding pattern	Details	Aim	Expenditure
Pradhan Mantri Gramodaya Yojana (PMGY)	2000-01			Allocates Additional Central Assistance (ACA) to the States and UTs for selected basic services such as primary health, primary education, rural shelter, rural drinking water, nutrition and rural electrification.	2003-04 as well as 2004-05, the annual allocation of ACA for PMGY was Rs 2,800 crore.
Antyodaya Anna Yojana (AAY)	2000			Provides foodgrains at a subsidised rate of Rs 2.00 per kg for wheat and Rs 3.00 per kg for rice to the poor families under the Targeted Public Distribution System (TPDS). 35 kg per family per month is issued.	
Swarnjayanti Gram Swarozgar Yojana (SGSY)	1999	Centre and States share costs on 75:25 basis		A self-employment programme for the rural poor, to bring the self employed above the poverty line by providing them income-generating assets through bank credit and Government subsidy.	Upto November 2005, Rs 6,980 crore.
Swarna Jayanti Shahari Rozgar Yojana (SJSRY) Urban Self-Employment Programme (USEP) and the Urban Wage Employment Programme (UWEP) are the two special components of the SJSRY	1997	75:25 basis between the Centre and the States		Supplementary wage and self employment to BPL households in urban areas.	In 2005-06, out of an allocation of Rs 160.00 crore, Rs 84.52 crore had been utilised until November 30, 2005.
National Social Assistance Programme (NSAP). The programme has three components i.e. National Old Age Pension Scheme (NOAPS), National Family Benefit Scheme (NFBS) and National Maternity Benefit Scheme (NMBS).	1995	100 per cent Centrally Sponsored Scheme		For social assistance benefit to poor households affected by old age, death of primary bread earner and maternity care.	

Table 5.30 Anti-poverty, employment generation and basic services programmes in India **(Continued)**

Name of Scheme	Year of introduction	Funding pattern	Details	Aim	Expenditure
Rural Employment Generation Programme (REGP)	1995		Implemented by the Khadi and Village Industries Commission (KVIC), entrepreneurs can establish village industries by availing of margin money assistance from the KVIC and bank loans, for projects with a maximum cost of Rs 25 lakh.	Creating self-employment opportunities in the rural areas and small towns.	
Prime Minister's Rozgar Yojana (PMRY)	1993			Making available self-employment opportunities to the educated unemployed youth by assisting them in setting up any economically viable activity.	
Integrated Wastelands Development Programme (IWDP)	1989-90			Development of wastelands/ degraded lands on watershed basis.	
Indira Awaas Yojana (IAY)	1985-86	Cost-sharing basis in the ratio of 75:25 between the Centre and the States	Ceiling on construction assistance is Rs 25,000/- per unit in the plains and Rs 27,500/- for hilly/ difficult areas; and Rs 12,500/- on upgradation of unserviceable 'kutcha' house to 'pucca/semi pucca' house for all areas.	To provide dwelling units, free of cost, to the Scheduled Castes (SCs), Scheduled Tribes (STs), and freed bonded labourers, and also the non-SC/ST BPL families in rural areas.	Up to January 30, 2006, Rs 25,208 crore.
Desert Development Programme (DDP)	1977-78			Mitigate the adverse effects of desertification.	
Drought Prone Areas Programme (DPAP)	1973-74			Tackle the special problems faced by those areas constantly affected by severe drought conditions.	

Note 1: Integrated Rural Development Programme (IRDP) and allied programmes such as Training of Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA) and Million Wells Scheme (MWS) have been restructured into a single self-employment programme called the Swarnajayanti Gram Swarozgar Yojana (SGSY) from April 1999.

Note 2: The Swarna Jayanti Shahari Rozgar Yojana (SJSRY) subsumed the earlier three urban poverty programmes viz., Nehru Rozgar Yojana (NRY), Urban Basic Services for the Poor (UBSP) and Prime Minister's Integrated Urban Poverty Alleviation Programme (PMIUPAP) in December 1997.

Note 3: Employment Assurance Scheme (EAS) and Jawahar Gram Samridhi Yojana (JGSY) are integrated within the Sampoorna Grameen Rozgar Yojana from April 1, 2002.

Source: GOI, *Economic Survey* (various issues).

The average time taken between identification of beneficiaries and sanctioning loan applications is far too long

There is neglect of traditional skills. The beneficiaries are ill equipped with regard to marketing, bookkeeping, management and cooperative skills.

- The average time taken between identification of beneficiaries and sanctioning loan applications is far too long. The time gap between applying for a loan and getting loan sanctioned is about 3 months in both cases, and that of sanction and disbursement of loan is 4 to 5 months. On the average, more than 5 visits have to be made by a beneficiary to follow up the loan process.
- Most individual and/or group beneficiaries do not take credit more than once from the banks. For increasing the credit absorption capacity of the beneficiaries, technical training and management skill and backward and forward linkages are extremely important. The provision of credit through the banking system has tremendous effect on traditional informal financial institutions. None of the beneficiary members of SHG has taken loan from moneylenders after getting assistance from the banks under SGSY. The repayment rate for bank loans is reportedly high in case of individual beneficiaries; the banks are not very forthcoming to advance credit for group activities.
- The repayment rate for bank loans is very satisfactory for group-based activity, however in the case of individual based micro enterprise such as petty trade, repayment is less satisfactory. Though schemes initiated under SGSY have generated income, these incomes have not been always been adequate to cross the poverty line.
- The other very significant problem is the absence of complementary infrastructure like storage facilities, power, transport, extension services, etc. Other Schemes are supposed to provide this. Under the FFWP attempts were made to create rural infrastructure at the village level by involving the village Panchayats and Gram Sabha. Some efforts have been made for the creation of community infrastructure, but the requisite infrastructure support for self-employment was not generated.
- The Food for Work Programmes have generated much needed wage employment for the rural unemployed and poor. Wages are often productivity-linked, and the output norms are so high that minimum wages have not been paid. There are also huge delays in wage payment.
- Village level monitoring and vigilance committees were usually not constituted in most places, which has meant unchecked leakages. Besides, no attention has been given to capacity building of the stakeholders at the village level.
- The number of person-days of wage employment provided per family is also very insignificant to help the beneficiaries to derive a sustainable livelihood and become non-poor.
- The aim of these programmes is additional wage employment during lean periods through creation of durable community, social and economic assets. Attempts have been made to initiate repairs and maintenance works on existing rural infrastructures like soil and moisture conservation, minor irrigation distribution channels, rejuvenation of traditional drinking water sources, rural link roads, etc. However, the funds meant for maintenance of assets have been diverted to construction activities. As a result, the maintenance of assets has not been given due attention. The Gram Sabhas and PRIs did not have an adequate role in the identification, construction and maintenance of the community assets to be created under EAS and JGSY, which alone will make the sustainability of the assets possible. Whatever community assets were created, they exist and are used by the beneficiaries in general.

In spite of difficulties and lacunae in implementation, the various rural development schemes have created much-needed wage employment and rural infrastructure. However, the number of employment and wages have been too low to make a very significant impact, though the NREGS is likely to do far more.

In the case of Indira Awas Yojana (IAY), the Village Sarpanches, Village Level Workers (VLWs) and BDOs tend to identify the intended beneficiaries, instead of the Gram Sabha. There is a long delay in payment of installments following the receipt of the first installment. The amount of assistance under the scheme was reportedly insufficient to cater to the needs of the beneficiaries. As a result, they had to meet part of the expenses incurred towards the construction of the dwellings from their own resources as well as labour. Overall, the performance of IAY has been poor. The ceiling norms for construction assistance have not been strictly adhered to and there have been complaints of misappropriation of funds by VLWs.

Pension under the Schemes is very low and insufficient for the poor to support them in old age and in destitution. As a result, they continue to live under miserable and starvation conditions. The payment is also very irregular and often the elderly face humiliation and harassment. Thus, the operationalisation of various social assistance programmes has been inadequate.

Under the Annapurna scheme, beneficiaries received a very small quantity of food grains as compared to the provision made under the Scheme. The disbursement is also not regular.

Contractors are banned under the employment generation schemes. However, lack of working capital results in the indirect entry of contractors, since there is no provision of advances for the work to be executed. In most of the cases, sanction and release of funds has occurred at the end of the financial year to utilise resources rather than to create assets. In such a situation, due to heavy pressures to complete the work within the short time,

the quality of the assets has suffered. There are also large leakages through middlemen.

The Programme Evaluation Organisation (PEO) of the Planning Commission undertook an evaluation study on the Employment Assurance Scheme (EAS) in the mid 1990s, and reported the following:

1. Underutilisation of EAS funds due to poor planning, untimely release of funds at all levels from the Centre to the District Rural Development Agencies (DRDAs), as well as inability of the States to generate matching resources.
2. Low coverage of villages and the target population. At most, 32 per cent of the villages and 5 per cent of the target group were covered annually.
3. The average days of work per year are less than 30 with a great deal of bogus reporting to achieve targets.

Conclusion

The past decade and a half has taught the developing world that growth alone is not enough; equity and broad-based economic development are vital too. Data also shows that employment alone does not reduce poverty, largely on account of the widespread phenomenon of disguised unemployment and underemployment. The quality of employment is far more important. This extremely interesting finding from most studies may at first appear counter-intuitive. Poverty reduction rates do not depend on the growth rates of employment as much as on the structure of employment growth. This is because wage rates in the rural non-farm sector are higher than in the farm sector. Picking up the pace of employment growth, though vital, will not by itself reduce poverty without an increase in real wage rates, rural infrastructure and expansion in rural non-farm employment. The obverse however holds: declining employment growth is most likely to worsen poverty.

In spite of difficulties and lacunae in implementation, the various rural development schemes have created much-needed wage employment and rural infrastructure

Government spending, real wages and relative price of food are by far the most statistically significant determinants of poverty

Government spending, real wages and relative price of food are by far the most statistically significant determinants of poverty. Non-farm employment, which is heavily dependent on the quantum of government spending on rural infrastructure, is another important factor. Unfortunately, economic reforms have increased the relative price of food, brought down government expenditure, and resulted in jobless growth in the high-wage sectors.

Another serious point is that in India, the income-based headcount poverty ratios do not really capture the far more widespread nutritional poverty, particularly among women and children. Stunting and low birth weight, an outcome of persistently inadequate calorie intake, is endemic even in states with relatively high per capita GDP growth rates and high rates of poverty reduction. This highlights two issues, both important from the policy point of view. Firstly, tackling nutritional poverty requires independent and universal or society level interventions, and secondly, there is a need to redefine or at least assess once again what exactly do we intend to capture by the term 'poverty'.

A related issue is the poor health indicators. These in turn are dependent on two factors: the first is obviously the nutritional status of the people; the second is the availability and quality of health infrastructure. Poor health is both a reason and outcome of poverty, as is low literacy, though to a much smaller extent.

Another feature of India's poverty profile is the regional concentration of poverty within states. Regionally imbalanced growth resulting in regions with high concentration of poverty, low income, inadequate infrastructure and slow and limited economic growth has also become the arena of ethnic exclusion and resulted in social and regional discontent. These are typically rainfed drylands in the central and eastern hills and plateau areas of the country. The higher incidence of poverty amongst

social groups like SCs, STs and women (esp. female headed households) is also an indicator of the unequal nature of the distribution of the gains of growth.

It is in this light that the poverty alleviation programmes must be seen. Clearly, the fiscal policies have tended to restrict public investment programmes, which in turn has restricted private investment, growth and poverty reduction. As discussed earlier, government spending is vital for factors that most significantly influence poverty reduction, namely infrastructure, off-farm employment, etc. Therefore resource mobilisation efforts of the Government through higher tax-GDP ratios and reversal of the increasing regressive tax systems are immediate priorities. As long as fiscal deficits are geared towards infrastructure and growth, there is no rationale in sticking to any arbitrary limit on it. Programmes for self-employment have often not taken off due to inadequate complementary rural infrastructure, extension services.

Though there are several employment generation programmes, and though they have been very important, they have not succeeded in making too substantive a dent in poverty (which has increased if we use the direct method of estimation), their spread and coverage is inadequate, the number of days of employment and wages are low. Even the funds allocated for the purpose are not fully utilised. There must be a massive increase in employment at minimum wages with expansion and proper implementation of the NREGS. Increasing employment by itself is not as effective as more employment at remunerative wages. Therefore, not only has the employment growth to outstrip increase in labour force, it also has to be remunerative. However, money wages are not fundamental, it is real wages that finally determine poverty, and therefore the price of essential services have to be low and stable.

Given the high level of poor nutrition, food security has to be ensured. The PDS must be universalised, expanded and food must be provided at affordable prices. The

amount of entitlement must be increased. Targeting has proved to be an abysmal failure all over the world, and in India off-take from the PDS reduced amidst growing hunger due to the introduction of targeting. It is a good idea to continue the practice of a food component in wages under public works, since despite leakages and poor quality, all field studies report a strong demand from the poor. Given the higher requirement of food security for destitute and female-headed households, their access to the Anna Antyodaya Scheme must be ensured.

Public services like health, education, childcare, natal and post-natal services, water, sanitation, etc. and basic infrastructure like roads, transport, credit, power, irrigation, etc. should be expanded and provided free or cheap without shifts to a 'cost recovery' paradigm in rural areas. 'Growth with and by equity' should become the orientation of development policy. Therefore, state financed and delivered health and education facilities

need considerable expansion and improvement.

Backward tribal areas are home to many poor people, and agriculture here needs most attention. This will also address the vexing problem of urban poverty, by reducing distress out-migration from agriculture and rural non-farm work. Growth has to be more dispersed across regions, and for this, public investment in location-specific irrigation and land management as well as procurement at minimum support prices is a must.

However, this discussion on poverty alleviation programmes must not deflect from the fact that in the ultimate analysis poverty alleviation requires growth through equity: redistribution through land reforms; a huge expansion in public investment for the creation of purchasing power and demand-led growth and the creation of a decentralised and accountable state.

In the ultimate analysis poverty alleviation requires growth through equity, redistribution through land reforms

Abbreviations used in the chapter

AAV	Antyodaya Anna Yojana	NMBS	National Maternity Benefit Scheme
ACA	Additional Central Assistance	NOAPS	National Old Age Pension Scheme
APL	Above poverty line	NREGA	National Rural Employment Guarantee Act
BDO	Block Development Officer	NREGS	National Rural Employment Guarantee Scheme
BPL	Below poverty line	NREP	National Rural Employment Programme
CDS	Current Daily Status	NRY	Nehru Rozgar Yojana
CMR	Child mortality rate	NSAP	National Social Assistance Programme
CPIAL	Consumer price indices for agricultural labourers	NSS	National Sample Survey
CPR	Common property resources	PDS	Public distribution system
DDP	Desert Development Programme	PEO	Programme Evaluation Organisation
DPAP	Drought Prone Areas Programme	PMGSY	Pradhan Mantri Gram Sadak Yojana
DRDA	District Rural Development Agencies	PMGY	Pradhan Mantri Gramodaya Yojana
DWCRA	Development of Women and Children in Rural Areas	PMIUPEP	Prime Minister's Integrated Urban Poverty Alleviation Programme
EAS	Employment Assurance Scheme	PMRY	Prime Minister's Rozgar Yojana
EGS	Employment Guarantee Scheme	PRI	Panchayati Raj Institution
FCI	Food Corporation of India	REGP	Rural Employment Generation Programme
FFWP	Food for Work Programme	RLEGP	Rural Landless Employment Guarantee Programme
GDI	Gender-related development index	RSVY	Rashtriya Sam Vikas Yojana
GP	Gram Parishad	SC	Scheduled Caste
HCR	Headcount ratio	SGRY	Sampoorna Grameen Rozgar Yojana
HDI	Human development index	SGSY	Swarnajayanti Gram Swarozgar Yojana
HPI	Human poverty index	SHG	Self-help groups
IAY	Indira Awas Yojana	SJSRY	Swarna Jayanti Shahari Rozgar Yojana
ICDS	Integrated Child Development Services	SSA	Sarva Shiksha Abhiyan
IMG	Inter-Ministerial Group	SSI	Small scale industry
IMR	Infant mortality rate	ST	Scheduled Tribe
IRDP	Integrated Rural Development Programme	SWOT	Strengths, Weaknesses, Opportunities and Threats
IWDP	Integrated Wastelands Development Programme	TPDS	Targeted Public Distribution System
JGSY	Jawahar Gram Samridhi Yojana	TRYSEM	Training of Rural Youth for Self-Employment
JRY	Jawahar Rozgar Yojana	UBSP	Urban Basic Services for the Poor
KVIC	Khadi and Village Industries Commission	UPSS	Usual Principal and Subsidiary Status
LSGS	Local Self-Governments	USEP	Urban Self-Employment Programme
MMR	Maternal mortality ratio	UWEP	Urban Wage Employment Programme
MWS	Million Wells Scheme	VAMBAY	Valmiki Ambedkar Awas Yojana
NER	Net enrolment ratio	VLW	Village level worker
NFBS	National Family Benefit Scheme		
NFFWP	National Food for Work Programme		

Poverty Alleviation Policies, Programmes and Outcomes in Pakistan

The historical analysis of the dynamics of poverty, inequality and economic growth in Pakistan reveals that the poor have mostly been excluded from the process of economic growth. Despite achieving a reasonable economic growth rate—Pakistan's GDP growth rates since the 1990s have stayed in the range of 4 per cent¹—the country is still lagging far behind in terms of human development. Almost every indicator of well-being—literacy, education, health, nutrition, safe drinking water and sanitation, access to family planning services—compares poorly with countries at similar level of per capita income. In terms of human development index (HDI), the country is ranked 134 out of 177 countries and bracketed with medium human development countries (table 6.1).

The human development gap is large and growing. Trends in social indicator outcomes are disappointing. Pakistan has a low level of adult literacy with some 50 per cent of the population over 15 years being literate.² Of this level of adult literacy only about 15-20 per cent can be treated as functionally literate. Weaknesses in the education sector are well-known. Out of a population of about 20 million in the 5-9 year age cohort, 6.5 million are out of school.³ The majority of those who are enrolled in government schools are not getting quality education. Illiteracy is particularly high for the poor and especially women and girls. Female literacy rate at 36 per cent lags significantly behind that of males (64 per cent).⁴ In the nineties, gender and urban/rural gaps in literacy and enrollment have narrowed but remain significant. Although adult literacy rates are comparable with some South Asian countries (India 61 per cent, Nepal 49 per cent, Bangladesh 41 per cent),⁵ Pakistan's poor quality of education

means that it will lag behind its neighbors to compete internationally.

The health sector performance, though slightly better, lacks significant coverage in terms of availability of doctors, paramedics, hospital beds. More than half of the population does not have access to health facilities. Most of the health facilities are in urban areas. Majority of 455 rural health centers for about 67 per cent of the population lack staff, medicines and qualified doctors. Infant mortality rate, though declined from over 120 deaths per thousand live births at the beginning of the decade to 80 per thousand in 2004, is still very high.⁶ Total fertility rate though declined from 6.4 at the beginning of the decade to 4.1 in 2004⁷ is also very high. The health status of women and children is particularly low, and about half of the children aged 12-23 months are not fully immunized. Access to other basic services, such as safe water and sanitation is still patchy, and this together with poor nutritional status is a major cause of illness of poor household, low productivity and poverty.

The progress in terms of human development and poverty reduction, in short, has been much slower than the pace of economic growth in Pakistan. At present, around one-fourth of its population is living below the poverty

In terms of human development index, the country is ranked 134 out of 177 countries

Table 6.1 Trends in the human development index (HDI) for Pakistan, 2000-2004

Year	Rank ^a	HDI	Number of countries
2000	138	0.499	174
2001	144	0.499	175
2002	142	0.497	177
2003	135	0.527	177
2004	134	0.539	177

Note: a: From above.

Sources: UNDP 2002, 2003, 2004a, 2005 and 2006.

The government of Pakistan has claimed that poverty has been reduced from 34.46 per cent in 2001 to 23.90 per cent in 2005

line. There are two major factors that are limiting the pace of poverty reduction in Pakistan. First, inequality both in income and physical assets as well as in human development indicators has been growing in Pakistan over the years. From 1970 to 2001, the income share of the poorest 20 per cent of the population in Pakistan has gone down from 8 to 6.7 per cent whereas the share of the richest 20 per cent has gone up from 42 to 48 per cent.⁸ With rising inequality, the benefits of economic growth do not trickle down to the poor. Second, human deprivation in terms of low education, poor health and sanitation facilities, non-availability of clean drinking water etc. are all restricting the poor to be a part of the growing economy of Pakistan.

In this chapter, we will first discuss the historical trends of the extent, depth, and severity of poverty both at the national, rural and urban level as well as across different provinces of Pakistan. We will then present a complete profile of the poor in Pakistan in terms of who they are, where they are concentrated, and what major factors contribute to their plight. In the second section, we will discuss how the policy debate on poverty in Pakistan has shaped up over the last few decades and how the quantum of spending on poverty alleviation has changed over time. In the final section, we will look at the

effectiveness of some of the larger poverty alleviation programmes that have been undertaken in Pakistan.

The poverty profile

Poverty measures for Pakistan are based on the Household Income and Expenditure Surveys (HIES). Data based upon these surveys is available from 1960 to date. However, in early 1990s there has been a major restructuring of HIES questionnaires, sample sizes, and sampling methodologies, due to which pre-1990s estimates of poverty are not directly comparable with the post-1990s estimates.

Poverty in Pakistan has followed a cyclical trend in the last four decades. Poverty increased in the 1960s but declined in the 1970s and 1980s.⁹ But the trend reversed in the 1990s. Lately, poverty has shown an unprecedented decline in a short period of four years (from 2002 to 2006). The government of Pakistan has claimed that poverty has been reduced from 34.46 per cent in 2001 to 23.90 per cent in 2005 (table 6.2). Primarily, the claim of the government is based on high economic growth (average 7.5 per cent from 2003-04 to 2005-06), high pro-poor expenditure in the last five years at Rs. 1332 billion, higher remittances in the same period of Rs. 1129 billion (US\$ 19 billion), and finally reduction in unemployment from 8.4 per cent in 2002 to 6.5 per cent in 2005.

Table 6.2 gives the estimates of poverty from 1992 to date. It shows that at present, more than one third of the population of Pakistan is living below the national poverty line. Poverty has mostly depicted an increasing trend between 1992 and 2001. It increased from 25.46 in 1992 to 34.46 in 2001. The depth of poverty as measured by poverty gap also increased from 4.27 per cent in 1992 to 7.03 per cent in 2001 whereas the severity of poverty has almost doubled in the same period. The recent figures for 2004-05

Table 6.2 Trends in incidence of poverty in Pakistan, 1992-2005

	1992-93	1993-94	1996-97	1998-99	2000-01	2004-05
(%)						
Headcount ratio						
Pakistan	25.46	28.17	25.78	31.08	34.46	23.9
Rural	27.63	33.54	30.17	35.13	39.26	28.1
Urban	19.99	15.39	15.84	21.37	22.69	14.9
Poverty gap						
Pakistan	4.27	5.22	4.38	6.58	7.03	4.76
Rural	4.6	6.25	5.25	7.55	8.04	5.64
Urban	3.43	2.74	2.41	4.27	4.55	2.87
Severity						
Pakistan	1.1	1.44	1.14	2.06	2.13	1.48
Rural	1.18	1.76	1.39	2.38	2.44	1.77
Urban	0.89	0.69	0.6	1.29	1.35	0.84

Note: Estimates are based upon the consumption poverty line of Rs. 673.54 equivalent to meet the adult caloric requirement of 2350 calories per day.

Sources: CRPRID 2005a; GOP 2005a and 2006a.

show that poverty has declined from 34.46 to 23.9 per cent.

Regional composition of poverty

The national estimates of poverty in Pakistan mask the widespread regional disparity in the incidence of poverty. Table 6.2 shows that majority of the poor are concentrated in the rural areas. Rural poverty has been much higher than urban poverty in Pakistan throughout 1990s and this gap between rural and urban poverty has been widening over time. The growth in the incidence of poverty in rural areas is much greater than in urban areas. Between 1992 and 2001, rural poverty increased by around 11 percentage points as compared to a modest increase of 3 percentage points in urban poverty in the same period.

Provincial analysis of poverty shows that poverty levels and growth vary across the four provinces of Pakistan. The incidence of poverty is the highest in the NWFP (figure 6.1). The headcount ratio grew sharply in Balochistan and Sindh in the period 1993-2001 mainly because of drought in the region. Poverty estimates also vary even within the provinces. For example, poverty in Southern Punjab (53 per cent) is higher than Central (41.30 per cent) and Northern Punjab (25.90 per cent) because of lower socio-economic indicators in Southern Punjab (illiteracy, higher dependency ratio, etc.).

Vulnerability

One of the most distressing features of poverty in Pakistan is that a significantly large population is crowded around the poverty line making it highly vulnerable to various kinds of shocks. The sources of these shocks vary from socio-political environment to geographical location but they share commonality in terms of depriving people from economic opportunities such as employment and assets, and social opportunities such as loss in health and social networks, etc. It is estimated that around 40-60 per cent

of the population in Pakistan is vulnerable.¹⁰ Drought, floods, bad weather, harvest risk etc. are the most critical risks faced by the poor particularly in rural areas.

The vulnerability to poverty is higher among rural dwellers, people with low education and skills, those employed in the agriculture sector, those with a large family size and children with less than 14 years of age.¹¹ Agriculture production and employment is highly exposed to bad weather shocks, high prices, and technological shocks. Labour market shocks are related to unemployment and low paid jobs due to non-availability of safety nets in the country.

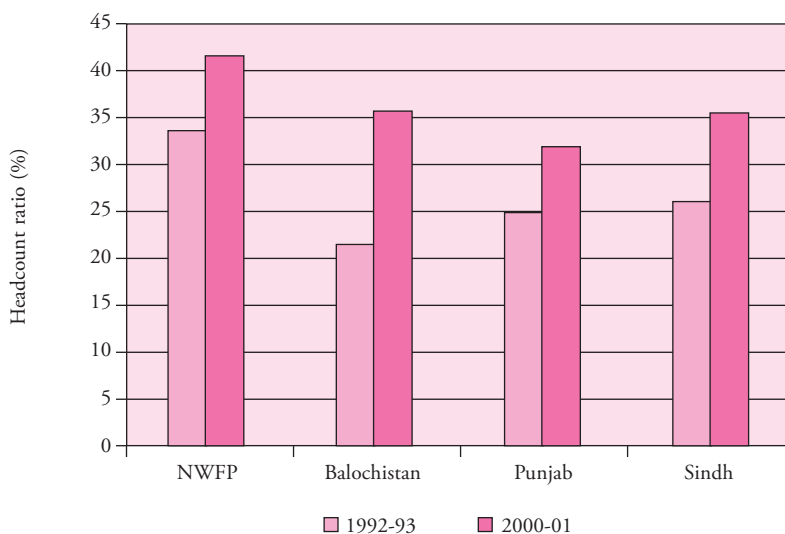
Socio-economic characteristics of the poor

Landownership

Lack of ownership of land and skewed land distribution are the main causes of rural poverty in Pakistan. Empirical studies have shown that poverty in Pakistan is inversely related to the ownership of land.¹² The incidence of rural poverty for households without land is estimated to be 40 per cent as compared to 32 per cent that own even a small parcel of land (maximum of 0.4 hectares

Lack of ownership of land and skewed land distribution are the main causes of rural poverty in Pakistan

Figure 6.1 Provincial poverty trends in Pakistan, 1992-2001



Source: CRPRID 2005a.

Poverty is also higher among self-employed workers or those employed in the informal sector

only).¹³ The incidence of rural poverty declines further to 12.8 per cent among those who own more than 4 hectares of land. Households that do not have access to land are not only poor but are also more vulnerable. Ownership of land protects people from being vulnerable by providing them with an asset that can be sold off at times of distress or be used as collateral to obtain credit.

Employment and income (farm and non-farm)

Majority of the poor in Pakistan are employed in the agriculture sector. It is estimated that agricultural workers in Pakistan account for 45 per cent of the total poor.¹⁴ Crop income is the major source of income of the poor people in the agriculture sector. Cotton and wheat are the major crops of the agriculture sectors. Shares of both crops stand at more than 50 per cent in the value addition of major crops and around 30 per cent in the value addition of agriculture. But crop diversification is very low in cotton/wheat zones of Punjab and Sindh due to lack of resources and opportunities. Both crops experienced wide fluctuations during 1990s. Keeping in view the disparities among the rural areas, poverty in different agro-climatic zones also varies substantially.

Poverty is higher in non-farm sector due to low skills as compared to the farm sectors. Source of non-farm incomes are salaries/wages, rental income, and livestock income. Poverty is also higher among self-employed workers or those employed in the informal sector.

Education and health

The status of health and education of poor households is considerably different from that of non-poor households. The incidence of poverty is estimated to be around 42 per cent among households with an illiterate head as compared to 21 per cent among households with a literate head.¹⁵ Majority of the illiterate poor

reside in rural areas. Poor households have comparatively larger family size and a much higher dependency ratio than non-poor households. The health indicators also vary substantially among poor and non-poor households. Infant mortality rate is higher in rural, low income and illiterate households. Children born in poor and illiterate households exhibit higher probability of being underweight. Immunization rates are also lower among illiterate, rural and poor households. The poor households are also more exposed to health risks that are associated with lack of access to safe water and sanitation. Around 24 per cent of the poor rely on potentially unsafe sources of drinking water as compared to 19 per cent of the non-poor.

The poverty dialogue in Pakistan: A historical review

All five-year plans of Pakistan have emphasized the creation of physical and social infrastructure for the poor and social protection measures for the vulnerable and the marginalized. All governments in power, irrespective of their political philosophies, adopted policies and programmes to ameliorate the sufferings of the poor and to improve the living conditions in general. But government efforts always fell short of expectations. For instance, the Sixth Five-Year Plan (1983-1988) was strategically well focused on basic needs and the development of the people. It postulated growth as a regular feature of the economy and stressed the move to alter its composition in favour of the weak and the vulnerable persons, sectors and areas by larger and more effective investment in social sectors and programmes for poverty alleviation. However, despite significant departures from previous plans in terms of pro-poor ideas, the Sixth Plan did not have enough to show in concrete achievement.

From the early 1990s, rapidly rising poverty and weak social indicators of Pakistan necessitated the adoption of

policies rooted in the belief that for economic development to be really meaningful and sustained it must take into account the human and governance dimensions. Social Action Programme (SAP) was the product of this thinking. Targeting rural areas, SAP aimed to increase government spending on the coverage, quality and effectiveness of delivery of basic services (basic education, basic health, population welfare, rural water supply and sanitation) to the people, especially to women. SAP-I and SAP-II spent about Rs. 420 billion till 2002 against the total outlay of Rs. 600 billion. Unfortunately, structural/governance weaknesses adversely affected the outcomes of SAP and it failed to make the desired progress in terms of coverage and quality.

The Development Committee Communiqué of 26 September 1999 approved a new approach to the challenge of reducing poverty in low-income countries. The new paradigm was based on country-owned poverty reduction strategies, which should be country-driven, result-oriented, and transparent. The poverty reduction efforts, the Communiqué said, ought to be comprehensive and long-term in perspective and should involve broad participation of domestic actors comprising central, provincial and local governments, private sector, trade groups, social groups, parliamentarians, NGOs, community-based organisations (CBOs), village organisations (VOs) and external stakeholders (bilateral and multilateral donors and international financial institutions). The new approach also outlined a design of the poverty reduction strategy which was more appropriate to local needs, entailed greater ownership, and included analyses about the causes of and trends in poverty, quantitative targets for poverty reduction and a well designed monitoring and evaluation system.

In the following years, many developing countries made an attempt to bring the issue of poverty alleviation to the centre stage in the formulation of economic

policy by adopting the Poverty Reduction Strategy Paper (PRSP) process. This strategy is premised on the hypothesis that sustained economic growth accompanied by macroeconomic stability is necessary but conscious efforts need to be made to make this growth pro-poor. The recognition of the importance of human development, coupled with the acknowledgement of the role of the state in providing for the health, education and welfare of the people led to the impetus for development of the PRSPs. The debate in Pakistan has also broadly followed the same route:

- There is increasing recognition of the importance of tackling poverty both as an end as well as a means of ensuring sustained growth. This recognition is based not only on the experience that Pakistani policy makers have had in the last few decades, but it is also crucially informed by the theoretical developments that have occurred in the field of development.
- The human development paradigm has clarified the importance of human development (health, education, social welfare, political participation and empowerment) for sustained growth and economic development.
- The experience of the 1990s, with liberalization, privatization and decentralization, has highlighted that while this might be the right policy direction for a country to take, it will create higher inequality and pockets of poverty that will need to be directly tackled by the state if development is to be sustained.

Pakistan accordingly started work on its Interim Poverty Reduction Strategies (I-PRSP) in late 1999 and completed the process by November 2001. The I-PRSP identified the extent, nature and profile of poverty in Pakistan. It set out priority actions, policies and sectoral focus needed to reduce poverty. The strategy emphasized that the benefits of development must accrue proportionately to all citizens,

Structural/governance weaknesses adversely affected the outcomes of SAP and it failed to make the desired progress in terms of coverage and quality

The PRSP participatory process was particularly enriched by social mobilization at the grassroots level through the Rural Support Programmes Network (RSPN) in setting priorities and improving implementation

including the poor, unemployed, marginalized groups and the disadvantaged. All development policies ought to ensure equitable distribution of wealth from expanding and new sources of wealth, and create a productive and disciplined labour force that has the necessary skills to meet the challenges of the twenty-first century. The I-PRSP also recommended the empowerment of communities through greater involvement of the poor in the formulation of policies for economic and social development and in the management of their affairs.

The I-PRSP was prepared in consultation with the stakeholders. In this participatory process, the government, NGOs, CBOs, members of the civil society and a large number of individuals participated. The participatory process was subsequently broadened in the transition towards the full PRSP. The PRSP participatory process was particularly enriched by social mobilization at the grassroots level through the Rural Support Programmes Network (RSPN) in setting priorities and improving implementation. The full PRSP titled 'Accelerating economic growth and reducing poverty: The road ahead' addresses important gaps in the poverty reduction strategy identified by the I-PRSP. Such gaps pertain to the issues of gender equality, women empowerment, productive employment generation, child labour and the environment-poverty nexus. The poverty reduction strategy encompasses the following major elements:

- Accelerating economic growth and maintaining macroeconomic stability.
- Improving governance and devolution.
- Investing in human capital.
- Targeting the poor and the vulnerable.

The four pillars of the PRSP are closely interrelated. The first pillar emphasizes accelerated and sustained economic growth that requires a macroeconomic framework which can ensure continuity

in macroeconomic stability, assure high level of public spending to support key elements of poverty reduction strategy and further stimulate and expand private investment. To achieve the purpose, the focus is on the monetary and fiscal policies; financial sector reform; capital market development; trade liberalization and export growth; investment policy reform and privatization; streamlining the regulatory framework; improving the enabling environment for the small and medium enterprises (SMEs); the provision of supportive infrastructure; rural development strategy; and housing finance.

Addressing the governance component of the poverty reduction strategy has required major transformation of governance structures and systems in Pakistan, as well as of political and organizational culture, especially at the local level. This was essential due to an accumulated governance deficit that has led to institutional decay and breakdown. The government's strategy for institutional renewal is a bottom-up approach to restructuring. The process has consisted of devolution of power, decentralization of administrative authority, deconcentration of management functions, diffusion of the power-authority nexus and distribution of resources to the district level. Fiscal decentralization, as emphasized by the PRSP, entails providing local governments with locally generated revenues, in addition to a reliable and predictable transfer of funds from the upper level of government.

For better governance, the government in collaboration with the judiciary and the provincial governments is implementing the Access to Justice Programme (AJP) to address issues associated with the administration of expeditious justice. The Police Order 2002 is also a major step towards ensuring maintenance of law and order and dispensing speedy justice. It aims at transforming the police force from an instrument of government coercion to a

service delivery organization that protects people's rights.

Pakistan's long-term sustainable growth and poverty reduction prospects are critically contingent on investment in human development. The linchpin of this effort is the Education Sector Reforms (ESR) Action Plan 2001-2005, embedded in the PRSP. An Education for All (EFA) Plan of Action (2001-2015) has also been developed through broad-based consultations with the principal actors and other stakeholders. Other structural elements of investment in human capital comprise improvement in quality of and access to healthcare, better access to safe drinking water and adequate sanitation, population welfare and youth development.

The policy of targeted interventions emphasizing rural development is also a fundamental pillar of the growth and poverty reduction strategy. The government is making targeted interventions for addressing poverty, generating income and employment through public works, providing microcredit to improve life in the rural areas and facilitating development of small and medium enterprises.

A review of poverty alleviation programmes

The poverty alleviation programmes in Pakistan can be divided into four broad categories: programmes generating income and employment opportunities; social and

human development; infrastructure and community development; and social protection schemes. The comparative size and mode of financing of these projects differ widely from each other. Table 6.3 reflects the latest trends in pro-poor budgetary spending in Pakistan. Despite financial constraints, such expenditure more than doubled between 2001 and 2006 growing at an average rate of almost 23 per cent per annum. All categories of pro-poor expenditure recorded respectable growth over the period. However, the steepest acceleration has been witnessed in the expenditure on community services which increased four times. The expenditure on roads and highways constitutes the major share under this head underlining the necessity of employment generation for the poor. However, human development remains a top priority of the government accounting for more than half the total expenditure listed in table 6.3. Expenditure in this category has been made in the sectors of education, health, population planning, social security and welfare and natural calamities. The near reversal of the overall increasing trend in pro-poor expenditures is, however, evident in case of the safety nets. Worryingly, the expenditure on food subsidies, food support programmes and low cost housing has been stagnant even in nominal terms with negative repercussions for the poor and the needy. The major poverty alleviation programmes in Pakistan are reviewed below.

Pakistan's long-term sustainable growth and poverty reduction prospects are critically contingent on investment in human development

Table 6.3 Trends in social sector and poverty related expenditure in Pakistan, 2001-2006

	2001-02	2002-03	2003-04	2004-05	2005-06	(Rs. billion) Annual increase (%)
Community services	10.98	16.57	28.53	41.71	45.25	42.5
Human development	90.67	105.81	134.05	155.81	196.84	21.4
Rural development	24.3	34.18	44.52	59.69	68.74	29.7
Safety nets	8.33	13.75	12.32	8.438	9.65	3.7
Governance	32.98	38.54	41.81	50.52	58.21	15.3
Total	167.25	208.84	261.3	316.24	378.81	22.7

Source: GOP 2006a.

The Zakat and Ushr Ordinance was promulgated in 1980 as a redistributive transfer system in Pakistan

Zakat

The Zakat and Ushr Ordinance was promulgated in 1980 as a redistributive transfer system in Pakistan. The payment of Zakat is obligatory upon the rich and constitutes one of the five fundamental tenets of Islam. Zakat is deducted at source by companies on the par value of shares held, and by the financial institutions on the following assets: saving bank accounts, fixed deposit saving certificates, NIT units, ICP's mutual fund certificates, government securities, annuities and life insurance policies and provident fund credit balances.

Administrative structure and collection System

The administrative set-up of Zakat consists of five tiers: Central Zakat Council, Provincial Zakat Council, District Zakat Committees, Tehsil Zakat Committees, and Local Zakat Committees. The District and Local Zakat Committees are the key decision makers on matters relating to the targeting and distribution of Zakat to eligible beneficiaries. Until 2001, more than 30,000 Local Zakat Committees were functioning in the country with the

help of more than 250,000 employed workers and volunteers.¹⁶

Zakat collected by financial institutions and other collection agencies is deposited in the Central Zakat Fund maintained by the State Bank of Pakistan (SBP).¹⁷ The Central Zakat Council disburses funds to the Provincial Zakat Council, which in turn allocates funds to the District Zakat Committees. Since the mid 1990s, Zakat collection has stabilized to around Rs. 4 billion per annum, about 0.1 per cent of GDP for 2003-04.¹⁸

Zakat Programmes

The principal form of cash transfers to the poor and disadvantaged in Pakistan is through the publicly administered system of Zakat. The two main types of support, the Guzara Allowance and the Permanent Rehabilitation Grant, absorb in excess of 70 per cent of Zakat related disbursements. The programmes run under Zakat are classified as 'regular' and 'other' programmes. Funds for the Permanent Rehabilitation Scheme and for regular programmes are disbursed through provinces (with fresh releases only on the basis of utilization reports) while those for other programmes are distributed directly by the Central Zakat Council

Guzara (or subsistence) allowance, one of the major Zakat programmes, is a typical cash transfer paid at the rate of Rs. 500 per month (earlier Rs. 300) to eligibles and is one of the main instruments of support wielded by the Local Zakat Committee. Those eligible are: (i) adult living below poverty line (Rs. 670 per month for 2002) with preference to widows and disabled; (ii) unemployed and (iii) not habitual beggars. The Local Zakat Committee establishes the eligibility of the person and the list of recipients has to be pasted outside the local mosque.

Three different categories of educational assistance (as conditional cash transfers) are also provided under Zakat. The payment is made directly to the institutions where eligible students are enrolled. Stipends are given to students enrolled in

Table 6.4 Disbursement and beneficiaries of Zakat in Pakistan, 2003-04

	Total amount disbursed (Rs. million)	Total number of beneficiaries
A. Regular Zakat Programmes		
Guzara allowance	1923.3	813,642
Educational stipends	408.9	289,181
Stipends to students of Deeni Madaris	174.3	69,851
Health care	152.3	186,750
Social welfare/Rehabilitation	121.1	25,544
Marriage assistance to unmarried women	122.4	11,876
Sub-total (A)	2902.2	1396,844
B. Other regular heads		
Eid grant	209.2	0
Leprosy patients	0.5	56
Permanent Rehabilitation Scheme of Zakat Phase III	2319.5	175,664
Educational stipends (Technical)	429.2	22,310
Sub-total (B)	2958.4	198,030
Grand total (A+B)	5860.6	1594,874

Source: GOP 2006b.

mainstream public or private sector schools (10 per cent of disbursements), and vary from Rs. 75 per month for primary and middle level to Rs. 874 per month for professional education. Stipends are also given for technical education (7 per cent of total disbursement).

Zakat is also being used to finance healthcare under the national level health programmes managed by the Provincial and Central Zakat Councils. Under the Programme, the eligibility of a person is determined by the Local Zakat Committee of his permanent residence. However, in the event of an emergency, the Central Zakat Council is empowered to assess the eligibility of a patient. Presently, 80 national level hospitals/institutions are registered with the Central Zakat Council for eligibility to Zakat funds at the rate of Rs. 2,000 for an indoor patient and Rs. 1,000 for an outdoor patient. For larger expenditure, a longer approval procedure is used.

The Local Zakat Committee determines the eligibility of an unmarried woman unable to bear the expenses related to her marriage. The maximum assistance per person under this category is Rs. 10,000. This is a very small programme. The Permanent Rehabilitation Scheme (PRSZ) was initiated in 2001-02. The objective was to assist the poor men and women through grants so that they become self-supporting. The money is given as a one-time grant. Under this scheme, the recipients, with Zakat assistance, set up their own means of earning suitable to their qualification, skill and local conditions. Almost one-third of the total disbursement under Zakat was devoted to PRSZ benefiting around 10,000 individuals with the average value of the grant being Rs. 17,000.

An evaluation of the Zakat programme

The Zakat system is one of the major poverty alleviation programmes in Pakistan. Presently about 1.6 million *mustahqeen* (eligible) widows, orphans, destitute, and patients are benefiting from

disbursement of Zakat in the form of *Guzara* (subsistence) allowance, stipends for students of Deeni Madaris, health care, social welfare rehabilitation and marriage assistance in accordance with the religious injunctions.

There are certain positive features of the system of cash transfers under Zakat. These include: (a) its fiscal sustainability in view of its own specific, well-defined source of funding that is not tied to government budgetary allocations; (b) its strong redistributive function, since the burden is borne largely by the more affluent households; and (c) low administrative cost due to the voluntary nature of most of its administrative tiers.

Despite these positive features, there are certain concerns that are undermining the potential of Zakat as an effective poverty alleviation programme. First, the programme lacks financial transparency. The audit report for 1995-98 released in March 2000¹⁹ maintains that in a large number of cases prescribed rules were not followed, and required standards of financial discipline were not observed. For the year almost Rs. 1,000 million was found to be misallocated and misappropriated.

Second, the programme has a modest coverage and the level of assistance per beneficiary is inadequate. For instance, the support in the form of the *Guzara* (subsistence) allowance covers barely 800,000 households and less than 40 per cent of the average income gap of the 20 per cent poorest households.²⁰ Third, the targeting of the programme is weak in the sense that a disproportionate share of Zakat is captured by the non-poor. The evaluation studies of the Zakat Programme indicate that the poorest 20 per cent households that are the most eligible receive only 49 per cent of the Zakat suggesting a substantial flow of Zakat assistance to the non-poor.

Fourth, the identification of the poor—that is the most vital element to ensure efficient targeting—is weak. The identification of the eligible candidates is primarily done by the Local Zakat

There are certain concerns that are undermining the potential of Zakat as an effective poverty alleviation programme

Table 6.5 Percentage distribution of Zakat recipients by household income quintiles in Pakistan

Quintile	Percentage
1st quintile	49
2nd quintile	20
3rd quintile	16
4th quintile	15
5th quintile	0

Source: PIDE 2001.

Committees that are highly susceptible to political influence. A substantial proportion of the beneficiaries is also identified by the local councilors. Allegations of leakages and corruption are common as a substantial proportion of Zakat recipients reported not having received the full amount of Zakat. Often the poor households need to bribe officials to receive their entitlement.

Pakistan Bait-ul-Maal (PBM)

The Pakistan Bait-ul-Maal (PBM), which operates under the administrative control of the Ministry of Women Development, Social Welfare and Special Education, was established as an autonomous corporate body under a specific Act of 1991. The PBM was ostensibly set up to help the destitute, needy widows and orphans, invalids and the infirm, and other such people who are in dire need of assistance. The Bait-ul-Maal Fund is controlled by a 10 member autonomous Board.

At present, the Bait-ul-Maal runs a number of programmes to assist the needy and the destitute. The two main benefits that it provides are the Food Support Program and Individual Financial Assistance. As shown by table 6.6, the majority of the beneficiaries (52 per cent) belong to Punjab while less than 5 per cent of the recipients are from Balochistan, signaling that the distribution is roughly in line with the population shares of the provinces.

The Food Support Programme (FSP)

Initially, the federal government had launched a Food Stamp Scheme in 1992.

This in-kind transfer initiative was discontinued owing to poor implementation. A re-designed Food Subsidy Scheme was initiated in 1994, which was renamed the Atta Subsidy Scheme in July 1997 aimed at providing a cash grant of Rs. 200 per month per family to 520,000 poor households across Pakistan. To qualify for the scheme, household income had to be less than or equal to Rs. 1,500 per month. The number of beneficiaries and the amounts disbursed were well below the targets and the scheme was withdrawn in 1999.

The Food Support Programme (FSP) was launched in August 2000, with an annual budget grant of Rs. 2.5 billion. The aim was to provide a food safety net for the poorest households, defined as those with incomes below Rs. 2,000 per month. The objective was to assist these poor households to get the minimum caloric requirement set by the Government of Pakistan. FSP is a cash transfer of Rs. 2,400 per annum, in two installments of Rs. 1,200 each, to 1.25 million households.²¹ The support is equivalent of roughly four months of flour consumption of the beneficiary households, representing an additional income of 4 per cent for households living below the poverty line. Assuming an average family size of 6.5 per household, the subsidy benefits a population of just over 8 million.

Individual Financial Assistance (IFA)

The primary purpose of Individual Financial Assistance (IFA) is to support the poor, widows, destitute women, orphans and disabled persons through medical treatment, education stipends,

Table 6.6 Percentage province-wise distribution of Pakistan Bait-ul-Maal (PBM) beneficiary households in Pakistan, 2003-04

Project	Punjab	Sindh	NWFP	Balochistan	ICT, AJK&NA
Food Support Programme	52	21	18	4	5
Individual Financial Assistance	44	26	10	11	10
National Centres for Rehabilitation of Child Centres	36	25	20	12	6
Institutional Rehabilitation	53	0.50	27	0.49	19

Source: GOP 2006c.

rehabilitation, and general assistance. Financial assistance under IFA can only be sought once a year. However, an applicant can be eligible for IFA assistance under all schemes. Assistance for medical treatment is provided through government hospitals up to a maximum of Rs. 300,000. Bright, deserving students are paid education stipends that cover tuition fees (and sometimes even the living expenses of students) of government institutions. The total amount of individual transfers cannot exceed Rs. 30,000. Up to Rs. 40,000 can be paid to the poor to make them self-reliant and socially rehabilitated.

A critical evaluation of Pakistan Bait-ul-Mal (PBM)

One of the major weaknesses of PBM is its heavy reliance on budgetary support, rendering it vulnerable in times of fiscal stress. The coverage of the programme is inadequate since it reaches a mere 25 per cent of the poorest 20 per cent households.²² The size of the assistance is small since it meets less than 20 per cent of the income gap of those living in abject poverty.²³ There are too many programmes spreading PBM over areas it does not have comparative advantage. There is also a lack of internal controls and a high level of political interference.

The provincial and district-wise allocations of PBM funds are on the basis of the overall population shares. Population, as the sole basis for assistance, leads to the possibility that one area (district or province) may have a higher share of the poor than its population share, resulting in the exclusion of the needy households. A database, identifying the poor across Pakistan, would facilitate better targeting. In the absence of such a data base, inclusion of households in the programme is essentially an administrative decision.

Assistance is restricted to needy individuals, on a first come first served basis, who have no other means of income support. The priority ordering is:

individuals with major ailments/disability, students with proven academic records, widows with dependent children, infirm and senior citizens, poor who are willing to go into rehabilitation, orphans and destitute. It is not clear how this eligibility criteria is implemented. Concerns have been expressed on the non-adherence of the criteria, since selection process is discretionary, with significant possibilities of leakage.

There is no formal allocation procedure for disbursement of funds to the districts. Whereas the provincial offices try to ensure that all districts within a province are adequately covered under each of the IFA programs, in practice there are large disparities between districts in the number of recipients benefiting from the transfers. The basis of allocations is unclear as are the reasons for the retention of large proportions, reinforcing the suspicion that the IFA program is used for political purposes rather than as a poverty alleviation mechanism.

The Khushhal Pakistan Programme (KPP)

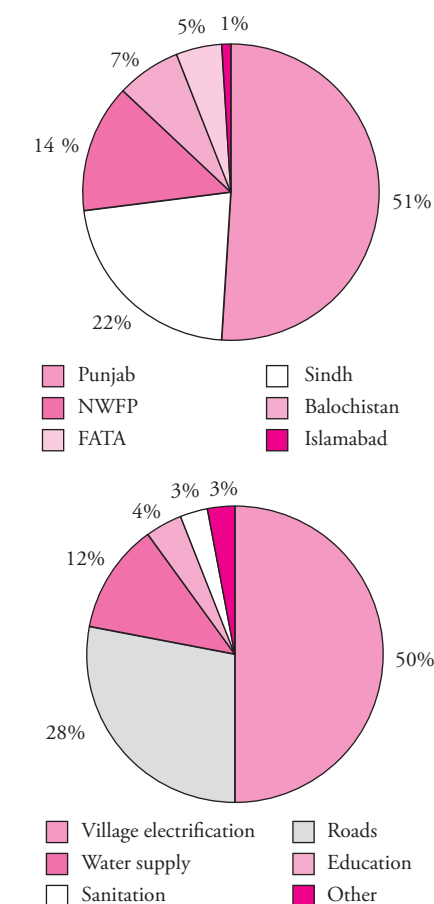
The Khushhal Pakistan Programme (KPP) is an important public sector initiative to create employment opportunities for the unemployed poor. Under this programme, Members of the National Assembly (MNAs) are authorized to identify and finance development schemes of up to Rs. five million in their constituencies.²⁴ The Programme provides essential infrastructure in rural and low-income urban areas by building farm-to-market roads, water supply schemes, repairing existing schools, small rural roads, streets, drains, and storm channels. The schemes are also directed towards lining watercourses, desilting canals, and providing civic amenities in towns and cities.

The sectoral and provincial distribution of KPP shows that more than half the disbursements were made for Punjab, 22 per cent for Sindh, 14 per cent for NWFP, and less than 10 per cent for other areas

One of the major weaknesses of PBM is its heavy reliance on budgetary support, rendering it vulnerable in times of fiscal stress

Legislation has been put in place to allow private sector to enter the field of microfinance

Figure 6.2 Provincial and sectoral distribution of disbursements under the Khushhal Pakistan Programme (KPP)



Source: GOP 2005b.

of Pakistan (figure 6.2). The programme has collectively generated around 0.9 million temporary jobs in the respective areas.²⁵ Much more needs to be done, however, to promote a participatory approach to involve the local communities fully in identifying, planning, designing and implementing the development schemes.

Microfinance Institutions (MFIs)

Programmes to promote access to institutional credit date back to the early 1950s. Some countries, including India and Pakistan, nationalized banking services with a view to forcing commercial banks to extend their outreach to the rural

poor. The major justification offered was the need to extend credit facilities in order to encourage rural growth and technology adoption. Since the early 1970s, however, the role of credit was seen as not merely to channel funds to the most productive use, it was also to bring about social justice by lending at lower (subsidized) interest rates to disadvantaged groups. However, state-subsidized credit rarely reached the rural poor. There were simply too many rent-seeking intermediaries. In the 1990s, it was realized that the problem of the poor is not high interest rates, but the inability to borrow because of the lack of collateral.

In Pakistan, improved access to small credit is seen as a potent means for increasing the income of the poor. Microcredit has a track record of meeting the demands and needs of the poor at the grassroots level. In addition to existing windows such as Pakistan Poverty Alleviation Fund (PPAF), Agricultural Development Bank (ADBP), First Women Bank, National Rural Support Programme (NRSP) etc., the government has recently established the Khushhali Bank or Micro Finance Bank for provision of micro credit to poor communities.

Legislation has been put in place to allow private sector to enter the field of microfinance. Thus, the First Micro Finance Bank Ltd has been established as a non-listed public limited company. The national commercial banks also have some facilities for microcredit but because of collateral requirements these windows are not very effective. In addition Small and Medium Enterprises (SME) Bank has been established to support and develop the small-scale income-earning enterprises in Pakistan by providing necessary financial assistance and business support services. The coverage of micro-credit from all the above windows is limited and not fully catering to the substantial demand for credit. Most of the Rural Support Programmes (RSP) are concentrated in Northern areas with a miniscule presence in Balochistan and

rural Sindh. Below we dissect two microcredit initiatives in Pakistan.

Pakistan Poverty Alleviation Fund (PPAF)

The Pakistan Poverty Alleviation Fund (PPAF) was established six years ago as a not-for-profit private company funded by the government of Pakistan and the World Bank. It is inspired by the success of Palli Karma Sahayak Foundation (PKSF) in Bangladesh (see chapter 7). The PPAF aims at aiding the poor by providing access to resources for productive self-employment, by encouraging the poor to undertake activities pertaining to income generation and by enhancing their quality of life. The PPAF provides soft loans to 65 different partner organisations, which in turn lend to individuals and groups within their target communities. It also provides grants on a cost-sharing basis for development of small-scale community infrastructure, and strengthens microfinance institutions (MFIs) by supporting their capacity building activities. To date the PPAF has managed cumulative disbursements of nearly Rs. 14 billion.²⁶

A study by Gallup Pakistan found adequate evidence to suggest that on the average low income households who borrow from the PPAF are better off than what they would have been if they had not borrowed.²⁷ However, there is a dire need for evaluative studies to assess targeting efficiency to pinpoint the extent to which the poor have actually benefited from the PPAF. In addition to specific design problems, the PPAF has so far been found wanting in the following areas:

- It remains questionable how the benefits of the PPAF are being distributed across the country and among different kinds of community organisations.²⁸ It has been argued, for instance, that the community-based efforts that the PPAF usually funds, are more likely to prevail in areas where a certain level of community organisation already exists. There is a risk, therefore,

that poor communities that are deficient in social organisation and where the existing social and political structures act as obstacles to organised effort may remain untouched by PPAF.

- The coverage of the PPAF is currently limited as is the scope and amount of the loans. Infact, the average amount of loan provided stands at a mere half of the desirable level.²⁹
- While the benefits in terms of poverty alleviation and improvement in the basic life-style indicators of the borrowers are reasonably obvious, the direct impact on business assets, employment and social status (especially for women borrowers) does not appear to be very significant.³⁰
- With the PPAF simultaneously venturing into the areas of credit and enterprise development, physical infrastructure, health and education, its success hinges on effective sectoral coordination. As things stand, however, the sectoral coordination is not formidable.³¹
- Despite the nominally autonomous status, the disbursements under the PPAF have not been totally independent of political interference. Substantial allegations of application of social pressure and harsh measures for the recovery of loans have also been made.³²

Khushhali Bank

Khushhali Bank launched its operations as a microcredit financial institution in the year 2000 with the prime objective of establishing a pro-poor sustainable financial services delivery network in the country. With a predominantly rural portfolio, the Bank now has service outlets in all provinces. The Bank provides short-tenure micro loans ranging upto US \$500 for working capital and asset purchase. Nearly one-third of its 50,000 clients are women.³³ The processing of loans is strengthened through the involvement of community-based organisations (CBOs) in lieu of the

It remains questionable how the benefits of the PPAF are being distributed across the country and among different kinds of community organisations

The pace of poverty reduction and human development has been much slower than the pace of economic growth in Pakistan

traditional collateral requirements of the commercial banks.

The poorest participants (defined as those living below half the caloric intake level of the official poverty line) of the microfinance lending programme of the Khushhali Bank have enjoyed considerable improvement in economic/social welfare indicators and have also benefited from accelerated income generating activities in the agriculture sector.³⁴ However, in general, there has not been a significant impact on caloric intake of the borrowers or their consumption expenditure on non-food items. Similarly, the Bank's clients have not displayed better performance in terms of school enrolment of their children.

For Khushhali Bank to realise its potential impact, it is essential to avoid the 'information pitfalls' in rural credit provision. These pitfalls pertain to the inability to monitor borrowers' performance.³⁵ The challenge for Khushhali Bank is to successfully bypass the information problems, while conducting microcredit operations on a truly massive scale. For long-term sustainability, it is, therefore, imperative to achieve high repayment rates, while charging interest rates that cover the cost of lending.

Monitoring of poverty reduction programmes

Achieving the poverty reduction programme objectives requires the development of a monitoring and evaluation (M&E) system that has the capacity, resources, autonomy, and the incentive structure to objectively track progress. For continuous monitoring and implementation of poverty reduction programmes, a system for gathering quantitative and qualitative information is necessary at all levels of the government. It is also important that one commonly agreed, standard measurement methodology to estimate official poverty line (with provincial and regional lines), which the government owns, and monitors

on a regular basis, be established. Institutional arrangements—the allocation of responsibilities, incentives and internal coordination—are central to establishing an effective monitoring system. The government has notified official poverty line, but substantial work is needed to assess provincial and regional poverty lines.

Monitoring should be seen as a management tool that can be regularly used to adjust and fine-tune the process. Data collection and analysis are challenging tasks in the best of circumstance and are especially difficult where national and local institutions for M&E have weak capacity.

On the supply side, a full M&E system has to draw on a range of sources including expenditure tracking systems, management information system (MIS), surveys, and censuses. The monitoring process is split into three stages: inputs, outputs and outcomes. The data collected by the Federal Bureau of Statistics on households' annual income and expenditure pattern through Pakistan Integrated Household Surveys (PIHS) and the Household Income and Expenditure Survey (HIES) provide primary information for assessing poverty at the national and provincial levels. HIES or PIHS, however, are not designed for analysis at the district level. Therefore, in addition to national surveys, additional information through small sample surveys is absolutely essential. The new district governments, with the participating civil society, can operate a system to regularly collect this information.

Conclusion

The pace of poverty reduction and human development has been much slower than the pace of economic growth in Pakistan. Despite impressive economic growth, around one fourth of the population is living below the poverty line. There are two major factors that are restricting the poor in Pakistan to benefit from rising economic growth. First, lack of human

capital in terms of education, training and health is preventing the poor to benefit from economic growth. Second, the poor are not provided with enough income earning opportunities in terms of jobs. The government's approach has been welfare oriented rather than the empowerment of the poor. No doubt, the long term solution to poverty in Pakistan lies only in accelerated human development along with the generation of adequate employment opportunities.

Realizing the significance of poverty alleviation as not only an end in itself but also as a critical factor for sustaining future economic growth, the government of Pakistan has been showing an increasing commitment to reduce poverty. Over the past five years (2001-2006) alone, the social sector and poverty related expenditure has more than doubled. A number of poverty alleviation programmes are being implemented to ameliorate the sufferings of the poor and to improve living conditions in general. But government's efforts always fell short of expectations. The implementation of poverty alleviation programmes suffer from several problems such as inadequate coverage, weak identification of the poor, political interference, deficient targeting, and lack of financial transparency. Likewise, the implementation of social sector programmes suggests that an increase in the quantity of funds allocated to social sectors doesn't automatically mean a better provision of services. It is necessary to go beyond the global figures and assess the internal composition of spending.

In the final analysis, to reduce poverty it is important to empower the poor by providing them access to land and financial capital. The analysis of socioeconomic characteristics of the poor shows that lack of ownership of land is the most important cause of rural poverty in Pakistan. In the light of this important observation, it is not hard to see how important land reforms are not only from the point of view of raising agricultural productivity but also to reduce poverty. The access of the poor to credit is also limited in Pakistan.

It is important to build assets for sustainable livelihood—natural capital, social capital, physical capital, human capital and financial capital through social mobilization. The concept of social mobilization is to harness peoples' potential to help themselves. The people and communities at the grassroots level are more effective in reducing poverty and achieve well-being by mobilizing the underutilized creativity of the poor, local resources and local knowledge. The experience across countries, including Pakistan, indicates that in the absence of a participatory process most interventions designed for helping the poor have not always been successful in reaching the poor and the conventional macro development interventions are inadequate for poverty reduction and human development. The success of poverty reduction efforts is, therefore, contingent upon the integration of the poor and communities through participatory institutions along with a carefully crafted system for provision of requisite financial resources to the communities.

In the final analysis, to reduce poverty it is important to empower the poor by providing them access to land and financial capital

Poverty Alleviation Programmes in Bangladesh*

About 63 million people currently live in deprivation in Bangladesh, two-thirds of them in extreme poverty

Bangladesh successfully maintained a steady economic growth rate of around five per cent throughout the 1990s. Coupled with an impressive decline in population growth and a fairly stable macroeconomic condition, the economic growth resulted into a doubling of the per capita Gross Domestic Product (GDP). Bangladesh is, in fact, one of the handful of countries that have attained positive per capita income growth every single year since the early 1990s.¹

Bangladesh has made noteworthy progress towards attaining the Millennium Development Goals (MDGs). The goals relating to gender parity in schooling opportunities and achieving universal primary education have already been attained. Reduction in under-five mortality is also on track while the country has nearly achieved the safe water goal, with 97 per cent of the population having access to pathogen-free waters.² However, the attainment of many other goals, for instance the targets relating to maternal mortality, child malnutrition, primary completion rate and environmental sustainability are posing serious challenges. Hence, in spite of the sustained socio-economic gains achieved by Bangladesh, a large unfinished development agenda remains to be addressed.

Consistent with the growth performance, survey-based consumption poverty estimates confirm that the 1990s was a period of declining poverty for Bangladesh. Table 7.1 provides the trends in poverty estimates for Bangladesh using the cost of basic needs (CBN) method as applied to the data of various Household Income and Expenditure (HIES) Surveys³ conducted by the Bangladesh Bureau of

Statistics (BBS). While the data from the latest round of HIES (carried out in 2005) are yet to be made available, some preliminary findings of the Planning Commission point out that the decline in poverty has further accelerated since 2000.⁴ The situation, however, is far from satisfactory. Despite commendable progress in reducing income poverty and achievements in socio-economic development, Bangladesh ranks third after China and India in terms of the absolute number of the poor people. About 63 million people currently live in deprivation in Bangladesh, two-thirds of them in extreme poverty.

The rest of the chapter is arranged as follows. Section II provides a brief description of how poverty discourse has always remained at the forefront of development planning in Bangladesh and discusses the current status of economic policy-making in the country. Section III brings forth the impact analyses of a number of pre-selected poverty alleviation programmes and projects. The last section gathers significant lessons from the evaluated projects and offers concluding remarks.

The poverty dialogue

While concerns for poverty elsewhere may have attained significance under external

Table 7.1 Trends in the headcount index in Bangladesh, 1991-2000

Survey year	Headcount index (%)		
	National	Urban	Rural
1991	58.8	44.9	61.2
1995-96	51.0	29.4	55.2
2000	49.8	36.6	53.0

Sources: GOB 2001 and World Bank 2003b.

*This is an edited version of a paper written by Quazi Mesbahuddin Ahmed.

compulsions, in Bangladesh's case, it has historically been different. The country has always lived with poverty—a fact which has never been denied by the development designs. Poverty has also been at the centre stage of the development practices of the nongovernmental organisations (NGOs) since independence. This was further affirmed by a wider replication of the micro credit programmes following the success of the Grameen Bank. Not surprisingly, some of the early studies on poverty and the later innovations in the empirical understanding of the extent of poverty and poverty processes in Bangladesh are rooted in development discourses.⁵

The central thrust of economic policy making in Bangladesh has always revolved around the overarching objective of poverty reduction. This is manifested in all the five-year plans implemented by the country as well as the latest Poverty Reduction Strategy Paper titled 'Unlocking the Potential: National Strategy for Accelerated Poverty Reduction (NSAPR)'.⁶ Over the period 1973 through 2002, Bangladesh implemented, with two brief hiatus, five five-year plans.⁷ The First Five-Year Plan (1973-78), had poverty reduction as the 'foremost objective'. According to the Plan, achieving the objective of poverty reduction required an expansion of employment opportunities for the unemployed and underemployed, acceleration in the rate of growth of national income as well as effective fiscal and pricing policies for its equitable distribution.⁸ The succeeding five-year plans, with justifiable reasons in the backdrop of widespread poverty in the country, did not waver from their emphasis on the goal of poverty reduction. For instance, in case of the Fifth Five-Year Plan (1997-2002), until now the last one in this genre, the very first objective again related to poverty reduction. The Plan, infact, emphasised that the alleviation of poverty ought to be considered 'as synonymous with development'.⁹

The paradigm shift in planning: Exit of the five-year plan regime

The Fifth Five-Year Plan recognised that planned development in Bangladesh was being frustrated by a number of factors.¹⁰ First, political instability had loomed large for most of the time since independence. The absence of a truly representative government often created political turmoil adversely affecting the development process. Second, foreign assistance has negatively affected the development effort. Foreign assistance has been inadequate and its flow has been too volatile to mount the investment programmes that the successive Five-Year Plans envisaged for Bangladesh. Third, the development process had been disrupted by the frequent occurrence of natural disasters like floods, cyclones and droughts.

In the year 2001, the Government of Bangladesh decided to discontinue the five-year plan regime and instead opted for a Poverty Reduction Strategy Paper (PRSP) and a Perspective Plan (2005-2015). Starting with an Interim PRSP in 2003, the Government finally came up with the NSAPR in October 2005. The NSAPR benefited from a comprehensive participatory process, including consultations at the regional levels with representatives from a wide spectrum of the society. The NSAPR, formulated within the context of the MDGs, is fully owned by the Government, which managed and financed the process, while welcoming donors' interest. The main national level development goals set by the NSAPR are: employment generation, nutrition, maternal health, quality education (at primary, secondary and vocational levels), sanitation and safe water, criminal justice, local governance, and monitoring.

In addition to the goals of reducing the levels of income poverty, the NSAPR focuses on women's advancement, reducing inequalities, and making governance work, especially for the poor. In setting these goals, it acknowledges Bangladesh's encouraging development

The central thrust of economic policy making in Bangladesh has always revolved around the overarching objective of poverty reduction

The argument boils down to the well-known problem of institutional capacity for implementation of pro-poor programmes and projects

record but cautions against complacency and slippages in areas where progress has been good. Recognising the growing significance of the meso-level economy (rural market centers) for growth and employment generation, the NSAPR advocates greater policy attention to the sector. The emphasis is on addressing implementation problems and capacity constraints, within the public sector in particular, by an effective budgetary framework for development spending, improving the quality of the civil services and better information flows.

The NSAPR seeks to address human deprivations in income, food and quality of life through a strategically prioritised policy framework that has pro-poor growth, human development, and governance as its main pillars. The policy proposal aims at unlocking the full potential of the country through a sensible mix of public action, private initiatives, and community mobilisation. The priority policy areas identified in the NSAPR for poverty alleviation are the following ones:

- Macroeconomic stability;
- Critical sectors for pro-poor growth including agriculture, roads, telecommunications and small and medium enterprises (SMEs);
- Safety nets for the poor and the vulnerable;
- Human development of the poor;
- Participation and empowerment of the poor;
- Good governance;
- Improved delivery of basic services; and
- Environmental sustainability.

The NSAPR appears to have successfully sharpened the policy focus on poverty reduction and has brought the poverty discourse to the forefront of development policy making in Bangladesh. It has generated an enlightened debate among the civil society organisations, NGOs, think tanks, academics and of course among the donors regarding the economic

agenda to be implemented for accelerated poverty reduction.¹¹ The argument boils down to the well-known problem of institutional capacity for implementation of pro-poor programmes and projects. Policy making with the primary objective of poverty reduction is of course needed urgently in Bangladesh. However, translating that objective into reality is quite challenging. The peculiar political economy of Bangladesh with its embedded institutional dynamics has continues to thwart the progress towards poverty reduction. Thus, in spite of fine-tuning of concepts, better measurement techniques and robust estimates, poverty remains pervasive in Bangladesh.

The poverty alleviation programmes

Despite the serious handicap of limited institutional capacity, the Bangladesh Government has been implementing a wide range of programmes and projects for poverty alleviation. The budgetary allocations of the Government reflect the high priority being accorded to the objective of poverty reduction. An estimate of the total amount of resources being allocated directly for poverty alleviation purposes, except in case of social safety net programmes (SSNPs) and social protection programmes (SPs), is not readily available. However, the successive Annual Development Programmes (ADPs) of the Government have always given top priority to those sectors which are pro-poor in nature such as, rural development, education (with particular emphasis on girls' education), health, agriculture and water resources etc.¹² Within these broad sectors, cereal output, agro-processing enterprises, fisheries and livestock, social forestry, small and cottage industries, off-farm activities, primary education, maternal and child health, nutrition and rural sanitation, empowerment of women, and youth development have been receiving special attention in allocation of ADP funds.

In addition to the pro-poor sectors mentioned above, the provision of

electricity, transport and physical infrastructure has been receiving high allocations in the ADPs. A multivariate model of poverty determination for Bangladesh indicates that poverty is strongly correlated with land ownership and the schooling of adult males and females in a household. In addition, a study has established that infrastructure variables, such as the extent of paved roads, electricity coverage and availability of bus transport, also have significant inverse associations with poverty.¹³ Therefore, the ADP allocations for electricity, roads and transport have an obvious role to play in poverty reduction in Bangladesh. In the ADP for 2006-07, no less than 371 projects out of an aggregate of 853 are related to pro-poor sectors.

While the Bangladesh Bureau of Statistics (BBS) provides the aggregate data regarding poverty alleviation in the country at approximately five year intervals, the outcome of individual poverty alleviation projects is often harder to assess. The question of implementation of such programmes and projects has, however, always occupied a prime place in the development discourse in Bangladesh. Before the approval of the ADP for the forthcoming year, the Government produces an evaluation report of the previous year's ADP. The report prepared by the Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning focuses almost entirely on the financial progress of projects and programmes. In addition, IMED routinely monitors and evaluates all the ongoing projects in the public sector and produces a routine 'project completion report' once a project is completed. More importantly, IMED selects each year a number of completed projects for carrying out an impact analyses.¹⁴ On the basis of IMED's project evaluation, some projects/programmes (financed largely by the government sources) in the area of poverty reduction in Bangladesh have been analysed here. An effort has been made to indicate the

bottlenecks in the implementation of individual projects to assess their true progress and to study the impact on poverty alleviation. The selection of projects is largely based on the relative standing/contribution of the programme to the key areas of government's poverty alleviation efforts.¹⁵

Microfinance

Microcredit is estimated to have reached well above one-third of Bangladeshi households and around 60 per cent of poor households. The NGO-based microfinance institutions have been growing very fast—their number went up by 26 per cent during 2005 alone. The total number of branches, borrowers and disbursements by such institutions have also exhibited an astounding growth in the recent past.¹⁶ The cumulative disbursement of microfinance in Bangladesh stood at Tk. 335 billion at the end of December 2004.¹⁷

Microfinance programmes of the Palli Karma Sahayak Foundation (PKSF)

Timeline and objectives

The Palli Karma Sahayak Foundation (PKSF) or the 'Rural Employment Assistance Foundation' started its operation in 1991. PKSf aims at alleviating poverty and improving the quality of life of the poor by providing them resources for creating self-employment. Initially, for the first six years of its operation, PKSf was largely dependent on Government grants.¹⁸ The Foundation soon attracted the attention of donor agencies.¹⁹ In 1996, PKSf received US \$105 million from the International Development Association (IDA) for its 'Poverty Alleviation Microfinance Project'. The expansion of coverage of microcredit programme, however, required more funds. To meet the requirement, the second 'Poverty Alleviation Micro-finance Project' was launched in 2001 for a period of four and

Microcredit is estimated to have reached well above one-third of Bangladeshi households and around 60 per cent of poor households

a half years with contributions from the IDA, World Bank, the Government of Bangladesh and microcredit borrowers.

Programmes

PKSF has three programmes. Foremost, as an apex financial institution, it provides loans to the Partner Organisations (POs). Currently, PKSF is disbursing four types of microcredit, namely, rural microcredit, urban microcredit, microcredit for the chronic poor and micro-enterprise credit. Second, it has an institutional development programme for the POs comprising training for their staff, developing accounting and financial management systems, management information systems (MIS), and advisory services for improving the quality and financial viability of microcredit programmes. Third, PKSF conducts and sponsors research from time to time to evaluate its own performance.

Mechanisms for monitoring and evaluation

PKSF can provide resources to the poor on a sustained basis if the POs are financially and institutionally strong enough to be sustainable. It therefore makes careful assessment of an organisation before accepting it as a PO. It receives loan applications from an organisation in a prescribed form, which requires information on its legal status, organisational structure, programme, and sources of finance. A preliminary appraisal of an application is made based on several criteria including the number of years of experience, amount of loans disbursed, number of members and borrowers, recovery rate of loans, and adequacy of paid staff for managing a programme. If an organisation successfully satisfies the minimum criteria, it is then subjected to a full appraisal. The appraisal is based upon a through field investigation. Even after an NGO has been accepted as a PO, it is subjected to constant surveillance. PKSF provides suggestions for improvement in case of any future deficiencies in the POs.

Expenditure management

A newly enlisted PO is allowed a maximum loan of US \$2000. However, the loan size is gradually increased as the PO improves its absorption capacity and its internal management system. The interest rate charged is low—4.5 per cent for an ‘Organisation Operating in Small Area’ (OOSA) and 7 per cent for a ‘Big Organisation Operating in Large Area’ (BIPOOL). The average charge by the POs is 15 per cent per annum on a flat rate basis. The loans received by the OOSA category of POs are repayable in three years, whereas the loans received by the BIPOOL category of POs are repayable in four years. The successive funding of PO programmes is also subject to assessment of performance. The assessment depends on satisfactory management of previous loans, maintenance of high rate of loan recovery, expansion of loan programme and repayment of loan installments to PKSF.

Achievement of programme-specific objectives

The beginning of PKSF was modest indeed. In 1991, it was limited to a mere 23 POs that distributed three million Tk. to a paltry six thousand borrowers. After a period of slow growth till the mid-1990s, PKSF entered a phase of exponential growth. By December 2005, PKSF credit programme covered all the districts of Bangladesh. The number of POs now stands at 235. They are busy distributing a hefty Tk. 24.8 billion to 5.8 million borrowers (of whom above 90 per cent are women). The POs have mostly adhered to the loan repayment schedules in repaying their loan installments with service charges to PKSF. Infact, in 2004-05 the recovery rate of PKSF was an impressive 97 per cent.

Impact on poverty alleviation²⁰

The findings indicate that the percentage of poor households among those

Currently, PKSF is disbursing four types of microcredit, namely, rural microcredit, urban microcredit, microcredit for the chronic poor and micro-enterprise credit

participating in the PKSf's microfinance programme throughout the sample period (1998-2004) was reduced by about 10.2 points. Over the sample period, occasional participants in the programme also experienced a decline of 11.1 percentage points in the proportion of households below the income poverty line. Admittedly, regular participants may comprise the most vulnerable group in the panel requiring sustained support compared to the occasional participants who benefited from the programme and were able to leave. Variation in poverty reduction has also been observed among different groups of participants who left the programme at different stages. For instance, the headcount ratio of poverty declined by 18 percentage points for households, which dropped out of the programme in 1999. It must, however, be emphasised that the findings of the impact of PKSf microcredit programme on poverty (as discussed above) are subject to a couple of biases:

- There exists the possibility of self-selection of participants for the programme, influenced by inherent and unobserved characteristics. In such an eventuality, when a participant graduates out of poverty, it may erroneously be attributed to his/her programme participation, while it may actually be due to his/her inherent ability.
- The programme might be targeting rural areas with conditions more favourable to poverty reduction.

In this context, it is necessary to use a panel model and to control for a number of variables to determine the true impact of PKSf programmes on poverty reduction.²¹ Panel regression results show statistically significant effect of household borrowing on per capita income. Statistically significant effect of household borrowing on per capita income is sustained even if non-eligible households are excluded from the regression. Hence,

it does appear that the microfinance programmes under PKSf have had a discernable impact on poverty in Bangladesh.

Social safety net programmes (SSNPs) and social protection programmes (SPs)

Bangladesh has a robust portfolio of social safety net programmes (SSNPs) that addresses various forms of risk and vulnerability.²² The portfolio has been responsive to changing risk assessment and has witnessed a fair degree of programme innovation. However, there exists a large unmet demand for such programmes with only about ten million people currently believed to be covered by the SSNPs. Total expenditure on the SSNPs in Bangladesh in the recent past has been less than 1 per cent of the GDP and about 4.4 per cent of public expenditures.²³

SSNPs can be divided into cash-based transfer programmes and food-based programmes. While the largest programmes tend to be food-based, conditional cash transfers have become increasingly important. This is specially true in case of the improved access to schooling for children (particularly for girls).²⁴ Simulations show that any attempt at eradicating poverty in Bangladesh solely by investing in social assistance programmes would annually cost about five per cent of the GDP which is not viable given the fiscal constraints and the lack of programme effectiveness.²⁵

Despite resource constraint, the Government in early 1997 also initiated some direct cash allocations in the area of social protection. Currently, there are social protection programmes (SPs) for senior citizens, distressed and disabled persons and widowed and destitute women. Here we take a brief look at two major projects undertaken in the 1990s by the Government of Bangladesh.

Bangladesh has a robust portfolio of social safety net programmes that addresses various forms of risk

Earthwork for Rural Infrastructure Development under Food for Work (FFW)

Timeline and projected expenditure

The Ministry of Local Government, Rural Development and Cooperatives initiated the Project titled 'Earthwork for Rural Infrastructure Development under Food for Work (FFW)' in 1997. The Project was designed to continue till the year 2002 entailing an expenditure of Tk. 6.47 billion.

Objectives and programmes

As a pro-poor investment venture, the Project focuses on enhancing the socio-economic condition of the rural poor through a number of measures. Foremost among these are the development of important regional roads and the rehabilitation of rural roads. For enhanced agricultural production and development of inland fisheries, the Project targets the re-excavation of canals to remove water logging and improved flood-control measures to avoid salinity and soil erosion. For better rural infrastructure and additional employment opportunities for the rural poor, the Project also aims at the rehabilitation of religious institutions and earth raising of playground of educational institutions, community clinic and local government institutions.

Implementation and the bottlenecks

While the Project was in operation, the 1998 floods severely damaged the rural roads and infrastructure throughout Bangladesh. The political leaders and the local elite were already demanding that additional physical components ought to be added to the project. Politics and natural disasters combined created enough justification for the government to alter the original design of the Project and to extend it till 2003.

Impact on poverty alleviation

More than 70 per cent of the beneficiaries of the FFW Programme reported increased agricultural output. Other positive impacts reported comprise rise in employment opportunities, increased mobility (due to better road connections) resulting in beneficiaries getting access to treatment facilities and more of their children attending schools, more efficient and timely supply of agricultural inputs and better law and order situation. There is, however, an absence of accurate estimates related to the above-listed perceived benefits of the Programme. It is highly likely that the extreme poor, having no say in the original design of the Project, benefited much less compared to the relatively better off rural masses. Many components of the Project were expanded largely due to political pressures and few of them lacked economic justification. The Project also suffered from poor implementation. The quality of construction work was poor in 20 per cent of the cases and 40 per cent of earthen rural roads and embankments constructed under the Project was found partially damaged. There was also some evidence of leakages in the distribution of foodgrain under the scheme. Such serious shortcomings in actual implementation dissipated the poverty impact of the FFW Project to a considerable extent.

Women Support Programme

The Women Support Programme was started in 1995 by the Ministry of Women and Children Affairs. It was earmarked for implementation in the year 2000 but was duly extended till 2001.

Objectives

The Project was primarily meant to provide legal assistance to oppressed, destitute and abused women. But it also touched significant dimensions of poverty alleviation of women. One of the major objectives was to provide shelter, food,

medicine, clothes and other assistance for rehabilitating the distressed women and their children. Another objective was to create opportunities for the employment and skill development of the educated, semi-skilled, and unskilled women by registering them for short-term training programmes.

Programmes

The Project entailed four essential but interlinked components designed and implemented to ultimately provide the oppressed women with effective and comprehensive care and respite from their existing situations. These included:

- A cell for the prevention of violence against women (VAW).
- Six women support centres, one in each administrative division.
- An employment information centre to conduct short-term training programmes.
- An income generating channel for production and marketing (called Angana in Bangla).

The selection of women for the Programme was done through a process that involved career development specialists, physicians, social welfare officers and lawyers.

Impact on poverty alleviation

For accurate evaluation of the Women Support Programme, the changes in the poverty profile of tortured/abused women who were exposed to the project interventions were compared with those of the non-participant tortured women. Both qualitative (in-depth) and quantitative (survey) methods of investigations were applied for conducting the evaluation study. The evaluation revealed the following direct and indirect impacts on the poverty status of the targeted women:

- The effective training of income generation activities offered the women better alternatives for livelihoods. The beneficiaries seeking services of the women support centres and that of the legal aid cell, on average, participated in the income generation activities for three years. Many of them attained an income earning status after their exposures to these interventions. This is indeed a positive contribution of the project in terms of improving the socio-economic status of the participants.
- The monthly incomes of the respondents and their family expenditures rose to a much higher level than that cited for the non-beneficiary group indicating improved current living conditions of the beneficiaries. More than one-half of the respondents dealing with the Angana reported a substantial increase in their monthly income after 2001. Majority of these respondents also claimed that they had gained in terms of prestige and status once they started earning more.

It may safely be claimed that the Women Support Programme has contributed positively to the social and economic rehabilitation of the oppressed women in Bangladesh.

The education sector

The education sector in Bangladesh has seen quite a few significant pro-poor initiatives in the recent past. The Primary Education Development Programme and the 'Reaching Out-of-School Children' Project funded by the donors stand out in importance. Female Secondary School Assistance Project and Female Secondary Education Stipend Project are directed at bridging the gender gap in secondary school enrolment. Besides, the government has been also providing stipends to female students at the higher secondary level. The Primary Education Stipend Programme, discussed below, is one of the biggest

The effective training of income generation activities offered the women better alternatives for livelihoods

public sector undertakings for poverty eradication in Bangladesh.

Primary Education Stipend Project (PESP)

Timeline and projected expenditure

The Primary Education Stipend Project (PESP) was first undertaken in April 2000. Almost two years later, the Government merged the already underway Food For Education (FFE) Programme with the PESP.²⁶ The Project is to finish off in 2006-07. The total cost of the Project is estimated at Tk. 33.12 billion which is being fully financed by the Government.

Objectives

The Programme combines the need of providing a safety net to the deprived with the objective of their human development. It targets an increase in the primary enrollment of children from poor households and maintenance of higher attendance rates and lower drop out ratios thereafter. The PESP also aims at an improvement in the quality of primary education by achieving greater educational equity.

Programmes

The PESP uses cash payments to achieve its objectives. Under the PESP, poor households having children at school are provided with specific monetary assistance. The stipend money is given to the guardians of the students almost all of whom are women.

Implementation

Approximately 65,000 primary level educational institutions situated in more than 4,400 unions have come under the purview of the Project. The poor households covered by the programme comprise those headed by destitute women, day labourers, low-income

professionals (such as those engaged in fishing, pottery, blacksmithing, weaving, and cobbling) and landless households.

Achievement of programme-specific objectives

The PESP has made reasonable contribution to the rapid quantitative expansion of primary education in the country. An overall increase in the primary enrollment rate and decline in the drop out rate from the education cycle has been observed in Bangladesh over the project period. The attendance rate of the beneficiary students has marked significant improvement. Infact, the attendance rate of the beneficiaries at 89 per cent is much higher than the national average (69 per cent). However, the passing rate of the poor students varies widely from one school to another. Thus, the achievements of the PESP present a mixed picture with regard to the improvements in the quality of primary education in the country.

Impact on poverty alleviation

The qualitative assessment of the Programme does indicate the presence of some poverty reducing effects. The cash transfer directly adds to the income of the poor families and contributes to poverty alleviation. On the average, the beneficiary households have been found to spend the money prudently on children's education (40 per cent), household needs (25 per cent), kitchen gardening (20 per cent), repayment of micro credit installments (10 per cent) and small-scale poultry farms (5 per cent). Hence, the stipend has encouraged schooling and thereby contributed to human capital formation. Human capital, in turn, is likely to have positive impact on labour earnings and thus on poverty.

Any direct or indirect impact assessment of the PESP, however, must take into account the serious difficulties encountered in the just and effective distribution of the stipend. Foolproof selection of beneficiaries has not been strictly maintained. Some

Approximately 65,000 primary level educational institutions situated in more than 4,400 unions have come under the purview of the Project

reasonably better-off households have procured the stipends at the expense of the more deserving cases. According to an estimate, such households number nearly six per cent of the aggregate. Second, as per the stipulations, only 40 per cent students of a particular school are eligible for the stipend. Sometimes, this has created feelings of resentment among the equally eligible non-recipients. Finally, the stipend has been withheld either partially or fully in a number of cases where there were small lapses in fulfilling the rigid eligibility criteria.

Water and sanitation

The sector has a host of projects for improved access to safe water and sanitation facilities, which are all pro-poor in nature. Here, the Grameen Sanitation Project is evaluated.

Grameen Sanitation Project

Timeline and projected expenditure

The Grameen Sanitation Project was launched by the government in 1996 and was originally designed for completion within five years. However, it was later extended till the year 2003. Domestic sources funded the Project valued at Tk. 1993.33 million (including a revolving fund of Tk. 464.3 million).

Objectives and targets

The foremost objective of the Project was the better provision of sanitation facilities to those who were otherwise unable to afford them. For that purpose, 1.8 million sets of sanitary latrine components were to be produced and sold to the needy by the production centres of the Department of Public Health Engineering (DPHE). In addition, a substantial number of sanitary latrines were to be constructed for the extreme poor. Other objectives included the assessment of the change in mortality rate due to decline in human excreta borne diseases and environmental

pollution, motivation of the masses to follow hygienic/primary health care practices and creation of greater awareness about health hazards due to indiscriminate defecation. To elicit greater role of the private sector in its efforts, the Grameen Sanitation Project targeted the provision of appropriate training to nearly a thousand personnel of the private latrine producers.

Achievement of programme-specific objectives

The project implementation was sluggish and the achievement was less than what had been initially envisaged. Less than 50 per cent of the target was achieved for the production and distribution of sanitary latrines. There was greater success in the free of cost distribution of latrines among the extreme poor especially in the underserved areas. The training (for private latrine producers) could not be conducted at all.

Impact on poverty alleviation

The Grameen Sanitation Project did have a modest impact on the environmental sanitation of the poor. A survey found that the constant usage of hygienic latrines by the beneficiary households increased threefold. The incidence of diseases like cholera, diarrhea, typhoid, dysentery, and jaundice showed visible reduction among 97 per cent of the surveyed households. Morbidity and mortality rates also declined.

The major factor behind the modest outcome of the Grameen Sanitation Project was the allocation of insufficient funds for the purpose, specially for the procurement of the necessary raw materials. Other causes included the lacklustre motivation/sales campaign, poor marketing mechanism and the distant location of the latrine production centres from the beneficiary households. All these factors combined to ensure that the Project failed to adequately motivate

The Grameen Sanitation Project was launched by the Government in 1996 and was originally designed for completion within five years

The livestock sub-sector has also emerged as an important vehicle for generating employment opportunities and alleviating poverty

the poor to secure better sanitation facilities.

Rural development

Some poverty alleviation projects in the rural development sub-sectors have been discussed in earlier sections. A few equally notable pro-poor projects have been undertaken in the crop sub-sector. These, for instance, comprise a number of crop diversification projects, the Small-holders Support Project, the Development of Modern Seeds and Technology Project and the Bangladesh Agribusiness Development Project. In the fisheries sub-sector, the ongoing initiatives include fisheries' investment projects and technical assistance projects to help improve the socio-economic plight of the poor fishers. The livestock sub-sector has also emerged as an important vehicle for generating employment opportunities and alleviating poverty.²⁷ Most significantly from the viewpoint of poverty eradication through rural development, successive governments have launched cheap housing schemes since the mid-1980s. The approach entails the provision of well-planned simple housing under a 'cluster-village approach' to rehabilitate the homeless and the landless. One of the largest ongoing projects in this respect is the Model Village Project (Phase II).

Model Village Project (Phase II)

Timeline and projected expenditure

The Model Village Project (Phase II) is jointly funded by the government of Bangladesh and the European Commission (EC).²⁸ The Project is being implemented over the period 1998-2007 with a total expenditure of Tk. 3447.5 million.

Objectives

The Project tries to alleviate poverty by working for the rehabilitation of the homeless and the landless scattered all over Bangladesh. It provides assistance to

the deprived people in their fight against poverty by providing greater social security, improving socio-economic status, human development, promoting income generating activities and discouraging the tendency of rural-urban migration.

Targets

To meet its objectives, the Project targets the rehabilitation of 48,000 homeless and landless families by establishing 900 model villages on recovered government land from illegal land grabbers.²⁹ A community centre is to be established in each village, besides encouraging the formation of cooperative societies. The rehabilitated inmates are to be provided with valuable training for skill formation and greater awareness about basic health issues and family planning practices. Microcredit is to be made available to the project beneficiaries for undertaking income generating and self-employment ventures. For effective poverty alleviation, fish culture and intensive plantation of vegetables and trees is also to be promoted in the villages. Moreover, safe drinking water, a kitchen space and a sanitary latrine is to be arranged for each rehabilitated family.

The serious bottlenecks in implementation

Right from the beginning, the implementation of the Project faced serious hindrances. These owed largely to the presence of two project directors, one each from the government and from the EC. The Project Proforma (PP) of the government and the financial agreement signed between the Government and the Commission contained some provisions which were incongruous. The procurement of goods and services for the EC components of the project had to be processed following EC procurement rules and this allegedly led to unnecessary delays in essential procurements. On the other hand, in violation of the stipulations, EC disbursed funds for construction work in 2000-01 even before the first revision

of the PP. Later on, the government in October 2002 approved the revised PP with the provision of two committees, the site-selection committee and the NGO-selection committee. EC, in turn, refused to accept these committees and the impasse continued until the Government abolished them. It was after the resolution of the impasse that the revised Project was restarted.

Impact on poverty alleviation

Till December 2004, a total of 427 model villages were set up, rehabilitating 25,385 families under the Project. However, the impact on poverty and the living conditions of the destitute has unfortunately been minimal. Currently, the success of the Project stands seriously compromised by the following shortcomings:

- Procedural complexities at the relevant offices for registration of houses and at the offices of land administration have been holding back the desired progress. The deed registration for the houses has so far covered less than 1500 families. Faced with a constant fear of losing their homesteads, the rehabilitated people have been dispirited and do not feel exactly encouraged to undertake any socio-economic programmes including tree plantation. The delay in registration has thus acted as a serious impediment towards the achievement of the Project's objectives. A wide section of stakeholders attending regional consultation meetings during the preparation of Bangladesh's NSAPR pointed out rampant corruption in government offices as the chief cause of the low achievement of the Project.³⁰
- No proper survey of khas land was carried out in a number of administrative districts. Hence, due to the inaccurate work plan, some districts ended up having more model villages than were provided for in the Project.
- Most model villages are facing an acute crisis of drinking water because most of

the newly-sunk tubewells were later stolen. It has not been feasible practically to provide a pond in every village as initially visualised.

- The quality of houses constructed has not been uniform despite the strict guidelines provided by the Project.
- The children from many model villages are facing problems in schooling because there are still no schools within reasonable proximity.

Youth development

Youth Training and Self-employment Project

The Youth Training and Self-employment Project was started in July 1990 by the Department of Youth Development (DYD) under the Ministry of Youth and Sports.

Objectives

The Project was conceived to better harness the youth manpower in Bangladesh for productive work and hence to eradicate unemployment and to alleviate poverty. The primary objective was to provide appropriate training to the youth (both male and female) for skill formation leading to self-employment. A revolving fund was to be created under the DYD to support the trained youth for employment generation. Finally, in more general terms, the Project sought to promote the cause of national development by the moral and mental development and leadership-orientation of the youth.

Programmes

The Project had several components, training being the most important one. Two types of training were arranged for the youth—institutional and non-institutional. Institutional training was provided in secretarial science, stenotyping, dress making, wool knitting, batik etc. through 178 training centres. Non-institutional training was organised at

***Till December 2004,
a total of 427 model
villages were set up,
rehabilitating 25,385
families under the
Project***

The social status of the trained youth has also been enhanced through their greater involvement in village salis (arbitration), mosque committees, youth clubs and other social organisations

Upazila (sub-district) level in 40 approved trades.

The second important component of the Youth Training and Self-employment Project was the provision of credit to the recipients of training. This component introduced in 1994-95 created a 'youth credit fund' which practically functioned as a revolving fund for annual distribution of credit. Lastly, motivational programmes were also initiated to create greater awareness about the issues of gender discrimination, conservation of environment, tree plantation, self-reliance etc. Related activities included grants to youth clubs, documentaries on youth activities, seminars and workshops, assistance to youth organisations and a youth exchange programme to share positive experiences.

Implementation and expenditure management

The third phase of the Project was completed in June 2003. The amount of credit available to the youth with non-institutional training was fixed between Tk. 750 and Tk. 2500. The youth with institutional training received Tk. 10,000-25,000. The upper credit ceiling for youth with non-institutional training was later raised to Tk. 10,000. The loan was repayable within one year for youth who had received non-institutional training and within two years for those with institutional training.

Impact on poverty alleviation

By the completion of the third phase, approximately Tk. 2 billion had been disbursed among the youth. The recipients numbered close to 200,000. The most significant effect of the Project has been the development of capacity for self-employment. Though a certain proportion of the youth could not properly utilise the skills acquired through training, almost two-thirds of the trained youth became self-employed. Those self-employed were able to earn much more than the national average for the youth. In addition,

one-fourth of the trained youth have been able to create employment opportunities in their own enterprises for other youth.

The social status of the trained youth has also been enhanced through their greater involvement in village salis (arbitration), mosque committees, youth clubs and other social organisations. Certain positive changes in health and nutrition indicators have also been noted in 82 per cent of the households to which the youth belong. About 90 per cent of these households now have access to safe drinking water and most of them enjoy three meals a day. Hence, the Youth Training and Self-employment Project has done satisfactorily as regards its chief objective of poverty alleviation through employment generation.

Technical Training Project for Unemployed Youth (Phase II)

Timeline and projected expenditure

The Technical Training Project for Unemployed Youth (Phase II) is being implemented during 1998-2006 by the DYD. The total cost of the Project is estimated at Tk. 398.7 million.

Objectives and targets

The objective of the Project is to provide training to the unemployed youth for various technical trades. Alongside technical education, the Project also aims at the provision of appropriate civic education to the youth. Once trained, the youth are to be motivated and supported to be self-reliant through the initiation of self-employment ventures. The specific target is to train 59,200 unemployed youth in four different trades.

Programmes

To implement the Project, 70 training centres have been set up. At these centres, courses of six months' duration are being conducted in computers, electronics,

electrical house wiring and refrigeration and air-conditioning.

Achievement of programme-specific objectives

By the middle of 2005, above 51,000 youths had received their training under the Project. The achievement rate hence stood at an impressive 87 per cent. Out of these, a very high proportion (79 per cent) of the youth were trained in the computer trade.³¹

Impact on poverty alleviation

Akin to the Youth Training and Self-employment Project, the Technical Training Project for Unemployed Youth (Phase II) has had reasonable success in providing the much-needed employment to the youth. Before joining the training course under the Project, less than 1 per cent of the youth were employed.³² After participating in the Project, however, 62 per cent of the youth were able to secure employment. Out of them, two-thirds in fact got employed within six months of completing the training course.

However, the Project has been found lacking in some respects which has acutely affected its capacity for poverty alleviation. First, less than 3 per cent of the youth have been successful in procuring credit for setting up some self-employed trade. The lack of initial capital has, therefore, hindered employment generation under the Project. There would certainly have been a larger impact on poverty had the Project entailed some arrangement for internship/industrial attachment and the provision of soft loans on easy terms to the trained youth. Second, there is dire need for an improvement in the quality of the training courses being conducted. This can be accomplished by providing residential facilities and job security to the trainers, more comprehensive training of the trainers (TOT), up-dating of curricula and better library access. Due to low quality of training provided, a substantial number of trained youth remain

unemployed and thus unable to improve their socio-economic status.

Conclusion

The preceding analysis establishes that a number of poverty alleviation projects in Bangladesh have shown reasonable results in attaining their intended benefits. Impact analyses of the projects reveal gains in employment generation, expansion in income earning opportunities, organisation of the poor around ecological commons, rehabilitation of the landless, increase in the school enrolment of the poor children, provision of rural sanitation facilities, awareness-building for maintaining better sanitation and youth development through training and skill formation.

The above-listed achievements in poverty alleviation are widely credited to the country's pluralistic service provision regime.³³ The NGO sector and the individual organisations within it have grown exponentially in number and scale. There are an estimated two thousand or so development NGOs in Bangladesh presently. These NGOs provide a strikingly homogenous set of services, with microcredit dominating. They have successfully demonstrated that innovative anti-poverty experiments can be scaled up into nationwide programmes. The notable innovations (now part of expanded programmes), for instance, include the delivery of credit to the previously unbankable poor, development of non-formal educational programmes to cater to the poor children (particularly to girls belonging to low-income households) and the utilisation of rural community health workers to provide doorstep services in collaboration with the government.

However, the discussion of the nature of bottlenecks in the implementation of the poverty alleviation projects reveals that certain problems continue to recur in different degrees in various projects. Major issues include inappropriate project designs, inadequate training of the personnel, deficient targeting criteria,

There is dire need for an improvement in the quality of the training courses being conducted

These bottlenecks have slowed down the progress of most poverty alleviation projects thereby diminishing the expected benefits

restricted legal rights of the beneficiaries to project outcomes, poor quality control in construction of infrastructure, leakages in inputs, underutilisation of project capacity due to gaps in awareness-building of target population, delayed release of funds to implement the scheduled components, insufficient maintenance allocations and political interference. Undoubtedly, these bottlenecks have slowed down the progress of most poverty alleviation projects thereby diminishing the expected benefits. For instance, most studies present a mixed picture of the impact of SSNPs in Bangladesh.³⁴ Infact, a number of studies have seriously questioned the contribution of the SSNPs towards poverty alleviation. While the programmes of the SSNPs have been successful in consumption smoothing, due to several weaknesses in project conception and implementation, they have not been able to bring about structural changes in the economy to eradicate poverty. There has been a lack of long-term asset creation and very little breakthrough in enhancing the quality of education.

In general, faster poverty reduction through accelerated, sustained, and broad-based growth in a market economy is contingent on the state's capacity to create

conditions for wealth generation, to enforce contractual arrangements and to protect property rights. These presuppose the existence of effective state institutions, capable of ensuring the rule of law and a sound regulatory framework, as well as the provision of basic social services. Improving the effectiveness of state institutions in these areas is Bangladesh's biggest medium and long-term challenge for effective poverty alleviation. The NSAPR pinpoints four crosscutting themes for an institutional strategy on good governance; systemic improvements, quality institutions, partnerships and culture/values.³⁵ Keeping these crosscutting themes in view, improvement in implementation capacity and the promotion of local governance have been identified as the key priorities in the governance agenda.³⁶ The agenda also emphasises the strengthening of anti-corruption strategy, reform of criminal justice, enhanced access to justice for the poor and improvements in sectoral governance. Critically, however, the major goals identified and actions to be taken for ensuring good governance in Bangladesh largely depend on the commitment of political leadership and political stability.

Poverty Alleviation in Sri Lanka and Nepal

In terms of poverty and its alleviation, Sri Lanka and Nepal are the two South Asian countries that present a sharp contrast in several interesting ways. Both countries are at the extreme ends of the level of poverty and human deprivation. While Sri Lanka's performance in terms of human development is extraordinary, Nepal has sunk deep into the quagmire of poverty and deprivation. What made one country—belonging to the same region and sharing the same history—outshine in such a remarkable way and the other descend deep into deprivation, is an interesting question worthy of exploration. While there may be several factors explaining the divergence in the performance of both these countries, there is one important factor that stands out: political commitment to address the needs of the poor. Being a flourishing democracy throughout its history, the government of Sri Lanka showed a strong political commitment to develop the country as a 'social welfare state' right from the beginning when the country became independent in 1948. Universal and free education and medical facilities are still maintained to this date. At present, around 7-10 per cent of the GDP of Sri Lanka is used to finance free health and education services, food subsidies, food stamps and subsidized credit.¹ Nepal, on the other hand, has always been a monarchy resisting any social change. Political commitment has always been deficient in addressing the needs of the poor. Public expenditure on welfare and social security in Nepal hovers around 0.1 to 0.4 per cent of GDP.² Social exclusion still prevails in Nepal obstructing the alleviation of poverty in the country.

This chapter presents a brief profile of poverty—current status, trends,

geographical distribution and socio-economic characteristics of the poor—in both Sri Lanka and Nepal. The chapter then critically evaluates the performance of poverty alleviation strategies and programmes in both countries.

Poverty alleviation in Sri Lanka

Being a lower middle-income country, Sri Lanka has an exceptional record in human development. The country has been able to achieve a much higher level of human development as compared to other countries at the same or even higher level of economic development. The life expectancy in Sri Lanka is 74 years, which is even higher than the average life expectancy in upper middle-income countries (69 years) even though the gross domestic product (GDP) per capita of Sri Lanka is less than half the average GDP per capita of upper middle-income countries. The same is true for infant mortality rate, which is 12 per 1000 for Sri Lanka against 23 per 1000 for upper middle-income countries. Such an impressive record in terms of human development is indicative of strong political commitment of Sri Lanka to improve the well being of the population. Universal and free provision of health and education services has always been incorporated in all development plans right from the beginning.

Despite such a remarkable performance, from the point of view of human development poverty continues to afflict 20-25 per cent of the population.³ This implies that one in every four Sri Lankans is poor. It is even predicted that these numbers underestimate the incidence of poverty in Sri Lanka precisely due to the fact that the surveys upon which these estimates are based exclude the conflict

While Sri Lanka's performance in terms of human development is extraordinary, Nepal has sunk deep into the quagmire of poverty and deprivation

Table 8.1 Incidence of poverty in South Asia

Countries	Survey year	National Poverty Line			Survey year	International Poverty line			
		Rural	Urban	National		\$1 a day		\$2 a day	
		Population below (%)	Population below (%)	Population below (%)		Population below (%)	Poverty gap	Population below (%)	Poverty gap
Sri Lanka	1996	27.0	15.0	25.0	2002	5.6	0.8	41.6	11.9
Pakistan	1999	35.9	24.2	32.6	2002	17.0	3.1	73.6	26.1
India	2000	30.2	24.7	28.6	2000	34.7	8.2	52.4	15.7
Bangladesh	2000	53.0	36.6	49.8	2000	36.0	8.1	82.8	36.3
Nepal	2004	34.6	9.6	30.9	2004	24.1	5.4	68.5	26.8

Source: World Bank 2006h.

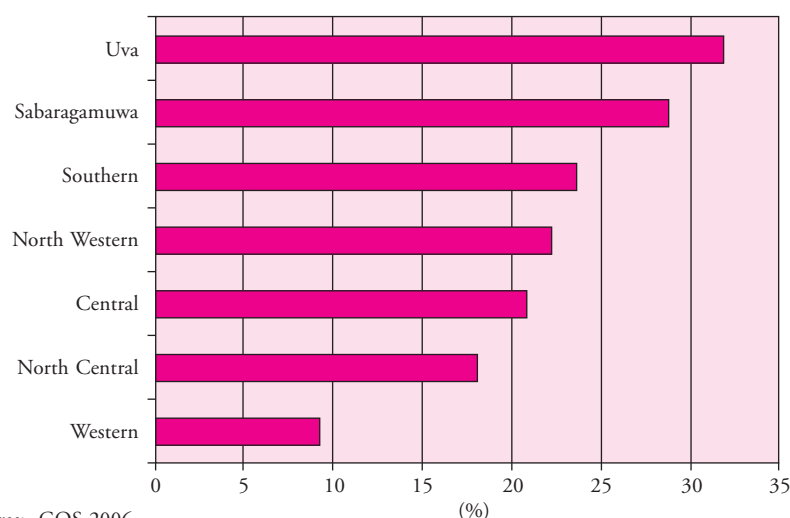
Table 8.2 Human development and poverty incidence in Sri Lanka and other selected countries

	Human development index 2003	Population below \$1 a day (%)
Sri Lanka	0.751	5.6
Algeria	0.722	<2
Dominican Republic	0.749	2.5
Egypt	0.659	3.1
Jamaica	0.738	<2
Jordan	0.753	<2
Iran	0.736	<2
Turkey	0.750	3.4

Note: The figures for poverty correspond to different years ranging from 1995-2003 depending upon the year in which the survey was conducted in each country.

Sources: UNDP 2005 and World Bank 2006h.

affected regions of North and North East where human suffering and deprivation is much higher than the rest of the country.⁴ A great deal of poverty also exists in the form of vulnerability and personal insecurity due to ethnic conflict.

Figure 8.1 Percentage of poor households by provinces in Sri Lanka, 2002

Source: GOS 2006.

Even though the incidence of poverty in Sri Lanka is the lowest compared to other South Asian countries, given its level of human development, this poverty level is still high (table 8.1). Also the poverty rate in Sri Lanka is significantly high compared to other countries at similar or even lower levels of human development (table 8.2).

Where are the poor? The regional distribution of poverty in Sri Lanka

The national figure for poverty in Sri Lanka masks the wide regional disparity that exists in the incidence of poverty across different sectors and regions. Around 90 per cent of the population below poverty line resides in rural or estate sectors. The incidence of poverty is highest in the province of Uva and Sabaragamuwa followed by the Southern provinces. These provinces are typically characterised by low agricultural productivity, low access to markets and low provision of infrastructure facilities such as electricity and roads.

Figure 8.1 shows the extent of regional variation in the level of poverty in Sri Lanka. The official estimates of the percentage of poor households range from 9.2 per cent in the Western province to as high as 31.8 per cent in the province of Uva. The same regional disparity in poverty rates exists among various districts of Sri Lanka (figure 8.2). The percentage of poor households varies from 5.0 in the district of Colombo to 32.4 in the district of Monaragala.

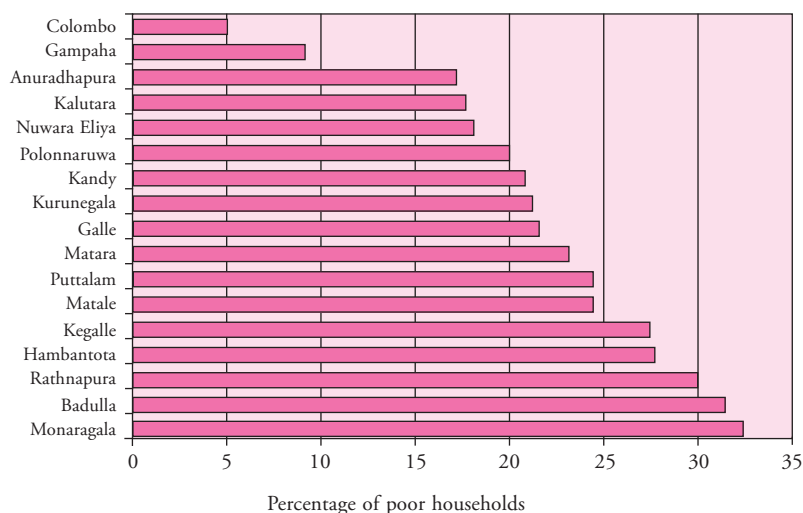
Poverty in Sri Lanka is higher in districts where the majority of the population is employed in the agricultural sector. For instance, in the poorest district of Monaragala, 63 per cent of the total labour force is employed in agriculture as opposed to only 2 per cent in the most prosperous district of Colombo.⁵

Poverty in conflict affected areas: The North and North East Provinces

Internal conflict has been going on for the past two decades, between the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam. This has created a lot of destruction, displacement and human suffering. Although the entire country is affected by this conflict in one way or the other, yet the most directly affected areas are the North and North East provinces. Due to the ongoing internal war, it is difficult to conduct representative surveys to detect the statistical incidence of poverty in these areas, yet small scale surveys and local government studies undertaken recently suggest that the level of displacement and human suffering is extremely high in these areas. It is estimated that one out of every twelve households has one of his/her family members killed in the conflict.⁶ This ratio is found to be higher among the poorest households where one in every seven households has a member killed. The results of Sri Lanka Integrated Survey 1999-2000 indicate large-scale prevalence of poverty in these areas.⁷ Around 8 per cent of the population of North East Sri Lanka was in welfare centres in 2001. Malnutrition rates particularly among women and children are also extremely high in these areas. Conflict affects the production of food leading to fall in consumption levels.⁸

Conflict not only contributes to poverty and deprivation in the affected areas but it also exacerbates overall poverty at the national level. There are several reasons why ethnic conflict contributes to

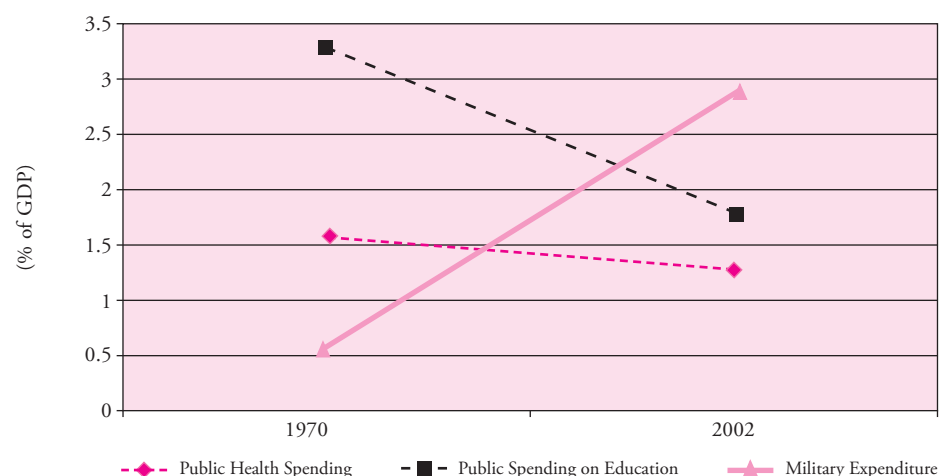
Figure 8.2 District-wise poverty in Sri Lanka, 2002



Source: GOS 2006.

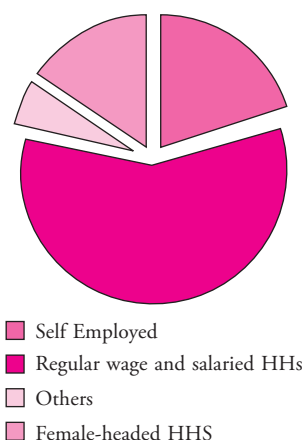
poverty in Sri Lanka. First, there is a significant economic cost of this internal war: it is estimated that more than five per cent of the GDP is being used to finance the conflict.⁹ Also, the conflict is estimated to reduce the GDP growth by about 2-3 percentage points a year.¹⁰ Second, an ever-growing share of national budget is devoted to finance military expenditures crowding out social sector expenditures. Public health and education spending in Sri Lanka has been falling steadily since 1970 whereas military expenditure is on a sharp rise (figure 8.3). It is not only the social sector spending that has been cut down due to increase in military expenditures but also investment in tourism that could have benefited the common man by generating employment opportunities and increasing their incomes. Third, millions of people in Sri Lanka are being displaced internally, leaving behind their homes, land and other assets. More than 64,000 lives have been lost so far and an estimated 800,000 people have been displaced.¹¹ Physical and social infrastructure such as school buildings and medical facilities have also been damaged as a result.

Figure 8.3 Falling social sector expenditures and rising military expenditures in Sri Lanka, 1970-2002



Source: GOS 2006.

Figure 8.4 Livelihood categories of poor households in Sri Lanka, 2002.



Source: GOS 2006.

Who are the poor? The socio-economic characteristics of the poor in Sri Lanka

A careful study of the socio-economic characteristics of the poor in Sri Lanka indicates that a person is more likely to be poor in this country if he/she;

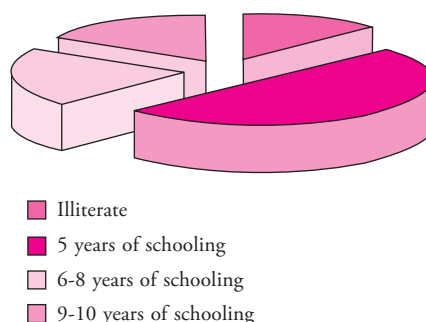
- lives in rural or estate sector;
- belongs to regular wage or salaried class;
- is employed in agriculture or plantation sector; and
- has not attended more than five years of schooling.

The majority of poor people live in rural and estate sector. Official sources in Sri Lanka estimate the incidence of poverty to be between 25-30 per cent in the rural and estate sector compared to 7.9 per cent in the urban sector. The estate workers are among the poorest in Sri Lanka. They are also among the most deprived in terms of getting quality public services. Only 3 per cent of them have access to safe cooking fuel, 43 per cent have electricity and only 60 per cent have access to sanitation facilities.¹²

In terms of livelihood categories, the results of the latest Household Income and Expenditure survey (HIES), conducted in 2002, suggest that the majority of poor households are regular wage and salaried households (figure 8.4).

In terms of educational level, it is interesting to note that the majority of poor households in Sri Lanka are the ones that have attended five years of school. Figure 8.5 indicates that 49 per cent of the poor households have attended primary schools. Around 21 per cent have attended 6 to 8 years of school. Another 17 per cent have completed 10 years of education. Only 13 per cent of the poor households have no schooling at all. These figures indicate universal coverage of basic

Figure 8.5 The educational level of poor households in Sri Lanka, 2002



Source: GOS 2006.

education in Sri Lanka. But at the same time, they also point to the low economic rates of return to schooling in Sri Lanka. This can potentially be attributed to low quality of education and the lack of economic opportunities for the educated Sri Lankan youth.

There is little variation in poverty rates across various ethnic groups (table 8.3). Sri Lankan and Indian Tamils are slightly poorer than the rest of the ethnic groups. They are mostly involved in the plantation sector and suffer from economic and social isolation.

Progress in poverty reduction in Sri Lanka

In order to assess the historical progress of Sri Lanka in terms of poverty reduction, we rely on national data sources. Beginning from 1985, the Department of Census and Statistics in Sri Lanka has been conducting Household Income and Expenditure Surveys on periodic basis. In order to get a consistent historical picture, we rely on poverty estimates based upon these surveys. The incidence of poverty in Sri Lanka has generally been declining over the past two decades. The only deviation from this general trend is the rise in poverty rate from 26.1 per cent in 1990-91 to 28.8 per cent in 1995-96. This rise in poverty is primarily attributed to the severe drought that occurred in 1996. This is also evident from the fact that poverty increased in rural and estate sectors whereas it declined in the urban sector during this period (table 8.4 and figure 8.6). The sharp rise in poverty particularly in the estate sector as a result of the drought shows how vulnerable the poor population is to fluctuations in agricultural yield.

The Department of Census and Statistics, Government of Sri Lanka, defined the official poverty line of 2002 to be the per capita expenditure for a person to be able to meet the nutritional requirement of 2030 kilocalories in 2002. Based upon this caloric requirement, the official poverty line in Sri Lanka in 2002

was set at the real per capita expenditure of SL Rs. 1423 per month. This poverty line was based upon 2002 national prices. In order to estimate the official poverty lines for earlier years, the poverty line for 2002 is deflated by the consumer price index (CPI). Using this method, the national poverty lines for 1990-91 is estimated to be SL Rs. 475 while that for 1995-96 is SL Rs. 833. Based upon these official poverty lines, table 8.4 and figure 8.6 shows the historical trend in the status of poverty in Sri Lanka. The numbers show that overall national poverty increased in Sri Lanka between the period 1991 and 1996. This overall increase is mainly due to the sharp increase in poverty in the estate sector. In rural areas, the percentage of population below the poverty line increased only marginally.

Table 8.3 Poverty in Sri Lanka by ethnic groups, 2002

Ethnic group	% of poor households
Sinhala	18.9
Sri Lanka Tamil	22.1
Indian Tamil	20.8
Sri Lanka Moors	21.2

Source: GOS 2006.

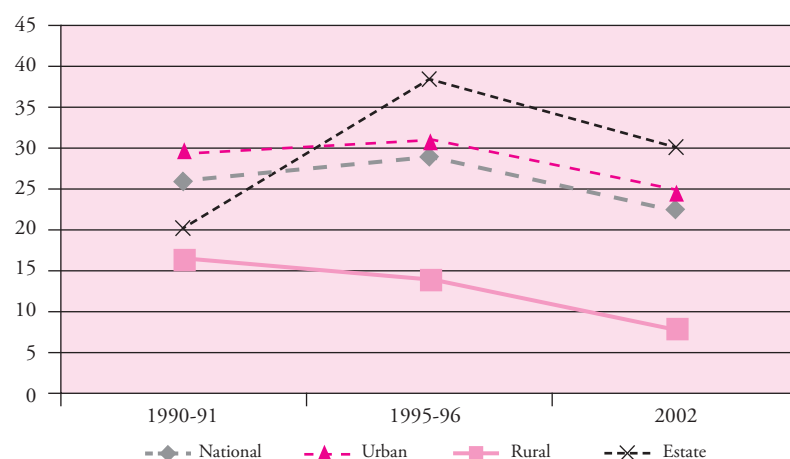
Table 8.4 Trends in poverty headcount ratio in Sri Lanka, 1990-2002
(Percentage of population below the official poverty line)

	National	Urban	Rural	Estate
1990-91	26.1	16.3	29.4	20.5
1995-96	28.8	14.0	30.9	38.4
2002	22.7	7.9	24.7	30.0
% annual increase (1991-1996)	2.0	-3.0	1.0	13.4
% annual increase (1996-2002)	-3.9	-9.1	-3.7	-4.0

Note: These figures for poverty are based on national sources and hence do not correspond with the estimates of the World Bank.

Source: GOS 2006.

Figure 8.6 Trends in poverty headcount ratio in Sri Lanka, 1990-2002



Source: GOS 2006.

Table 8.5 Progress/setback in poverty reduction in the Provinces of Sri Lanka, 1990-2002

(Percentage of poor households based on the official poverty line in Sri Lanka)

	1990-91	1995-96	2002	% annual increase (1991-1996)	% annual decrease (1996-2002)
Western	15.6	13	9.2	-3.6	-5.6
North Central	20.4	20.4	18.1	0	-2.0
Central	25.8	31.3	20.8	3.9	-6.6
North Western	21.6	23.6	22.3	1.8	-0.9
Southern	24.7	27	23.6	1.8	-2.2
Sabaragamuwa	26.8	36.1	28.9	6.1	-3.6
Uva	27	40.2	31.8	8.3	-3.8

Source: GOS 2006.

Poverty in urban sector, on the other hand, actually went down by three per cent during the same period. From 1996 to 2002, poverty has gone down nationwide and across sectors. The greatest annual reduction in poverty is in the urban sector.

Between 1991 and 1996, except the Western province, poverty increased in all provinces. The highest rate of increase in poverty (8.3 per cent) is observed in the province of Uva during this time period. Between 1996 and 2002, poverty declined in all the provinces: the highest percentage decline is observed in the Central province (table 8.5).

Poverty reduction programmes in Sri Lanka

The history of the evolution of poverty dialogue and the interest in addressing the basic needs of the poor in Sri Lanka is quite old. It is even older than the emergence of international interest in attacking poverty. When international focus shifted to the 'basic needs approach'

in 1970, Sri Lanka already had decades of experience in this field. The social welfare programmes, with universal coverage of the population, were in place in Sri Lanka right from the inception of the country in 1948. All successive governments in Sri Lanka invested considerable amount of resources in social sector development as part of their efforts to build Sri Lanka as a 'social welfare state'. A number of poverty alleviation programmes, with an extremely vast coverage of population, have been designed and implemented in Sri Lanka since independence. Although the coverage of some of the social welfare programmes like the food stamp programmes declined with the increase in population and decline in resources, yet universal and free education and medical facilities are still maintained to this date. Around 7-10 per cent of the GDP of Sri Lanka is used to finance free health and education services, food subsidies, food stamps and subsidised credit (table 8.6).

Apart from generous public spending on social sector development, the government of Sri Lanka has also been adopting other policies to protect the poor. These include price controls to protect the poor from inflation and the transfer of land to the poor under the Land Reform Law of 1972.

In 1980s, Sri Lanka shifted its focus from welfare orientation to growth orientation but continued to address the concerns of the poor. The poverty reduction strategy shifted from grant allowance to increasing the income earning capacity of the poor by increasing productivity and encouraging self-employment. We discuss below the major poverty reduction programmes and their impact on poverty reduction. All these programmes are sponsored by the government through budgetary provisions and have a nationwide coverage.

The Food Stamp Programme

The history of food subsidy programme in Sri Lanka dates back to the Second World War period. The food subsidies programme

Table 8.6 Public expenditure on social services as percentage of GDP in Sri Lanka, 1998-2004

ITEM	1998	1999	2000	2001	2002	2003	2004
Social Services (Total)	7.8	7.6	7.4	7.3	8.4	7.6	6.7
Education	2.6	2.6	2.5	2.0	2.7	2.4	2.1
Health	1.4	1.4	1.6	1.3	1.7	1.5	1.5
Welfare	3.2	3.0	3.0	3.4	3.2	3.1	2.6
Housing	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Community	0.4	0.5	0.3	0.5	0.7	0.5	0.5

Source: Central Bank of Sri Lanka 2006.

was initiated as part of relief measures for the war victims. The programme continued as a social welfare package even after the war. In late 1970s, the Food Subsidy Programme was replaced by a targeted Food Stamp Programme. This Programme did not cover the entire population; taxpayers were excluded from the Programme. The coverage of the Programme declined in 1978 due to fiscal constraints imposed by rising population and decline in resources. The Programme was now limited to only those whose income fell below a particular cut-off point. This reduced the coverage of the programme to only 50 per cent of the population. The major deficiency of this Programme was that there was no mechanism to index the value of food stamps to offset the effect of inflation. As a result, the real value of the food stamps continued to decline due to rising food prices. Poverty remained high and income inequality got worse. The Food Stamp Programme still continues but its contribution to household income is very small.

Janjasaviya/Poverty Alleviation Programme (PAP)

In 1989, the Government of Sri Lanka, with the assistance of the World Bank introduced the Poverty Alleviation Programme (PAP) for the benefit of food stamp holders who had experienced a decline in their benefits over the years due to inflation. The number of food stamp holders in Sri Lanka made up about one half of the total population in 1989. Under this Programme, each qualifying family received a monthly consumption allowance of SL Rs. 1458 for two years. At the end of the second year, in case the recipient qualifies, he/she was also entitled for a loan to establish a self-employment business. In return, each beneficiary family was required to provide 26 man-days of labour per month to a public works project. This Programme was designed to be implemented in 11 rounds with the first round being implemented in

October 1989. 156,245 families were selected for benefits in the first round. A further addition of 77,260 families was made in 1990.

The major drawback of the Programme was that it created a disincentive for people to work as the grant that it provided was higher than the monthly wages for unskilled labour in rural markets. Furthermore, the evaluation studies of the first and second round of the Programme found that 90 per cent of the beneficiaries of this Programme still remained poor without any hope for their uplift.¹³ The Programme was withdrawn in 1994.

The Samurdhi Anti-poverty Programme

The Samurdhi Programme initiated by the Government of Sri Lanka in 1995 is the largest anti-poverty programme in Sri Lanka. The major feature of this Programme that sets it apart from other poverty reduction programmes in Sri Lanka is that apart from giving consumption grants to the poor, it also focuses on enhancing the income earning capabilities of the poor and promoting self-reliance.

Goals and objectives

The major objective of the Samurdhi Programme is to improve the economic and social conditions of youth, women and disadvantaged groups. The Programme intends to achieve this objective by: (1) increasing the income earning opportunities of the people; (2) involving people in economic and social development activities as well as involving them in the design and implementation of projects; (3) linking family level economic activities with community development projects; (4) promoting savings and increasing credit opportunities for the poor; and (5) facilitating the delivery of public services to the beneficiaries of the Programme.

The Programme is run by the Ministry of Samurdhi, Youth and Sports and is

operated through district, divisional and zonal level Samurdhi authorities.

Components of the Samurdhi Programme

CONSUMPTION GRANT: A consumption subsidy or a welfare grant of SL Rs. 100-1000 is set for households with a combined income of less than SL Rs. 1,000 a month. In 1998, 80 per cent of the Samurdhi expenditure was allocated for this grant.¹⁴ The potential beneficiaries are identified through household surveys. Those identified as beneficiaries receive a set of stamps every six months. These stamps can be exchanged for goods in cooperative stores that are run by the government. In return, the beneficiaries are required to contribute voluntary labour to community development projects. The beneficiaries are encouraged to increase their income levels through self-employment activities. As soon as the household income of the beneficiary exceeds SL Rs. 2,000 per month and remains so for more than six months or when a household member finds employment, the beneficiary is supposed to exit the program. Consumption grant is the single largest component of the Samurdhi programme claiming about 80 per cent of the entire Samurdhi budget.

SOCIAL INSURANCE: The Samurdhi has also devised a social insurance programme. The premium for this programme is paid by the beneficiaries of the highest consumption grant. The funds are utilised to meet the social security claims of Samurdhi beneficiaries. These claims may relate to birth, marriage, illness and death.

PROVISION OF CREDIT: The Samurdhi Programme also includes the provision of credit for income generating activities. The credit is obtained from Samurdhi Banks and Samurdhi Bank Societies. By the end of 2005, Samurdhi Banking

Societies disbursed loans amounting to SL Rs. 20 billion.¹⁵ These loans were provided for various purposes including self-employment, cultivation and fisheries.

FORCED SAVINGS: In order to encourage savings, the beneficiaries of the highest consumption grant are forced to save 20 per cent of the value of their stamps. These savings cannot be withdrawn for a period of five years.

COMMUNITY INFRASTRUCTURE DEVELOPMENT: Under this component of the Samurdhi Programme, projects are undertaken by the community to improve roads, irrigation and water supply. By 2005, some 100,000 income generating projects were implemented.¹⁶

YOUTH EMPLOYMENT: In order to encourage youth employment, the Programme has employed a large number of young men and women as administrators and development officers. By the end of 2000, there were about 22,700 young men and women employed by the Programme. These administrators are considered to be the beneficiaries of the Programme. Around eight per cent of the total Samurdhi budget is allocated towards the salaries of the staff employed by the Programme.

Budgetary allocations

The Samurdhi Programme costs about one per cent of Sri Lanka's GDP and covers nearly half of all the households. In 2005, about two million families benefited directly from the Samurdhi Programme.¹⁷ The breakdown of expenditures incurred by Samurdhi on various components is presented in table 8.7. The breakdown shows that the major chunk of the Programme expenditure (81.85 per cent) goes for consumption grants for food followed by administrative cost of about 8.3 per cent.

The Samurdhi Programme also includes the provision of credit for income generating activities

The existence of the Samurdhi programme with the objective of meeting the basic needs of the poor is a reflection of governments' commitment to reduce poverty. Despite the political commitment to address the needs of the poor, the objectives of these programmes are not met. The major objective of the Samurdhi Programme is to alleviate poverty and create employment opportunities for the youth, women and other disadvantaged groups. The Programme has not been very successful in fulfilling this objective. As mentioned before, 80 per cent of the Samurdhi budget is allocated for consumption grants that only promotes dependency. Even the impact of these consumption grants on poverty alleviation is limited: the food transfer programme, for instance, increases the food consumption of bottom 40 per cent by merely 7 per cent.¹⁸ Although the programme has created white-collar jobs for the unemployed youth by employing them as officers and administrators of the Programme itself, yet this is an unsustainable way to tackle the issue of youth unemployment. Moreover, youth unemployment is not a key factor in determining poverty in Sri Lanka; only two per cent of the unemployed youth are poor. The credit and banking component of Samurdhi is also not quite successful in reaching the poor and needy. Most of the credit is distributed among the non-poor.¹⁹ It is argued, therefore, that although the Samurdhi Programme is a targeted Programme, its outcome in terms of reaching the intended beneficiaries is that of an 'untargeted' programme. Moreover, the impact studies on the effectiveness of the Samurdhi Credit and Savings Programme shows that the Programme works in rural areas that are better equipped with infrastructure facilities. The micro-enterprise development component of the Programme seems to have failed to achieve

Table 8.7 Samurdhi expenditures, January–December 1999

Programme components	Actual expenditure (Millions, SL. Rs)	Percentage of the total expenditure
Food Stamp Programme	8190.6	81.85
Administration	831	8.3
Rural Development Programme	616.8	6.16
Agricultural Development	7.1	0.07
Human Resources and Institutional Development	116.6	1.17
Marketing	10.0	0.10
Banking and Financial Activities	201.8	2.02
Animal Husbandry and Fisheries	3.2	0.03
Industrial and Vocational Skills Development	8.0	0.08
Financial Management (Capital)	17.5	0.18
Human Development	4.8	0.05
Sub-total capital and Credit Projects	985.9	9.85

Source: World Bank 2002d.

its objective of alleviating poverty mainly because of infrastructure bottlenecks.²⁰

The Programme also suffers from weak targeting and poor allocative efficiency. The Programme covers 50 per cent of all households nation-wide. The national poverty rate is 25 per cent. This shows that a significant number of non-poor are also included in the Programme. Studies show that only 60 per cent of the poorest households receive Samurdhi transfer. The remaining 40 per cent of the poorest households are excluded from the Samurdhi program.

The Samurdhi Programme in Sri Lanka is also criticised on the ground of corruption and inefficiency in the delivery of grants to the recipients.²¹ In the final analysis, the programme does not address the core problems of the poor that keep them in poverty, such as natural disasters, lack of access to public transport, war and conflict etc. It encourages a culture of patronage rather than enterprise. Instead of creating long-term dependence of the poor on stipends, it is more important to create opportunities for them and make them more self-reliant.

Integrated Rural Development Programme (IRDP)

Poverty is mostly a rural phenomenon in Sri Lanka where a majority of the

In terms of budgetary allocations, IRDP is the second largest welfare programme after Samurdhi

population draws its sustenance from agriculture. Agricultural productivity has generally been low in Sri Lanka due to the scarcity of cultivable land. Whatever land is available it is mostly in the form of fragmented parcels. It is estimated that around 70 per cent of rural households live in the wet zone, which has only 30 per cent of the total available land. Ninety-one per cent of wet zone tenants cultivate holdings of less than two acres.²² The rural and estate sectors in Sri Lanka are mostly remote areas with difficult access to urban centres and markets. The availability of infrastructure facilities such as power, water and sanitation is also inadequate in rural and plantation sector. In some of the poorest districts such as Moneragal, Nuwera Eliya, Polonnaruwa, Ratnapura, Kegalle and Hambantota, more than 70 per cent of the households have no access to electricity.²³ Lack of infrastructure facilities, particularly electricity, communication facilities and roads discourage the development of non-farm activities as well.

In order to address these problems, the Government of Sri Lanka launched the Integrated Rural Development Programme (IRDP). The major objectives of the Programme are to build infrastructure facilities in rural areas; improve the service delivery system; and increase skill development for productivity and employment of rural youth. In terms of budgetary allocations, IRDP is the second largest welfare programme after Samurdhi.

The Programme has been successful in generating employment opportunities through vocational training, skill development, entrepreneurship development and micro enterprise etc. Temporary wage employment was also generated during the construction phase of the projects. There were however, several bottlenecks observed at the implementation stage. First, the participatory approach that was adopted in Sri Lanka for the implementation of rural infrastructure projects did not quite work due to institutional failures. The

provincial and local governments focus more on national level power politics rather than addressing the local problems.²⁴ Second, the quality control for IRDP-funded projects was extremely low since the local administrative authorities did not have the technical capacity to provide good supervision. Third, maintenance problems were often encountered after a facility was set up. Preference was given to constructing new projects rather than maintaining the existing ones. Moreover, with so many government agencies involved in the same area of activity, it was not clear as to who was responsible for the maintenance.²⁵

Finally, it is argued that if the objective of the Programme is to reduce poverty, then development of rural infrastructure is not enough. Since the poor lack assets, they may not benefit directly from infrastructure development, particularly in the production sector. Take the case of an irrigation project for instance: it is only the farmers that have access to irrigable land with fertile soil that are most likely to benefit from the project. What is needed, therefore, is a dynamic approach that integrates markets and creates employment and business opportunities for the poor

Lessons and suggested policies for Sri Lanka

Being a lower-middle income country, Sri Lanka has achieved remarkable success in the area of human development. This is undoubtedly the result of strong political commitment and public investment in education and health services. Free access to health and education services has always been incorporated as a major objective in the development plans of Sri Lanka ever since the inception of the country. Paradoxically, the country has not been able to achieve significant reductions in income poverty. Poverty continues to afflict 20-25 per cent of the population and is mostly concentrated in rural or estate sectors.

A number of poverty reduction and welfare programmes are in place in Sri Lanka. Around 7-10 per cent of Sri Lanka's budget is diverted to finance poverty reduction and other welfare programmes. These programmes have not been able to make a significant dent in reducing income poverty in Sri Lanka. The efficacy of these programmes in reducing poverty is constrained by three major factors: First, these programmes have been creating a culture of dependence rather than enterprise. For instance, the Samurdhi which is the largest anti-poverty programme in Sri Lanka, and which was originally designed to promote self-reliance, diverts around 80 per cent of its budget towards food stamps to the beneficiaries. Second, these programmes are highly politicised. People often receive grants on the basis of political affiliation rather than economic need. Third, these programmes are not targeted properly. Rural and estate population in particular do not benefit much from these programmes. In some instances, the implementation of these programmes in rural and estate sectors suffers due to infrastructure bottlenecks.

In order to address the problem of poverty in Sri Lanka in an effective manner, it is important to reach to the core of the problem. There is very little extreme poverty in Sri Lanka. Large income support programmes and untargeted subsidies are therefore unnecessary. They impose heavy fiscal costs that have to be borne out by taxation or debt. Moreover, these programmes discourage enterprise and promote a culture of dependence. What is needed in Sri Lanka is a strategy that relies more on creating economic opportunities for the poor rather than creating dependence on state subsidies. This can be achieved through policies that encourage greater economic growth through the participation of the poor. Given the strong human resource base of the country, the real challenge of Sri Lanka lies in translating that base into higher productivity and per capita income.

Table 8.8 GDP per capita for South Asian countries, 2004

Country	GDP per capita (US \$PPP)	Annual GDP growth rate (%)
Sri Lanka	4034	5.4
India	2885	6.9
Pakistan	2045	6.4
Bangladesh	1719	6.3
Nepal	1369	3.5

Source: World Bank 2006h.

Poverty alleviation in Nepal

Nepal stands at the lowest rung of South Asia in terms of many social and economic indicators. Its GDP per capita of \$1369 is the lowest in South Asia (see table 8.8). Economic growth is also sluggish compared to other South Asian countries (table 8.8). The state of human development has also remained low in Nepal. Some of the human poverty related indicators such as chronic malnutrition among children below five years of age and the proportion of people not expected to survive beyond 40 years have remained among the highest in the world.

Almost a quarter of the population in Nepal lives below the international poverty line of \$1 a day.²⁶ According to the national poverty line, around 31 per cent of the total population is considered to be poor. Most of these are classified to be 'hardcore' poor who barely make a living out of fragile ecosystems and are vulnerable to natural shocks. Most of them live in isolated geographical areas with minimal access to infrastructure facilities.

As in the rest of South Asia, poverty is mostly a rural phenomenon in Nepal with agricultural wage earners more likely to be poor. Rural/urban disparity in terms of poverty rates is extremely high: in rural areas, 34.6 per cent of the population lives below the national poverty line as compared to 9.6 per cent in urban areas. Poverty is also found to be more intense and severe²⁷ in rural areas where 88 per cent of the total Nepalese population resides. Poverty rates vary among various ecological zones. Mountain and hill zones

Around 7-10 per cent of Sri Lanka's budget is diverted to finance poverty reduction and other welfare programmes

Table 8.9 Progress in poverty reduction in Nepal, 1995-2004

	Headcount ratio (%)		Annual reduction (%)
	1995-1996	2004	
National poverty line			
Rural	43.3	34.6	-2.76
Urban	21.6	9.6	-9.64
National	41.8	30.9	-3.71
International poverty line			
\$ 1 a day	37.7	24.1	-4.85
\$ 2 a day	82.5	68.5	-2.04

Sources: World Bank 2001b and 2006h.

The other most important factor driving poverty in Nepal is social exclusion that is often based upon gender, caste and ethnicity

Table 8.10 Trends in the regional distribution of poverty in Nepal, 1995-2004

Regions	Headcount ratio (%)	
	1995-96	2004
Geographical regions		
Eastern	38.9	29.3
Central	32.5	27.1
Western	38.6	27.1
Mid-western	59.9	44.8
Far-western	63.9	41.0
Ecological belts		
Mountain	57.0	32.6
Hill	40.7	34.5
Terai	40.3	27.6

Source: GON 2004.

consistently portray much higher poverty than the Terai zone. Poverty is rampant in Midwestern and far-western regions where majority of the population barely eke out a living (see tables 8.9 and 8.10). Inequality in poverty rates is pervasive not only with respect to ecological zones, geographical regions and rural/urban divide, but it also prevails in the form of ethnic, caste and gender dimensions. Households that are landless, illiterate or have a large family size are also more susceptible to poverty. In terms of ethnic groups, poverty is more rampant among ethnic minorities such as Limbus, Tamangs, Magars, Tharus and Musahars.²⁸

Overall, the inequality of income between the rich and poor is quite glaring in Nepal: the top 20 per cent enjoys nearly 55 per cent of the total income as opposed to a mere 6 per cent reaching the bottom 20 per cent of the population.²⁹ Historical trend in the distribution of

income in Nepal indicates that inequality is on the rise. For instance, over the past few decades, income inequality has increased significantly: the share of the bottom 40 per cent of the population in national income declined from 23 per cent in 1985 to 11 per cent in 1996, whereas the share of the wealthiest 10 per cent of the population increased from 23 per cent in 1985 to 52 per cent in 1996.³⁰

A number of factors are contributing to poverty in Nepal. Foremost among these are low agricultural productivity and low economic growth. Whatever growth that occurred in Nepal, occurred in the non-agricultural sector whereas 85 per cent of the population remains vulnerable to the vagaries of agricultural sector. The other most important factor driving poverty in Nepal is social exclusion that is often based upon gender, caste and ethnicity. The access to health, education and other public services that empower people to escape poverty is extremely low among the socially excluded groups.

Poverty trends in Nepal

The methodological differences in survey techniques and procedures for estimating poverty rates prevent strict comparability of poverty estimates over time. A broad examination of the trends in poverty rates however indicates that Nepal has not witnessed a significant decline in its poverty rates. The first survey to gauge the situation of poverty in Nepal was conducted in 1976-77 according to which poverty rate was estimated to be 33 per cent with the majority of the poor residing in rural areas. Poverty was found to be particularly acute in the remote areas of mid-Western and far-Western regions. In 1984-85, another survey was conducted that estimated poverty to be 42 per cent, with the persistent disparity in poverty rates between regions and rural/urban areas. The Nepal Living Standard Survey (NLSS) conducted in 1996 found poverty to be close to 42 per cent. Due to the non-comparability of this estimate with

Table 8.11 Human poverty index (HPI) for Nepal by region, 2001

Region	Chronic malnourishment among children (under five years of age)	Adult illiteracy rate	Proportion of population with life expectancy less than 40 years	Human poverty index (HPI)
Nepal	50.5	51.4	17.74	39.6
Rural	51.5	55.0	18.20	42.0
Urban	36.6	31.7	13.39	25.2
Mountain	61.2	63.9	27.40	49.8
Hills	52.7	47.7	12.24	38.8
Tarai	47.1	53.9	15.51	39.6
Eastern Region	44.6	49.7	10.50	37.1
Central Region	52.3	52.3	16.46	39.7
Western Region	50.3	47.1	15.26	36.7
Mid Western Region	53.9	57.5	26.08	46.3
Far Western Region	53.7	58.3	21.71	45.9

Source: UNDP 2004b.

the earlier estimates of poverty, the methodologies applied earlier were replicated on this survey to yield comparable estimates. This exercise showed that there was no evidence of a decline in poverty in Nepal between 1976-77 and 1995-96, and between 1984-85 and 1995-96.³¹ In fact the absolute number of poor in Nepal went up during that period.³²

From 1996 to 2004, Nepal managed to reduce poverty to a considerable extent. One of the major factors driving reduction in poverty during this period is the growth in remittances resulting in growing per capita household expenditures. Percentage of households receiving remittances rose from 23 to 32 per cent during this period (NLSS), while per capita remittance receipts grew by 156 per cent in real terms.

Poverty alleviation strategies and programmes in Nepal

Although poverty has always been a threat to the survival and welfare of the people of Nepal, yet it was only in 1980s—with the formulation of Sixth Five Year Plan (1981-85)—that the concern for poverty in Nepal was explicitly stated and incorporated in the development planning. From then onwards, poverty alleviation became the overriding objective in all five-year plans. In the early 1990s, economic

growth and expansion in employment opportunities was adopted as the major instrument by the government to reduce poverty. Later on, direct interventions were planned to attack poverty through rural and agricultural development as well as through targeted programmes. The ninth plan of Nepal (1997/98-2001/02), for instance, followed a three pronged approach to reduce poverty: (1) broad-based economic growth; (2) social sector and rural development; (3) specific programmes targeted towards the poor. The strategies adopted to achieve these objectives, as well as the problems faced in achieving these, are discussed below.

Broad-based economic growth

The Ninth Plan set the goal of achieving an overall economic growth rate of 6 per cent along with strategies to ensure a wide participation of all sectors, groups, and people in sharing the benefits of growth. This was aimed to be achieved primarily through rural and agricultural development as well as employment generation. An Agricultural Perspective Plan (APP) was formulated to increase agricultural productivity and foster rural development. The APP was launched in 1997 and its duration was planned to last till 2016. The major objectives of the APP include growth in agricultural production and employment opportunities in agriculture

The objectives of the Agriculture Perspective Plan could not be met and agricultural production in Nepal continued to remain low

and related sectors such as agro-based industries; output growth and export promotion; income generation; diversification of commercial centres; food security; and environmental conservation.

The objectives of the Agriculture Perspective Plan could not be met and agricultural production in Nepal continued to remain low. There are three serious flaws in APP that were held responsible for its limited impact. First, the Agricultural Perspective Plan completely ignored land reforms that could potentially attain the twin objective of raising agricultural productivity as well as empowering the poor through the ownership of assets. Second, the plan envisaged commercial agriculture as the only route to poverty reduction and failed to address the problems of resource poor and landless people.³³ Third, it was argued that although the plan focused primarily on agriculture, yet given its diverse objectives, it was multi-sectoral in nature. At the policy level, however, the plan failed to build appropriate linkages among different sectors.³⁴

The second component of broad-based economic growth was employment generation. Employment generation objective was to be achieved through agricultural growth, employment intensive infrastructure projects, cottage and small-scale industries, skill development and training and rural tourism. However, apart from the agriculture sector, the government did not have a clear policy to promote labour-intensive methods of production.³⁵

Social sector and rural development

Under the Ninth Plan, the implementation of rural infrastructure projects was seen as an instrument of generating employment and reducing poverty. Several infrastructure projects were implemented. These include construction of rural roads, irrigation projects, drinking water projects and rural electrification projects. These projects were designed to be labour intensive and

were successful in generating employment for the local people. Nevertheless, they suffered from several drawbacks such as slow execution, shortage of funds, poor targeting, poor labour management as well as lack of monitoring and evaluation.³⁶

Investment in social sectors was also seen by the government as a means to improve the welfare of the poor people. In this regard, those sub-sectors were given priority to benefit the poor such as primary health care and primary education. After the World Summit on Social Development in 1995, Nepal committed itself to devote 20 per cent of government expenditure as well as 20 per cent of foreign development assistance towards 'social priority sectors'. The social sector expenditure, as a result, increased from 22 per cent in 1992 to 36 per cent in 2000.³⁷ Despite the overall increase in social sector expenditure, growth in per capita expenditure was only marginal owing to the rapid population growth. Moreover, inequitable and inefficient utilization of allocated funds still remain a crucial problem. Funds that are actually utilised always fall short of the funds allocated.

Targeted programmes

Despite the presence of chronic poverty and destitution in Nepal, there is a dearth of specific programmes targeted towards the poor and destitute. Between 1970-75 and 1995-2001, public expenditure on welfare and social security hovered around 0.1 to 0.4 per cent of GDP.³⁸ There is almost a complete absence of safety nets.

Realizing the need to assist the 'extremely poor' and the socially excluded groups, the Ninth Plan aimed at designing specific programmes to target these groups. These included programmes like Integrated Rural Development Programme, Small Farmers Development Programme, credit programmes, and public works programmes. No evaluation studies have been conducted to assess the performance of these targeted programmes. There are several institutional bottlenecks and

governance failures that stand in the way of achieving full potential of these programmes. First, there is a lack of political commitment. Most of the programmes in place are donor driven. Those that are designed by the government fail to meet their objectives and remain incomplete as a result of frequent change in governments and policies. As in the rest of South Asia, all these programmes that aim to reduce poverty fail to address the root cause of poverty such as inequitable access to land and productive resources.

Designed and implemented at the central level, most of these programmes are marked by low local participation and a high level of political interference.³⁹ The programmes also suffer from weak targeting. They fail to reach difficult and isolated geographical regions, the regions that are in dire need of such efforts by the government.

Some of the successful poverty reduction programmes have limited coverage to be able to make a dent in poverty at the national level. Moreover, most of the income transfer schemes fail to reach the intended beneficiaries, i.e. the poor and the marginalized groups.⁴⁰ These programmes also suffer from inadequate monitoring and supervision, and lack of transparency in their implementation.

Targets and achievements of the Ninth Plan

The Ninth Development Plan of Nepal set the goal of reducing income poverty from 42 to 32 per cent by 2002. The targets were also set for indicators of human poverty such as illiteracy, infant mortality rate, maternal mortality rate and average life expectancy at birth. These targets were to be achieved through higher economic growth, development of social and rural infrastructure, and targeted programmes. The plan also sought to improve agricultural productivity.

As far as the outcomes of the Plan are concerned, it failed to meet most of its targets. Poverty came down to 38 per cent only, as opposed to the target of 32 per

cent, and economic growth could only go up to 3.6 per cent as against the target of 6.0 per cent. Several human poverty related indicators also fell short of their targets (see table 8.12). Two major reasons stood in the way of the Ninth Plan in achieving its targets. First, the economic activities were disrupted due to worsening law and order situation, violence and adverse domestic and external developments. Second, agricultural performance remained low resulting in a slower growth in per capita income in rural areas.

Realising the fact that even the combination of broad-based economic growth, social sector and rural development, and targeted programmes could not achieve the targets of Nepal's Ninth Five Year Plan, the current Five Year Plan of Nepal also emphasizes social inclusion as well as good governance in addition to the strategies adopted earlier in the Ninth Plan. The major objectives of Nepal's current poverty reduction strategy are therefore: (1) to promote faster and pro-poor economic growth; (2) equitable access to social and economic infrastructure for the poor and marginalized groups; (3) social inclusion and targeted programmes; (4) improved governance.⁴¹ The outcome of this Plan is

Table 8.12 The Ninth Plan of Nepal: Targets and achievements in key poverty and human development indicators

Objectives	Base year (1996-97)	The Ninth Plan	
		Target 2001-02	Achievements 2001-02
Percentage of population below the poverty line	42.0	32.0	38.0
Literacy rate (age 15+) in percentage	37.8	70.0	49.2
Net primary school enrolment	69.4	90.0	80.4
Infant mortality rate (per 1000)	74.7	61.5	64.2
Maternal mortality rate (per 100,000)	439.0	400.0	415.0
Total fertility rate	4.58	4.2	4.1
Average life expectancy	56.1	59.7	61.9
Drinking water supply (population in percentage)	61	100	71.6

Source: IMF 2003.

yet to be seen. Initial reviews, however argue that given the state of armed conflict and political instability in the country, it is unlikely that only good governance and decentralisation—on which this Plan so heavily depends—will bear fruit.

Lessons and suggested policies for Nepal

Nepal is a country that consistently reveals both sluggish economic growth and rampant poverty. Most of the poor in Nepal are classified to be ‘hardcore’ poor who barely make a living out of fragile ecosystems and are vulnerable to natural shocks. Most of them live in isolated geographical regions with minimal access to infrastructure facilities. Rural-urban disparity in terms of poverty rates is particularly high in Nepal with the majority of the poor residing in rural areas. Social exclusion, based upon gender, caste and ethnicity is the most critical issue generating poverty and obstructing poverty reduction efforts. Despite the implementation of various poverty reduction plans and strategies for the past two decades, poverty has not declined significantly in Nepal. Apart from social exclusion, there are several other problems that explain the lack of impact of these strategies. First, given the extent of extreme poverty and destitution in Nepal,

there are very few specific programmes targeting the poor. Those few programmes that do exist are implemented poorly; have limited outreach particularly among the geographically backward areas; and are not evaluated and monitored on a regular basis. Second, there are critical governance related issues that must be addressed. For instance, most of the programmes are designed and implemented at the central level with very little local participation. Execution of programmes is slow and targeting is weak with the disadvantaged groups rarely benefiting from these efforts.

There are three critical issues that must be addressed urgently in order to reduce poverty in Nepal. First, Nepal must take effective steps to promote economic growth along with the strategies to increase the participation of poor, particularly those belonging to the disadvantaged groups and ecological zones. Second, Nepal must address the problem of social exclusion. All poverty reduction efforts are most unlikely to meet success as long as the disadvantaged groups in Nepal are denied access to productive resources and public services such as health and education. Last, but not least, it is crucial to improve the quality of institutions and the structures of governance if poverty is to be reduced if not alleviated from Nepal.

Despite the implementation of various poverty reduction plans and strategies for the past two decades, poverty has not declined significantly in Nepal

The Poverty Challenge and Governance

Throughout this report, we have seen poverty in South Asia in all its aspects—its scale, characteristics and manifestations—as well as the policies and programmes of the governments to address this huge challenge. Yet poverty persists in South Asia. Why is that? This is a region where some of the best brains of the world were engaged for years to alleviate poverty. Some have succeeded with good results. But there are still a vast number of people who are yet not able to cross the ‘poverty line.’ To look for the main reason for this, one needs to go beyond economics to governance—the institutions, rules and political structures—that help or hinder the well-intentioned public policies to work for the poor. In this concluding chapter, we analyse the institutions of governance that directly or indirectly create, perpetuate, or fail to alleviate poverty.

There are three distinct forms of governance that influence the level of poverty: economic, political and civic governance. Economic governance affects poverty mainly through the channel of public policies. Public policies, in particular macro-economic policies can be used as an effective tool to promote just development and alleviate poverty. Although markets are increasingly seen as a solution to all economic ills that the developing countries face today, yet it is important to realise that markets are too often imperfect, unpredictable and unjust. In the words of Mahbub ul Haq: ‘Markets are not elected by poor people, governments are. Markets can be brutal and indifferent to the needs of the poor, governments cannot be. Markets are there to promote efficiency, as they should. Equity is none of their concern.’¹ Economic growth does not guarantee the reduction of poverty. In fact, it may

contribute towards unfavourable changes in the distribution of income, thereby limiting the pace and the extent of poverty reduction. Such economic growth marginalises the poor and further hinders their access to opportunities. In order to reduce poverty, economic growth must be accompanied by pro-poor policies in order to ensure a broad based participation of the poor. Employment generation provides a crucial link in this direction.

Fiscal policy is another tool that governments can use to distribute the gains of economic growth equitably and reduce poverty. There are two ways in which fiscal policy can achieve these objectives. First, through progressive taxation, governments can redistribute resources from rich to the poor thus correcting the distribution of income that often worsens as a result of economic growth. Second, by improving its fiscal capacity and/or by reallocating existing budgets, it can raise resources to finance spending on human priority concerns and poverty alleviation programmes. If social sectors such as health and education remain under funded or if the existing funds are not utilised efficiently due to leakages and corruption, poverty cannot be mitigated. Subsidization of health and education for the poor is crucial to build their assets and empower them. Too often, the benefits of public spending do not reach the poor. In such cases, income inequality may worsen and poverty may intensify. Governments can also use monetary policy to check the level of inflation that too often affects the poor by reducing their real wages. Other macro-economic policies such as trade policy and privatization policy, if enacted in a pro-poor manner can influence the level of poverty.

Public policies, in particular macro-economic policies can be used as an effective tool to promote just development and alleviate poverty

In South Asia, public service delivery is fraught with the failure of governance that tends to hit the poor more than the rich

The choice of public policies has an important bearing on the level of poverty. The key question then is why do governments choose policies that affect the poor adversely while promote the interests of the few? This is an important question pertaining to the political economy and it is in this context that the role of political structure and political institutions come into play. A system that is based upon political participation and accountability is more likely to address the needs of the vast majority of the poor. On the other hand, if political power is concentrated in the hands of a few powerful groups, it is very likely that these groups promote their own interest to the detriment of the poor which is very often the weak and the oppressed group. Similarly, if the political system is unstable in the sense that governments get overthrown too often, public policies get disrupted and uncertainty develops.

Well-developed economic, political and social institutions also protect people from being vulnerable to shocks associated with unforeseen circumstances such as illness, loss of employment or loss of property in case of natural disasters. In the presence of well-developed formal credit markets and social insurance for the poor (often the by-product of strong institutions), these temporary shocks can be prevented to have lasting consequences on the lives of the poor. For developing countries that are undergoing structural reforms and are being integrated into the globalised world, the role of equitable and inclusive institutions become all the more important to protect the poor from being marginalised in the process.

In this concluding chapter, we discuss some of the direct mechanisms through which public sector governance in South Asia is addressing, or failing to address, the challenge of poverty.

Governance of public service delivery

As discussed in chapter 2, the magnitude of human deprivations in South Asia is

huge and much greater than that measured by income alone. The poverty of opportunity index (POPI) calculated in chapter 1 shows that for all countries of South Asia, except India, poverty of opportunity is much greater than the poverty of income. Although the deprivation in terms of health, education and other opportunities is high on average for the entire population, this deprivation is much higher for lower income groups. The infant mortality rate for instance is 2-3 times higher among the poorest quintile as compared to the richest quintile for most South Asian countries (see chapter 2, figure 2.7). Being constrained by resources, the poor mostly resort to subsidized public health and education services to meet their needs. Efficient, equitable and just public service delivery contributes to building assets of the poor, whereas defective public service delivery in turn feeds on the assets of the poor. The quantity, quality and access to public services, such as health and education, are therefore crucial to elevate the poor from these human deprivations that inevitably lead to poverty of income and opportunity.

In South Asia, public service delivery is fraught with the failure of governance that tends to hit the poor more than the rich. There are four critical issues that need to be highlighted. First, the overall public spending on health and education is low in South Asia as compared to other regions. Second, the actual utilisation of whatever meagre amount is allocated is low and inefficient due to poor bureaucratic procedures, corruption and misallocation across various heads. Third, public spending is highly inequitable in the sense that the benefits of public subsidies on health and education mostly accrue to the rich rather than to the poor who need them the most. Fourth, the quality of public services is extremely low in South Asia.

Low budgetary allocations for public spending

While South Asia is one of the most deprived regions in the world in terms of human development, it also turns out to be the one that spends the least on human priority concerns. Figures 9.1 and 9.2 show that public spending on health and education as percentage of GDP is the lowest as compared to other regions in the world. For instance, the public spending on health in South Asia is merely 1 per cent which is lower than even Sub Saharan Africa (2.4 per cent). Similarly on education, South Asia spends 3 per cent of its GDP which is the lowest in the world.

What is even worse, public spending on health and education is going down in most South Asian countries with the passage of time. Figures 9.3 and 9.4 show the trends in the budgetary allocations for health and education in major South Asian countries. It is striking to note that public spending on health as percentage of GDP has gone down in all major South Asian countries between 1990 and 2004. Public spending on education has also been reduced in Sri Lanka and Pakistan between 1990 and 2004.

There are several reasons for low budgetary provisions for health and education. Most South Asian economies are constrained by high budget deficits and low fiscal capacity. Quite often it is the budget for social services that gets affected as a result of fiscal adjustment. Secondly and most importantly, South Asian budgets often reflect misplaced priorities. Public spending is often diverted away from human priority concerns to defence, debt servicing and public administration.

The role of public provision of basic social services is crucial not only to correct market failures that arise in providing the right amount of services that are optimal from the society's point of view, but also as a redistributive mechanism to promote equity. In fact, public provision of such

crucial services as health may also be used as an important tool to alleviate poverty.

Utilisation of budgetary resources for human development

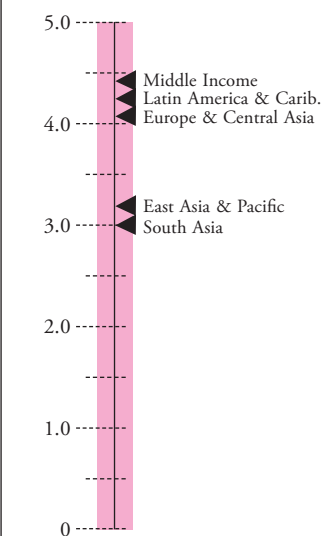
Allocating a certain amount in the national budget is simply not enough to ensure that these budgetary inputs are converted into desirable outcomes. Often the budgetary allocations are not utilised properly due to institutional constraints and inefficiencies. In this respect, there are two major issues that need to be highlighted. First, much of the money that is allocated for human development concerns remain unspent/underutilised as opposed to non-development expenditure that is overspent. In Pakistan, for instance, the Health Ministry spent only Rs. 1.6 billion in 2005 as against Rs. 2.3 billion allocated for hospital services.² Similarly, the Education Ministry in Pakistan spent Rs. 3.5 billion against the allocated amount of Rs. 4.5 billion.³

Second, poor bureaucratic procedures, corruption and low administrative capacity lead to an inefficient utilisation of allocated funds. The major portion of the budget is devoted to recurrent expenditure pertaining to staff salaries and administration with little left for investment to improve the physical infrastructure and quality of services.

Equity of public spending on social services

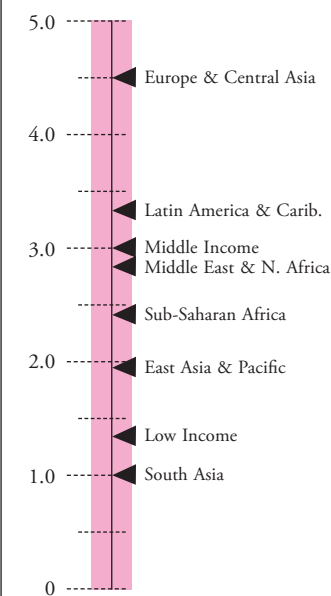
As mentioned earlier, public spending on social services can be used as an effective mechanism to redistribute income and promote equity. Contrary to achieving this objective, the pattern of public spending on social services, such as health and education, is highly inequitable with the benefits of public spending mostly accruing to the rich rather than the poor. In Nepal, for instance, 46 per cent of education spending accrues to the richest fifth as compared to a mere 11 per cent that goes to the poorest fifth.⁴ In India, the curative health care subsidy that goes

Figure 9.1 Public spending on health as percentage of GDP



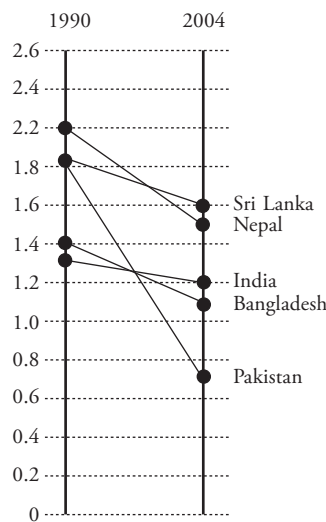
Source: World Bank 2005f.

Figure 9.2 Public spending on education as percentage of GDP



Source: World Bank 2005f.

Figure 9.3 Trends in public spending on health as percentage of GDP in South Asia, 1990-2004



Source: World Bank 2005f.

to the richest fifth of the population is almost three times more than what is received by the poorest fifth.⁵ In Pakistan, the benefit of public expenditure on education captured by the richest quintile is twice that of the poorest quintile, and in Bangladesh, the public subsidies on education captured by the rich are three times that of the poor.⁶

One reason why the benefits of public spending do not reach the poor is due to inequitable intra-sectoral allocation of public funds. If the education budget is highly skewed towards financing higher education, the major beneficiaries of which are high-income groups, such an allocation is bound to be inequitable. Similarly, if the allocation of health budget favours curative hospital care instead of basic health care (that is mostly utilised by the poor), the benefits of public health spending are most likely to be captured by richer income groups.

The poor in South Asia also face several problems in accessing the social services which may be an important reason behind the low usage of public services by the poor. The public facility may be located at a long distance that may involve transportation costs. There may be other costs associated with the lack of use of services. Children from poor households that are involved in child labour often face huge opportunity costs of attending school. The poor may also be faced with higher prices. In Pune, India, for instance, low-income purchasers of water paid up to 30 times the sale price of the metered water that middle and upper income households used. Sometimes, people face discrimination on the basis of caste and religion in using public services. Studies have shown that in India, districts with a higher proportion of lower castes and some religious groups have fewer doctors and nurses per capita, and health visitors are less likely to visit lower caste and poor households.⁷

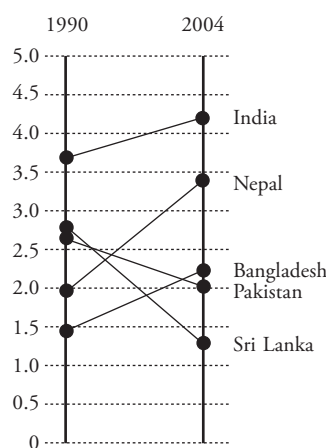
The other reason why funding does not always reach the intended beneficiaries is due to leakages owing to corruption and administrative mismanagement.

Corruption imposes an extra cost on the poor in accessing the services that they are entitled to. Evidence from studies suggest that while the rich pay bribes to speed up the process, the poor pay bribe for mere access to services.⁸ 17 per cent of respondents in India and 52 per cent in Pakistan paid bribes for services that they were entitled to.⁹ According to the Transparency International Survey for 2006, 67 per cent of the respondents in Pakistan admitted that they faced corruption in hospitals. The type of corruption ranges from using political influence or payments to hospital staff for admission to paying extra money for the services after being admitted to the hospital. According to the same report, 20-26 per cent of the patients in Bangladesh have to bribe the doctors. Teachers and other staff members often demand bribes for the admission of children or even to help them get passing grades. Teachers also pay bribe to public officials for postings and promotions that they do not merit. As a result of all these problems, students get neither the environment nor the quality of teaching that they deserve.

The quality of public services

Even when services reach people, they are so low in quality that they hardly make a difference. The physical infrastructure is often replete with fatal deficiencies. School buildings are old, defected and on the verge of collapse. It is not uncommon in the region to hear about instances when the school buildings collapse and the children get buried underneath. The schools often lack basic facilities such as clean drinking water and toilet. A study conducted in the rural areas of Bangladesh and Nepal found an average of one toilet for 90 students half of which are not even usable.¹⁰ There is a shortage of teachers as well. Even when teachers are present the quality of teaching is low due to weak motivation and lack of complementary inputs. Learning outcomes greatly suffer as a result. A survey in Bangladesh found

Figure 9.4 Trends in public spending on education as percentage of GDP in South Asia, 1990-2004



Source: World Bank 2005f.

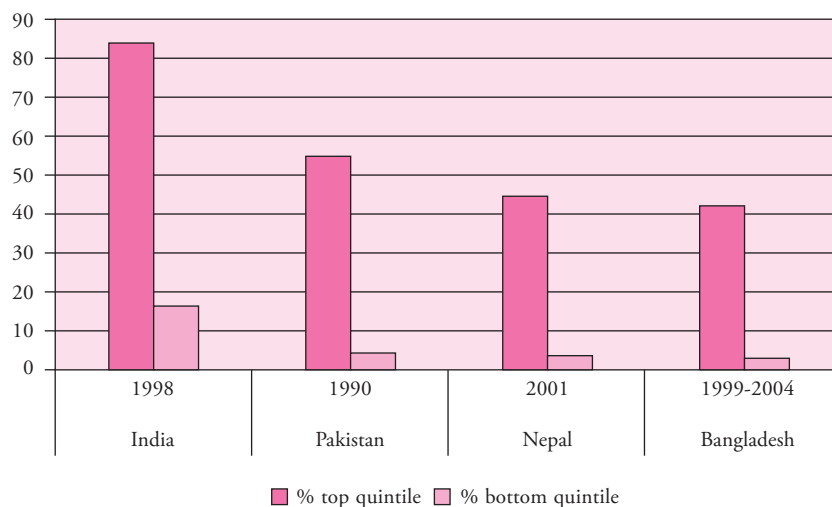
30 per cent of the students who completed grade 5 were not minimally competent in reading and 70 per cent were not minimally competent in writing.¹¹

The quality of public hospitals and basic health units is no different. Essential drugs are often absent from public health units particularly those that are located in remote areas. The contamination of injection needles used by registered medical practitioners is a common phenomenon in most South Asian countries. Various surveys carried out across South Asia show that a sense of apathy and disenchantment has developed towards the public health facilities due to low quality of health services. More than 75 per cent of the population in Pakistan uses private health facilities.¹² In India, even with the huge organization of public health facilities, the private sector accounts for 80 per cent of outpatient treatments and almost 60 per cent of inpatient treatments.¹³ In most South Asian countries, there is a complete lack of quality assessments and accountability of public facilities. From top down, there are no checks on the management and staff of the health and education facilities. All these examples represent various facets of the failure of institutions and poor governance in delivering public services to the poor in an equitable and efficient manner.

Governing poverty alleviation programmes in South Asia

As documented in chapters 5-7, the South Asian countries have been implementing poverty alleviation programmes and projects of varied types and scales. The successful implementation of most of these projects is however constrained by the failure of institutions and poor governance. There are certain governance issues that are common to all South Asian countries and continue to recur in different degrees in various projects. These include limited coverage; poor targeting; a high degree of political interference in identifying beneficiaries; leakages due to

Figure 9.5 Births attended by skilled personnel in South Asia by income groups

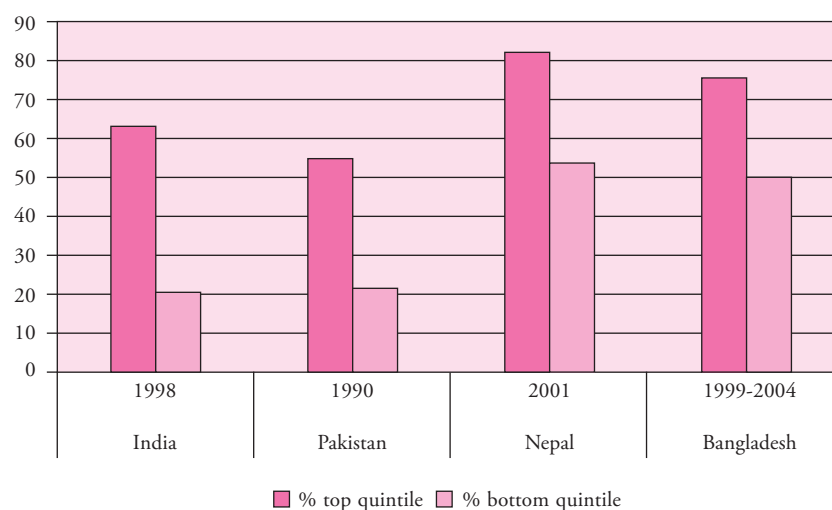


Source: World Bank 2006d.

corruption and lack of transparency; weak administrative capacity and the lack of monitoring and evaluation mechanisms. The cumulative effect of all these is that most of the state run poverty alleviation programmes in South Asia do not work as effectively as intended.

A serious flaw in most projects is the deficient targeting criteria and poor allocative efficiency. Due to political interference, beneficiaries of the poverty

Figure 9.6 One year old fully immunised in South Asia by income groups



Source: World Bank 2006d.

Poor governance has not just slowed down the implementation of poverty alleviation projects in the region but has also dissipated the expected benefits

alleviation programmes are often chosen (both in design and implementation) on the basis of political affiliation rather than in accordance with the objective needs. Many deserving households are excluded while the less needy continue to capture the benefits. Although political interference in the implementation of poverty alleviation programmes is a common problem throughout South Asia, the most glaring examples are the Samurdhi anti-poverty programme in Sri Lanka (see chapter 8) and the public distribution system (PDS) in India (see chapter 5). According to an estimate, 40 per cent of the poorest households stand excluded from the Samurdhi Programme. Similarly, the PDS in India suffers from leakages. In Pakistan, the disbursement of funds under the Zakat and Bait ul Mal Programmes is susceptible to political interference. The identification of the poor under Zakat Fund, for instance, is done by the Local Zakat Committees which are subject to political manipulation. As a result, a significant proportion of the allocated funds do not reach the poorest of the poor.

Many of the poverty alleviation programmes are also afflicted with corruption and inefficiency in their delivery mechanisms. The recipients suffer due to the leakage of funds and unnecessarily rigid and complex procedures. For instance, the extremely promising 'Model Village Project (Phase II)' in Bangladesh stands seriously compromised due to rampant corruption and redtapism of the land administration (see chapter 7). Poor governance in the implementation and management of poverty eradication programmes in South Asia is also reflected in weak administrative capacity and lack of adequate monitoring and evaluation mechanisms.

Poor governance has not just slowed down the implementation of poverty alleviation projects in the region but has also dissipated the expected benefits. A more efficient institutional framework can enhance the contribution of the initiatives taken for faster poverty reduction. An

institutional strategy for good governance is needed for effective poverty alleviation in South Asia. In particular, while the supportive role of the state is quite desirable, the participation of the nongovernmental and voluntary organisations needs to be recognised and encouraged. Besides interceding with the concerned authorities to secure benefits for the eligible and to minimise leakages, these organisations have an essential role in motivating and organising local communities to take active interest in the working of specific programmes and in persuading the bureaucracy to work with the community for improving the effectiveness of programmes.¹⁴ The nongovernmental organisations (NGOs) in Bangladesh have made notable contribution towards the provision of credit to the poor, development of non-formal educational programmes for the poor children and the mobilisation of rural community health workers (see chapter 7). In the long run, however, there is no alternative to participatory approaches towards poverty alleviation in ensuring sustainable livelihoods.

South Asia also needs to ensure that the benefits of poverty alleviation programmes reach those that are the most deserving. Above all, the region needs to move well beyond these poverty alleviation programmes and address the root cause of poverty that inevitably lies in inequitable and exploitative economic and political structure. It is important to realise that poverty will continue to exist in South Asia as long as the poor are denied political participation and empowerment. In this context, decentralisation and devolution of power to the local levels of government becomes a critical tool for poverty alleviation in South Asia.

Decentralisation to empower the poor

In order to empower the poor it is extremely important to place the institutions of governance closer to people. In other words, the distance between the government and the governed

must be narrowed. The role of decentralisation is important in this respect since it creates synergies between different levels of government that empowers the poor and gives them a role in decision-making. However, decentralisation has to be implemented as a holistic package of fiscal, administrative and political devolution. Its success is therefore conditional on the political will of the ruling regime to devolve power to the lower tiers of administration. In countries where the political representation of masses is low, attempts to decentralise mostly result in local elites capturing the power and resources of the local government. Positive social and economic outcomes of local government have been observed in Brazil, Bolivia, Philippines, Colombia and Indian states of Kerala and West Bengal. In all these places the political will of the government to devolve powers was manifest in adopting a comprehensive approach and concurrently undertaking political, fiscal and administrative decentralisation. The entire process had the support of the central government, therefore the result was increased participation of the citizens, stronger linkages of accountability and successful poverty reduction.¹⁵ In contrast, in Bangladesh, Mexico and Nigeria decentralisation was introduced to strengthen the hold of central government all the way down to the lower tiers of government. In none of these countries did decentralisation result in challenging the local elites or develop pro-poor policies.¹⁶

In South Asia, units of local government have been in existence for centuries but with colonization and changing political landscape the local governments lost their autonomy and effectiveness. In the past few decades, with the advent of liberalisation and pressure for reform from the multilateral institutions, there has been a more institutionalised effort towards decentralisation in the region.¹⁷ In almost all South Asian countries donor driven effort to decentralise is underway.

The process of decentralisation in the region remains marred by a plethora of problems. The local governments are saddled with issues like absence of constitutional cover and legal powers, lack of fiscal and administrative autonomy, dearth of resources, absence of monitoring and accountability mechanisms and low citizen participation. In fact, in most countries of South Asia, the agenda of decentralisation has not been fully implemented. The implementation has mostly been cosmetic in nature since the ruling regimes have ensured to ignore the critical elements of successful decentralisation. Some of the key issues that are undermining the efficacy of decentralisation in reducing poverty in South Asia are discussed below.

Lack of political will and constitutional cover

Success of decentralisation is firmly rooted in the strength of political systems of a country. Institution of local government fortifies itself with support from the central government that must ensure to grant it political and fiscal autonomy and financial support. In an undemocratic system the chances for the success of local government are minimal due to the obvious lack of political will on part of the government to devolve power to the lower tiers. Therefore the political will of the government to devolve power to people is the pre-requisite for effectiveness and success of local government. Political systems in South Asia are heavily characterized by over centralization of authority, politics of patronage and elitism and feudalistic mindsets. Powerful elites remain at the helm of political affairs and use the local government system to strengthen their own political base. Successive governments in Bangladesh and Pakistan, for instance, have made commitments to empower the local governments but have only used them to perpetuate their own power. Therefore with a few exceptions, such as some states in India, the local governments in all

Powerful elites remain at the helm of political affairs and use the local government system to strengthen their own political base

Most South Asian governments remain reluctant to implement fiscal decentralisation, therefore the local governments remain resource poor and without much financial autonomy

South Asian countries remain heavily dependent on the provincial and central governments for financial and administrative support. Consequently, fundamental desired outcomes of a decentralised system i.e., empowerment of people, economic freedom and participatory development are therefore not achieved.

Strengthening legal status of the local governments by way of legislation is essential for efficient functioning of the local government. The centre must ensure to grant a constitutional status to the local government. In India, the 73rd Constitution Amendment that came into force in 1993 defined Panchayati Raj Institutions (PRIs) as the third tier of the system and provided them with much-needed constitutional status. This has fortified the system of local government in India. In contrast, the local governments in other South Asian countries remain without such constitutional cover or political support from the centre. For instance:

- In Pakistan, the Local Government Ordinance (LGO 2002) does not recognise local government as the third tier of the system. It is rather recognised as a provincial subject. Provinces are empowered to establish local bodies, frame rules and regulations for them or suspend or abolish them.¹⁸
- In Sri Lanka, 13th Amendment to the constitution (1987) was instrumental in establishing PCs, to strengthen the existing local government system; however introducing a strong element of official involvement in its administrative affairs marginalized the local government institutions.¹⁹
- Local Self Governance Act (1999) of Nepal considerably increased the authority devolved to the local level. But the local governments remain without the essential constitutional cover and legislation for their actual empowerment, rendering them vulnerable to executive arbitrariness and uncertainty due to frequent shifts

in the political composition of the parliament.²⁰

- Owing to lack of constitutional cover the local government in Bangladesh remains vulnerable to political and administrative whims of the government. Functioning in a highly centralised and authoritative system, the local government units lack fiscal and administrative autonomy.²¹
- Highly centralised system of governance in Bhutan and Maldives does not allow for establishing independent local governments.²²

Lack of constitutional status leads to inadequate autonomy for the local governments. This results in local governments merely acting as an extension of the centre taking direction from various ministries, leading to an administrative chaos. For good governance and empowerment of people it is imperative for the government to relax its control over the local governments, grant them the autonomy to function and support them with financial and administrative resources.

Lack of fiscal autonomy and resource poor local governments

Local governments need solid financial base, and financial and administrative autonomy to implement pro-poor development strategies. Most South Asian governments remain reluctant to implement fiscal decentralisation, therefore the local governments remain resource poor and without much financial autonomy. Despite weak tax base, the local governments are expected to generate their own revenue, which they are unable to do and thereby become dependent on the centre for fiscal transfers.

Highly centralised fiscal management inhibits the transfer of funds to local governments. Fearing loss of authority, provincial governments also remain sceptical about transferring large development funds to the local government. In the absence of mechanisms

for smooth and timely transfer of funds, the process remains erratic and uncertain in most countries. As a result local governments are unable to plan and execute their development programmes. Although, Indian local governments are relatively better off than rest of South Asia, they also do not operate in separate fiscal domain. Both rural and urban local governments do not receive adequate funds from the state, since the budgetary allocation from the Union is only about 10 per cent, except in the state of Kerala where it is 45 per cent. The state of fiscal decentralisation in other South Asian countries is much worse.

- In Pakistan, local governments are heavily dependent on intergovernmental transfers since the generation of taxes assigned to them, such as elementary education and health services tax, lack revenue potential. The substantial funds required for the functioning of the local governments often exceed the revenue generated by them rendering them dependent on provincial governments for fiscal transfers.²³
- In Sri Lanka, the constitutional framework for creation of Provincial Councils (PCs) has clearly defined the mechanism of receipt and generation of taxes and the measures to utilise them, but frequent delays in the transfers of funds undermine the ability of the PCs to carry out development projects.²⁴
- In Nepal, local government remains dependent on the central government for 75 per cent of their total revenues.²⁵ Generally complex and least revenue generating taxes have been granted to the local government.²⁶ The system of inter-governmental fiscal transfers is erratic and unpredictable, which makes it difficult for the District Development Committee (DDCs) to plan and implement development policies. In addition, the financial allocations are insufficient as they are made irrespective of the population size and relative poverty and, on many instances, the

actual transfers are less than budgeted for. In the absence of institutionalised training and capacity building, local governments also lack sufficient skills for financial management.

- Resource poor local governments in Bangladesh exercise no control over the resources in their own jurisdiction. They are allowed to mobilize resources through assessment and levy of taxes, but they cannot receive the total revenue generated from their entitled resources. In case of Union Parishads (UPs), 25 per cent of the revenue generated from leasing of the rural market is retained by the national government.²⁷ Local governments are entitled to Annual Development Plan (ADP) grants but they lack the autonomy to plan the utilisation of the grant according to their local needs. The grant is utilised according to the strict guidelines of the central government with pre-determined allocation of funds.²⁸ Annual budget of the local governments is scrutinised and approved by different levels of the central government, and the authority over the appointments and salaries of the staff is also held by the central government bureaucracy.

Administrative chaos in local government

Lack of symbiotic relations between the various tiers of the government and the local government results in administrative chaos rendering the local government ineffective. In most countries, the local government staff needs capacity building and training, which is overlooked by the centre. In most cases, central government interferes and tampers with development programmes, compromising the local priorities.

- In Sri Lanka, administrative arrangement of the staff is one of the prime factors for poor performance of PCs. Recruitment of the local government staff is done by the central government,

In most cases, central government interferes and tampers with development programmes, compromising the local priorities

Local government legislation in all South Asian countries provides for monitoring mechanisms to ensure effective and transparent working of the local government and prevent corruption

bypassing both the provincial and local authorities. Most of the administrative staff of PCs is part of the central government ministries which is responsible for carrying out a bulk of development work, but PCs exercise no supervisory authority over them. This bias and lack of trust shown by the centre towards PCs has weakened the trust of the people towards the PC system.

- In Nepal, in legislation, both Village Development Committee (VDC)/ municipality and District Development Committee (DDC) are entrusted with a wide range of service delivery and development functions, but in practice local government maintains minimum possible autonomy in decision making. Centrally controlled personnel management system defies the principles and practices of local government autonomy in personnel recruitment.²⁹ The number of local government representatives generally exceeds the local government revenue, which leads to resources being wasted on unproductive sector, hampering human development and poverty reduction programmes. In addition, Ministry of Local Government and elected members of Parliament (MPs) run their parallel programmes in districts without co-ordination with local governments.³⁰
- In Pakistan, tussle between the provinces, bureaucracy and the local government mars effective service delivery. In the absence of clear jurisdiction lines there is duplication of authority between federal, provincial and district level which creates an administrative chaos. In addition there is need for capacity building of the local government representatives and staff, as most of them do not comprehend their duties.
- In Bangladesh, government takes no interest in capacity building of the local government staff. As a result members of local government units lack knowledge and understanding of

the operational procedures and functions of these bodies.

- In India, local government institutions have a profound role to play in implementation of many development programmes therefore the state governments have introduced legislative provisions in Panchayati Raj which include the power to cancel a resolution, power to remove elected representative and the power to dissolve Panchayat. But in some states the bureaucracy is in possession of these powers which compromises the autonomy of local government vis-à-vis the middle-rung officials of the state governments. Although in some states like Gujarat and Karnataka the entire development and administrative machinery has been transferred to PRIs, but in Tamil Nadu and Haryana, PRIs have little control over the development machinery.³¹

Weak accountability mechanisms

Local government legislation in all South Asian countries provides for monitoring mechanisms to ensure effective and transparent working of the local government and prevent corruption. For example in India, various rules and by-laws ensure monitoring of the local government by the vigilance committees. Gram Sabha or Village Assembly of all voters constitutes the basic unit of Indian democracy which serves as a forum where voters can meet and present their observations about the working of local government institutions. Gram Sabhas also conduct social audit in order to ensure transparency and accountability in working of the local government.³² During the last quarter of every financial year, Gram Sabhas meet to inspect financial records. In most states it is obligatory on the Gram Sabhas to meet regularly. A state law in Madhya Pradesh, for instance, ensures that the Gram Sabhas meet regularly. The quorum must constitute one-third women with a proportional representation of Scheduled Castes and Tribes. These monitoring

mechanisms have ensured transparent and effective working of the local government in India.³³

In marked contrast, the local governments in other South Asian countries suffer from corruption and capture of power by elites since their monitoring committees and oversight bodies remain inoperative. For instance:

- In Bangladesh, Ministry of Local Government Rural Development and Cooperatives (LGRD&C) is responsible for monitoring the functions of LG units but it remains ineffective.³⁴
- In Pakistan, Local Government Ordinance (2001) calls for establishing a number of monitoring mechanisms such as monitoring committees and District Public Safety Commissions for legislative oversight of the service providers. However, in practice these mechanisms have either not been established or were introduced to a limited degree.³⁵ Public Accounts Committees, which involve public in monitoring of the accounts, have not been formed and no audit reports have been generated. Interdepartmental accountability checks are also generally weak and ineffective.
- In Nepal, Local Self Governance Act (LSGA) has provided for mechanisms to monitor local governments like Decentralisation, Implementation and Monitoring Committee (DIMC), an apex monitoring and coordination body. The Committee however remains ineffective since there is no mechanism to check audit reports for irregularities. Local government executives spend budgets at their own discretion and allocate funds without consultation.³⁶

Low citizen participation

One of the fundamental objectives of decentralisation is to empower the citizens and increase their involvement in working of local government to ensure innovative and participatory development. In Sri Lanka, the PCs were successful in

introducing and supporting collective action at the grassroots level in rural areas in implementation of public health programmes. These programmes were not only successful but there was also a high degree of accountability and transparency in them due to involvement of the citizens in community development.

In India, community empowerment and resource mobilisation remains an important element of local governments, which is the reason why implementation of local government has been a fruitful experience. In Kerala and West Bengal, high community involvement is responsible for improved local governance. Community involvement was instrumental in increasing literacy rate by 20 per cent between 1991 and 2001 in Madhya Pradesh and Rajasthan, which previously had the worst schooling and literacy rate. With the opening up of 30,000 thousand new schools within three years (1997-2000), enrolments of girls and tribal children increased enormously.³⁷ Similarly, 'Right to information' movement in Rajasthan empowered people to demand transparency in financial dealings of the local government.

In other South Asian countries, citizens generally remain excluded from the administration of local government and act as silent spectators. For example, in Pakistan oversight bodies such as village and neighbourhood councils and citizen community boards (CCBs) that would ensure enhanced citizen engagement remain inoperative. In Nepal, despite the provision for the inclusion of women and dalits at the local level, their participation in decision-making and development planning has been inadequate.³⁸

Women in local government

Although central government remains a competitive arena for women in politics across the globe, yet recently local government has also witnessed an increase in the number of women in key decision-making positions. Local government provides an ideal political space to women

In other South Asian countries, citizens generally remain excluded from the administration of local government and act as silent spectators

Box 9.1 Success stories of decentralisation in South Asia: Kerala and West Bengal

Local government system in India is the most developed and institutionalised in the entire South Asian region. However, decentralisation has yielded varied results across states. Kerala and West Bengal are two states where decentralisation has resulted in an enormous success. With sweeping land reforms, high accountability mechanisms, increased citizen participation and fiscal decentralisation, implementation of Panchayati Raj in both these states has been a success. In both Kerala and West Bengal, Panchayati Raj Institutions (PRIs) have evolved into powerful bodies that handle huge resources under various poverty alleviation programmes. Synergistic partnership between people and the local government institutions in both these states has resulted in several successful experiments in agriculture, industry and social mobilisation. High human development indicators of both these states are a testament to the

efficacy of decentralisation in facilitating social well-being of the people.

The West Bengal Panchayat Act of 1973 and sweeping land reforms provided for democratic decentralisation and freedom for a local self-government system. Land reforms and regularly held local government elections gradually weakened the hold of powerful landlords, which instigated blossoming of fora for non-party political initiatives and expression of citizen's interest in local government. While all other states incorporate Gram Sabhas or Village Assemblies, West Bengal made provisions for still smaller units of democratic participation, Gram Sansad. To ensure transparent and efficient working of the local government, vigorous accountability mechanisms exist.

Citizen participation in Kerala is perhaps the highest in India. Ward Sabhas and neighbourhood groups play an active role in maintaining accountability in the Panchayati Raj.

Convening regularly, Ward Sabhas act as a body that observes and disseminates information on development and welfare programmes in addition to mobilizing local resources for effective development schemes. Kerala Panchayat Act calls for penal actions in case the Ward Sabhas fail to convene. The institution of Ombudsman in Kerala is an advisory body with legal teeth. These and numerous other accountability mechanisms implemented through citizen participation have considerably reduced clientalism and corruption in Kerala at local government level, compared to other states. PRIs in Kerala enjoy financial and functional autonomy; and the state government allocates 30-40 per cent of its total budgetary allocations to the local bodies annually. To ensure citizen participation in development schemes, bulk of resources is allocated to Gram Panchayats, the level closest to people.

Sources: Mathew and Mathew 2003; Nepal Development Forum 2004b.

since they have a deeper understanding of the social issues at the community level and it is also less competitive and more accessible.

Constitutions of all South Asian countries have passed legislation about women's participation in the local government. In India, 73rd and 74th constitutional amendments (1992) are a milestone in terms of women's empowerment and emancipation at the local government level. Providing for reservation of one-third of seats for women, this amendment has resulted in a substantial increase of women in the local government. In addition, the government is also providing training and capacity building to the elected female members.

Although overall electoral success of women in South Asia remains better than those in the South-East Asian region, yet in Some South Asian countries such as Sri Lanka, Bhutan and Maldives, they remain underrepresented in the local government.³⁹

At only two per cent, women's participation in Sri Lanka remains most dismal in the entire region. In the year 2000, number of female representatives in the PCs was a mere four per cent. The patriarchal system that allocates political and community affairs to men and excludes women from what is perceived to be men's sphere is responsible for lack of women's participation in politics.⁴⁰ In Bhutan and Maldives, women are invisible in the local government.

In most South Asian countries, women are generally unable to fulfil their duties in local government due to a multitude of problems like lack of job description, clarification of roles, unfair allocation of development schemes to female members, lack of work assignments for them, and exclusion from the standing committees.⁴¹ However, the gap in capacity building of women is being filled by civil society organizations that remain active across the region. In both India and Pakistan,

Table 9.1 Women in local government in South Asia, 2000

Country	The year when women were eligible to vote and stand for local government	Women in local government seats (%)	Women Mayors (%)	Women in senior management positions in local government (%)	Women in central government seats (%)
Sri Lanka	1938	2	0	13.7	5.3
India	1974	33.3	...	...	7.9
Pakistan	1970	33	...	...	2.9
Nepal	1955	24.1	0	2.3	7.9
Bangladesh	1947	33.3	0	3.8	11.2

Source: UN 2001a,b.

NGOs, women's groups and activists have served as an impetus for women's involvement in the local government and they have actively participated in providing necessary training and mobilisation to them.

Conclusion

Humane and pro-poor governance can be used as a powerful tool to reduce poverty by providing an enabling environment for pro-poor growth and by empowering people through rights and freedoms to claim a better life. In the relentless pursuit of economic growth, governments often formulate policies that promote economic growth without considering their potential impact on the poor and the marginalised groups. It is important to understand that policies must be designed and implemented in a pro-poor manner. It is also important to understand that in most cases, pro-poor policies do not undermine growth

but in fact reinforce growth. In any case, it is the alleviation of poverty and the welfare of common people and not economic growth per se that should be the end of all development policies.

In the context of South Asia, it is absolutely crucial to provide equitable access to opportunities to the entire spectrum of population so as to empower everyone irrespective of their economic background with assets necessary to exercise their potential. In this context, it is important to realise that it is the equality of opportunity and not the equality of income per se that should be the most desirable goal for policy makers. A certain level of income inequality in the society is tolerable in the sense that it reflects differences in natural abilities and generates incentives and promotes enterprise, but inequality in opportunities is absolutely undesirable simply because it denies the basic human right of the people to exercise their potential.

In any case, it is the alleviation of poverty and the welfare of common people and not economic growth per se that should be the end of all development policies



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Calculating the poverty of opportunity index (POPI)

The poverty of opportunity index (POPI) is a multidimensional measure of poverty developed by Mahbub ul Haq to address the deficiencies of the human poverty index (HPI). The POPI has three components:

1. Poverty of health opportunities (p_1)

p_1 is a composite of two variables, each given equal weight:

- *The percentage of people not expected to survive to age 40 (p_{11})*
- *The percentage of people deprived of 'health inputs' (p_{12}):* This is a weighted average of the percentage of people without access to safe drinking water and the percentage of malnourished children under five years of age. Weightage is based on the ratio of the overall population to the under five population.

2. Poverty of education opportunities (p_2)

p_2 is also a composite of the following two variables:

- *The percentage of adult illiterates*
- *The percentage of primary school-age children who are out of school*

To get p_2 , the weighted average of the two percentages is computed. Weightage is based on the ratio of the adult population to the primary school-age population.

3. Poverty of income opportunities (p_3)

p_3 is the percentage of the people living below the income poverty line. We have

based the measurement of income deprivation on World Bank's estimates for the number of absolute poor (defined as those living below an income level of US \$1 a day in purchasing power parity terms).

Constructing the POPI

To arrive at the POPI value, the following formula is applied:

$$POPI = [1/3 (p_1^\alpha + p_2^\alpha + p_3^\alpha)]^{1/\alpha}$$

Where,

- p_1 = Poverty of health opportunities
- p_2 = Poverty of education opportunities
- p_3 = Poverty of income opportunities
- $\alpha = 3$

The value chosen for α significantly affects the results for the POPI. If we use $\alpha=1$, the POPI value will be the simple arithmetic mean of its dimensions p_1 , p_2 and p_3 . $\alpha = 1$ represents the case of perfect substitutability between any two dimensions of the POPI. With infinite substitutability, the impact on the index from a unit increase (or decrease) in any dimension is the same, irrespective of the level of deprivation in different dimensions. This contradicts the standard assumption that as the extent of deprivation in any dimension increases (given the others), the weight on further additions to deprivation in that dimension should also increase. We, therefore, need α to be greater than 1. A value of greater than 1 for α implies that the POPI will tend towards the value of the dimension in which poverty is the greatest. Accordingly, $\alpha=3$ (actually used in our calculations) gives greater weight to the most acute deprivation without invoking the

extremism of zero substitutability. However, it cannot be denied that there is an inescapable arbitrariness in the choice of value for α . It is quite obvious that the three variables used in the calculation of the POPI are not substitutable but are overlapping, though the exact degree of overlap is difficult to determine.

An illustrative example

The methodology for measurement is illustrated by computing the POPI for India for the year 2005.

1. Calculating the poverty of health opportunities

- The percentage of people not expected to survive to age 40 (p_{11}) = 16.6
- The percentage of people without access to safe drinking water = 14
- The percentage of malnourished children under five years of age = 46.7
- Total population = 1103.371 million
- Under five population = 120.011 million
- Weight = Total population/Under five population = $1103.371/120.011 = 9.19$
- The percentage of people deprived of 'health inputs' (p_{12}) = $[14(9.19)+46.7(1)]/[1+9.19] = 17.21$

$$\text{Poverty of health opportunities } (p_1) = (p_{11} + p_{12})/2 = 16.6 + 17.21/2 = 16.91\%$$

2. Calculating the poverty of education opportunities

- The percentage of adult illiterates = 39
- The percentage of primary school-age children who are out of school = 10.3
- Adult population (15 or more years of age) = 749.622 million
- Primary school-age population (5-9 years of age) = 117.788 million
- Weight = Adult population/Primary school-age population = $749.622/117.788 = 6.36$

$$\text{Poverty of education opportunities } (p_2) = [39(6.36) + 10.3(1)]/[1 + 6.36] = 35.10\%$$

3. Calculating the poverty of income opportunities

- The percentage of population below US \$1 a day = 34.7

$$\text{Poverty of income opportunities } (p_3) = 34.70\%$$

Calculating the poverty of opportunity index (POPI)

$$\text{POPI} = [1/3 (p_1^3 + p_2^3 + p_3^3)]^{1/3} = [1/3 (16.91^3 + 35.10^3 + 34.70^3)]^{1/3} = 31.06\%$$

Thus, approximately 31 per cent of India's population was deprived of opportunities in 2005.

Notes

Chapter 1

- 1 Haq 1976.
- 2 Ibid.
- 3 Ibid.
- 4 An absolute poverty line has fixed real value over time and space.
- 5 See Greer and Thorbecke 1986; Osmani 1982; Paul 1989; Ravallion 1998 and World Bank 2002a.
- 6 Ravallion 1998.
- 7 We cannot convert a common international poverty line using market exchange rates. In poor countries, with relatively cheap labour, the prices of non-tradable goods (especially of those with a high labour content) are low relative to the prices of tradable goods. In consequence, the market exchange rate (determined by trade) between a poor country and a rich country is unlikely to be an accurate measure of the cost of living difference between the countries. Using the official exchange rate to convert consumption/income, in fact, vastly exaggerates the difference in levels of living between the poor and rich countries, systematically overstating poverty in the former. The remedy is to take a bundle of goods consumed by poor people, and to 'price it out' in each country. If the cost of the bundle of goods in India (say) is the poverty line, the cost of the bundle in the other countries gives the appropriate value of the common poverty line in those countries. Alternatively, we can select a base country and calculate price indices for all other countries relative to that base. If we have a US \$1 per person per day poverty line for the base country, we can convert it into other currencies by multiplying with the price indices. Such price indices are examples of the purchasing power parity (PPP) exchange rates that we need if we are to have a common international poverty standard. Deaton 2002.
- 8 The headcount index is the share of the population (individuals or households) whose income or consumption is below the poverty line, that is, the proportion of the population that cannot afford to buy a basic basket of goods.
- 9 This strand of argument is provided by Atkinson 1987.
- 10 The 'squared poverty gap' can be measured as a weighted average of the squared distance below the poverty line, expressed as a proportion of that line. The computation essentially places a higher weight on poor households further away from the poverty line.
- 11 Haq 1995.
- 12 Ibid.
- 13 See UNDP 2003.
- 14 Haq 1995.
- 15 Of 38 studies in different countries, one-third indicate that at least one-half of the additional income received by a poor household is spent on food. Strauss and Thomas 1995.
- 16 See Alderman *et al.* 1996; Behrman and Wolfe 1987; Birdsall 1985; Deolalikar 1993 and King and Lillard 1987.
- 17 See Blau 1986; Gertler *et al.* 1987; Harbert and Scandizzo 1982 and Thomas *et al.* 1990, 1991 and 1992.
- 18 UNDP 1996.
- 19 MHHDC 1997.
- 20 The human poverty index (HPI) first appeared in UNDP 1997.
- 21 The poverty line used is equivalent to 50 per cent of median adjusted household disposable income.
- 22 See MHHDC 1997.
- 23 MHHDC 1998.
- 24 Ibid.
- 25 These arguments borrow heavily from Syed 1999.

Chapter 2

- 1 MHHDC 1997.
- 2 Devarajan and Nabi 2006.
- 3 World Bank 2006h.
- 4 UNDP 2005.
- 5 MHHDC 2005.
- 6 Ibid.
- 7 MHHDC 2005.
- 8 MHHDC 1997.
- 9 UN 2003.
- 10 CPRC 2006.
- 11 Mehta and Shepherd 2004.
- 12 MHHDC 2004.
- 13 CPRC 2006.
- 14 Ibid.
- 15 Ibid.
- 16 Ibid.
- 17 Ibid.
- 18 As cited in Mehta and Bhide 2004.
- 19 CPRC 2006.
- 20 Ibid.
- 21 World Bank 2002b.
- 22 CPRC 2006.

- 23 World Bank 2002b.
- 24 Ibid.
- 25 CPRC 2006.

Chapter 3

- 1 MHHDC 2005 and 2006 and UNDP 2005.
- 2 MHHDC 2005 and UNDP 2005.
- 3 MHHDC 2006.
- 4 UNDP 2005.
- 5 UNDP 2005 and World Bank 2006b.
- 6 Studies from Bangladesh, Brazil and Cote d'Ivoire show that women are more likely than men to spend additional household income on food, schooling and healthcare. Another study conducted in Bangladesh showed that women's assets increase expenditures on children's clothing and education. Quisumbing and Bénédicte de la Brière 2000; Quisumbing and Maluccio 2000 and World Bank 2001a.
- 7 For a detailed analysis of the impact of female education on fertility and health outcomes, see Diamond *et al.* 1999. Also see Smith and Haddad 2000.
- 8 Jejeebhoy 1995. Quisumbing and Maluccio 2000 show that women's assets decrease the rate of illness among girl children in Bangladesh. Also see Kakwani and Son 2006.
- 9 Klasen 2002 and World Bank 2001a.
- 10 Klasen 2006.
- 11 Esteve-Volart 2004.
- 12 See Kossoudji and Mueller 1983.
- 13 As cited in Fuwa 1999.
- 14 Chant 2003 and 2006 and Quisumbing *et al.* 2001.
- 15 See for example Handa 1996 and Lorge 1996.
- 16 See for example Dreze and Srinivasan 1995.
- 17 Gangopadhyay and Wadhwa 2004.
- 18 Female-headed households (FHHs) have lower incidence of poverty as compared to male-headed households (MHHs). Around 35.3 per cent of the MHHs are poor as compared to 21.1 per cent of the FHHs. Cheema 2005.
- 19 Cheema 2005.
- 20 GOP 2003.
- 21 The analysis of data for ten developing countries, including Bangladesh and Nepal, finds that poverty of the FHHs is not significantly higher than that of the MHHs in eight of the ten countries. However, in Bangladesh, the FHHs are significantly worse-off. Quisumbing *et al.* 2001.
- 22 RGOB 2004.
- 23 See the Demographic Health Survey (DHS) of Bangladesh 2004, Nepal DHS 2001 and the National Family Health Survey (NFHS)-II of India 1998-99. ORC Macro 2006.
- 24 UNIFEM 2005.
- 25 The chances of maternal mortality and neonatal mortality are heightened when pregnant women are underweight, stunted or have micronutrient deficiencies such as those of iron (anemia), vitamin A and iodine. Women who are underweight during pregnancy are more likely to face complications while giving birth. Similarly, women with low height are more likely to experience obstructed labour which causes more than 40,000 births every year. Anemia increases the chances of hemorrhage or sepsis which cause 40 per cent of all maternal deaths in the world.
- 26 FAO 2005.
- 27 Based on the NFHS-II of India 1998-99. ORC Macro 2006
- 28 Based on the DHS of Bangladesh 2004. ORC Macro 2006.
- 29 The data is based on the DHS of Bangladesh 2004 and the NFHS-II of India 1998-99. ORC Macro 2006.
- 30 World Bank 2006c.
- 31 The data is based on the DHS of Bangladesh 2004 and the NFHS-II of India 1998-99. ORC Macro 2006.
- 32 United States Department of State 2006.
- 33 See MHHDC 2005 for details about individual countries.
- 34 See MHHDC 2005.
- 35 See MHHDC 1998 and 2000.
- 36 World Bank 2006c.
- 37 See MHHDC 2006 for more details on laws and women's insecurity within the context of violence against women.
- 38 World Bank 2006a.
- 39 Some studies, however, argue that rising incomes will eradicate gender discrimination over the medium or long run. Jütting *et al.* 2006.
- 40 Jütting *et al.* 2006 and Morrison and Jutting 2005.
- 41 UN 2006.
- 42 One of the twelve critical areas identified at the Beijing Declaration and the Platform for Action (PFA) is 'women and poverty'. With the PFA, governments have promised to; i) review, adopt and maintain macroeconomic policies and develop strategies to address the needs of poor women; ii) revise laws and administrative practices to ensure women's equal rights and access to economic resources; iii) provide women with access to inputs of production; iv) develop gender-based methodologies and conduct research to address the feminisation of poverty.
- 43 SAARC 2006b.
- 44 IMF and the World Bank initiated the Poverty Reduction Strategy Paper (PRSP) approach in 1999. It aims at producing a comprehensive country-based strategy for poverty reduction. It is prepared by governments in low-income countries through a participatory process involving domestic stakeholders as well as

- IMF and the World Bank. India does not have a PRSP and the World Bank has accepted India's Tenth Five-Year Plan as its PRSP.
- 45 Development of women has been a component of development plans of India since the Sixth Five-Year Development Plan (1980-85) which considers education, health and employment of women as critical areas to be addressed. GOI 2002c.
- 46 Hirway 2006.
- 47 GOI 2005a.
- 48 Seth 2003.
- 49 Grameen Bank 2006.
- 50 World Bank 2006g.
- 51 It is also estimated by the Report that by the end of 2004, microcredit had improved the lives of around 333 million family members of these the poorest households.
- 52 MIX, CGAP and World Bank 2006.
- 53 Rajivan 2005.
- 54 We recognise the methodological concerns regarding selection-bias, however, they are not being discussed here.
- 55 Sidney *et al.* 1997.
- 56 Todd 1996.
- 57 Pitt *et al.* 1999.
- 58 Scoggins 1999.
- 59 Ashok 2000.
- 60 Montgomery 2005.
- 61 Schuler *et al.* 1998.
- 62 See CMF 1999; Goetz and Gupta 1996 and UNCDF 2006.
- 63 Murthy *et al.* 2005.
- 64 Ibid.
- 65 It includes the number of households that are living in poverty and those that face high risk of falling into poverty.
- 66 MIX, CGAP and World Bank 2006.
- 7 See Deininger and Olinto 2000; Deininger and Squire 1998 and Persson and Tabellini 1994.
- 8 Ravallion 2001.
- 9 See ADB 2003.
- 10 World Bank 2006g.
- 11 Devarajan and Nabi 2006.
- 12 Datt and Ravallion 2002.
- 13 Temple 2002.
- 14 World Bank 2006a.
- 15 Klasen 2003.
- 16 For empirical proof of linkages, see Klasen 2003.
- 17 As cited in Klasen 2003.
- 18 ADB 2004b.
- 19 Ray 1998.
- 20 Islam 2003.
- 21 Gross capital formation consists of outlays on additions to fixed assets of the economy and net changes in levels of inventory and net acquisition of valuables. Fixed assets include land improvements, plant machinery and equipment purchases and the construction of roads, railways, schools, hospitals etc.
- 22 World Bank 2006a.
- 23 Chowdhury and Mavrotas 2005.
- 24 World Bank 2006a.
- 25 World Bank 2006c.
- 26 Ibid.
- 27 World Bank 2006a.
- 28 Ibid.
- 29 MHHDC 2002.
- 30 Ibid.
- 31 As cited in Timmer 2005.
- 32 Ibid.
- 33 See Bardhan 2006.
- 34 The low skill level of the labour force in South Asia is obvious from the fact that only Africa has lower years of schooling than South Asia. Mayer and Wood 2001.
- 35 MHHDC 2004.
- 36 Pasha and Palanivel 2004 have estimated the employment elasticity of growth which determines how employment opportunities grow as growth rates increase.
- 37 ILO 2005.
- 38 MHHDC 2004.
- 39 See ILO 2001.
- 40 See Erickson and Vollrath 2004; Galor *et al.* 2006 and Vollrath 2004.
- 41 Jha 2002.
- 42 World Bank 2002a.
- 43 World Bank 2002c.
- 44 See Erickson and Vollrath 2004 and Vollrath 2004.
- 45 Besley and Burgess 2000.
- 46 MHHDC 2003.
- 47 Ibid.
- 48 Ibid.
- 49 MIX, CGAP and World Bank 2006.
- 50 MHHDC 2003.
- 51 Proponents of market-oriented open economic policies view fiscal deficits as the main culprit

Chapter 4

- 1 See Haq 1976.
- 2 Klasen 2003.
- 3 ADB 2004d.
- 4 See ADB 2004b; Buorguinon 2004; Datt and Ravallion 2002 and Ravallion 2005.
- 5 See Kakwani and Pernia 2000.
- 6 The issue of inequality is more acute for developing countries than for their developed (industrialised) counterparts. This is because developed countries have managed to evolve institutions that uphold property rights, facilitate equitable and efficient functioning of markets and create a stable and sound environment for investment. Empirical studies have noted that; (i) developing countries have higher degree of inequality, (ii) income shares of the top 20 per cent of the population in developed countries are lower than the shares of counterparts in developing countries. Ray 1998.

- behind macroeconomic instability and a major hindrance to fast-paced economic growth.
- 52 World Bank 2006g.
 - 53 Ahmed 2001.
 - 54 Ibid.
 - 55 Chowdhury 2005; GOI 2005c and GOP 2006a.
 - 56 MHHDC 2005.
 - 57 World Bank 2006c.
 - 58 MHHDC 2005.
 - 59 Gopal 2000.
 - 60 Kemal 2000.
 - 61 There is an ongoing debate about whether factor markets have kept pace with the integration of the market for goods and services and whether the lag between the two has impeded rates of economic growth in South Asia.
 - 62 Jamal 2005.
 - 63 MHHDC 2004.
 - 64 Ibid.
 - 65 Ibid.
 - 66 Winters 2000.
 - 67 For detailed analysis of the inflation-economic growth relationship, see Hussain 2005 (for Pakistan); Khan and Senhadji 2000 and Singh 2003 (for India).

Chapter 5

- 1 Nayyar 1991.
- 2 Mehta and Venkataraman 2000.
- 3 Patnaik 2004.
- 4 Sen 2002.
- 5 Ibid.
- 6 For a fuller discussion see Dev 2003.
- 7 Sen 1998 and 2002.
- 8 Rao 2005.

Chapter 6

- 1 World Bank 2006g.
- 2 UNDP 2006.
- 3 UNESCO 2006.
- 4 MHHDC 2006.
- 5 MHHDC 2006 and UNDP 2006.
- 6 MHHDC 2006 and UNDP 2006.
- 7 MHHDC 2006.
- 8 CRPRID 2005b.
- 9 Arif 2006.
- 10 Different studies provide different estimates of vulnerability for Pakistan. According to World Bank 2002a, almost 57 per cent of the population (based on PIHS 1998-99) is vulnerable whereas Ninno *et al.* 2006 find more than 40 per cent of the total population to be vulnerable, based on PIHS/HIES 2000-2002.
- 11 Ninno *et al.* 2006.
- 12 World Bank 2002a.
- 13 SPDC 2004.

- 14 CRPRID 2005a.
- 15 World Bank 2002a.
- 16 IPC 2004.
- 17 The funds transferred to the Provincial Zakat Council and the District Zakat Committees are lapsable. Only the Central Zakat Council has the powers to re-appropriate budgets.
- 18 IPC 2004.
- 19 The audit of the Central Zakat Fund is conducted by the Office of the Auditor General of Pakistan. The audit is conducted annually with a lag of one year. The latest audit that has been completed is for the year 2002, the report on which has not yet been made public.
- 20 The average monthly income of households in the first quintile is around Rs. 2,500 (excluding receipts as Zakat from all sources) and the average family size is 5.2. With Rs.749 per adult equivalent per month as the approximate official poverty line at 2000-01 prices, the average income gap of the poorest 20 per cent households is Rs. 1, 395. The Guzara Allowance of Rs.500 per month covers 36 per cent of this gap (and under 25 per cent of this gap when the allowance was Rs. 300 per month till 2002-03).
- 21 When the programme was launched the subsidy was to be Rs. 2,000 per annum, paid in two installments of Rs. 1,000 each. The amount was increased to Rs. 2,400 in 2003. The payment is made through post offices where the recipients have individual accounts.
- 22 IPC 2004.
- 23 Ibid.
- 24 GOP 2005b.
- 25 GOP 2005b.
- 26 PPAF 2006.
- 27 Gallup Pakistan 2004.
- 28 World Bank 2002a.
- 29 Gallup Pakistan 2004.
- 30 Ibid.
- 31 Irfan 2003.
- 32 Ibid.
- 33 Khushhali Bank 2006.
- 34 Montgomery 2005.
- 35 World Bank 2002a.

Chapter 7

- 1 Mahajan 2005.
- 2 World Bank 2005b.
- 3 Prior to the year 2000, these Surveys used to be called Household Expenditure Surveys (HESs).
- 4 GOB 2005b.
- 5 Zohir 2005.
- 6 Bangladesh's Poverty Reduction Strategy Paper (PRSP) is available at www.prspged.gov.bd
- 7 The first oil crisis in the 1970s forced the planners to pause for two years before the

- Second Five-Year Plan (1980-85) could be launched. The political masters decided in the mid-1990s to discontinue the five-year planning cycle and instead opted for a long-term participatory perspective plan that was later aborted.
- 8 GOB 1973.
 - 9 GOB 1998.
 - 10 Ibid.
 - 11 For example, the Local Consultative Group (LCG), a formal group of donors based in Dhaka, commented: 'The PRSP's authors should be commended for drafting a report that does a good job analysing the scope and sources of poverty; correctly stresses the links between investment, growth, job creation and poverty reduction; and identifies clearly key areas in which reforms are needed and the policy process needs to be strengthened in order to realise better economic performance and achieve poverty reduction.' Many Nongovernmental Organisations (NGOs) and academics held formal workshops and seminars where the design of the National Strategy for Accelerated Poverty Reduction (NSAPR) in poverty alleviation was much appreciated. LCG 2005 and SUPRO 2006
 - 12 The Annual Development Programme (ADP) for 2006-07 has been fixed at Tk. 260 billion or 5.6 per cent of the estimated GDP.
 - 13 World Bank 2005a.
 - 14 The number of projects selected in 2004-05 was 17. However, there is usually a great time lag before the impact analysis reports are available. GOB 2005a.
 - 15 In addition to the evaluation reports of the Implementation Monitoring and Evaluation Division (IMED), the impact analyses carried out by donor agencies and private organisations were also consulted to assess the projects.
 - 16 Bangladesh Bank 2005.
 - 17 Bangladesh Bank Forthcoming.
 - 18 The Government grants to the Palli Karma Sahayak Foundation (PKSF) in the initial six years amounted to US \$28.3 million.
 - 19 Takahashi 2000.
 - 20 Several studies have been undertaken to evaluate the performance of the Palli Karma Sahayak Foundation (PKSF) as an apex financial institution. Of these studies, the latest one (HB Consultants 2005) covers a longer period and makes a more comprehensive attempt to assess the effects of PKSF programme on poverty alleviation over the period. The present discussion borrows heavily from this study. See Alamgir 1997; BIDS 2000; Gonzalez-Vega 1998; HB Consultants 2005 and Takahasi 2000.
 - 21 It is also necessary to control for the unobserved heterogeneity.
 - 22 GOB 2005c.
 - 23 These expenses are included within the budgetary allocation for poverty alleviation projects.
 - 24 World Bank 2006f.
 - 25 Ibid.
 - 26 The Food For Education (FFE) Programme was launched in 1993.
 - 27 Of the total labour force in the country, about 25 per cent is directly involved in livestock sub-sector while another 25 per cent is partly involved in the sub-sector for their livelihoods. GOB 2006.
 - 28 Out of the total funding for the Model Village Project (Phase II), 46.4 per cent is being provided by the Government of Bangladesh and the remaining by the European Commission (EC).
 - 29 Such land is known in Bangla as *khas* land.
 - 30 GOB 2005c.
 - 31 This statistic is based upon the findings of a survey that covered 4,172 of the trained youths.
 - 32 Ibid.
 - 33 World Bank 2005c.
 - 34 World Bank 2006f.
 - 35 GOB 2005c.
 - 36 Ibid.

Chapter 8

- 1 Central Bank of Sri Lanka 2006.
- 2 World Bank 2003a.
- 3 The poverty estimate is based upon the national poverty line.
- 4 Internal conflict in North and North East prevents the government to conduct meaningful surveys with random selection of population.
- 5 GOS 2006.
- 6 MHHDC 2006.
- 7 As cited in World Bank 2002d.
- 8 MHHDC 2006.
- 9 ADB 2006.
- 10 GOS 2002.
- 11 World Bank 2005d.
- 12 World Bank 2002d.
- 13 See Bandara 1997 and Tudawe 2001.
- 14 Kelegama 2001.
- 15 Central Bank of Sri Lanka 2006.
- 16 Ibid.
- 17 Ibid.
- 18 See World Bank 2002d.
- 19 Ibid.
- 20 Gunatilaka and Williams 1999.
- 21 See Tudawe 2001.
- 22 Bandara 1997.
- 23 UNDP 1998b.
- 24 Gunatilaka and Williams 1999.
- 25 See Gunatilaka 1999.
- 26 World Bank 2006h.
- 27 As measured by the poverty gap and the squared poverty gap index.

- 28 See for instance UNDP 2001.
- 29 World Bank 2006h.
- 30 ADB 2002.
- 31 IMF 2003.
- 32 Ibid.
- 33 SAAPE 2003.
- 34 UNDP 2001.
- 35 Ibid.
- 36 Ibid.
- 37 ADB 2002.
- 38 World Bank 2003a.
- 39 UNDP 2001.
- 40 See for instance UNDP 2001 and World Bank 1998.
- 41 IMF 2003.
- 12 MHHDC 2005.
- 13 World Bank 2003c.
- 14 MHHDC 2003.
- 15 OECD 2004.
- 16 Crook and Sverrisson 1999.
- 17 Kelegama and Parikh 2003.
- 18 Cheema *et al.* 2006.
- 19 Alwis 2006.
- 20 Nepal Development Forum 2004a.
- 21 Quddusi 2006.
- 22 Siddiqui 1992.
- 23 ADB, DFID and World Bank 2004.
- 24 Alwis 2006.
- 25 UNDP 1998c.
- 26 Upadhyay and Koirala 2004.
- 27 Panday 2005.
- 28 Ibid.
- 29 UNDP 2001.
- 30 Upadhyay and Koirala 2004.
- 31 Ibid.
- 32 Mathew 2003.
- 33 Mathew and Mathew 2003.
- 34 Panday 2005.
- 35 ADB, DFID and World Bank 2004.
- 36 UNDP 2001.
- 37 UNDP 2002.
- 38 Nepal Development Forum 2004b.
- 39 UN 2001a,b.
- 40 Ibid.
- 41 ADB 2004c.

Chapter 9

- 1 Introductory remarks at the Special Event on Poverty Eradication, arranged by UNDP, 20 May 1997.
- 2 Abbasi 2006.
- 3 Ibid.
- 4 World Bank 2003c.
- 5 Ibid.
- 6 Filmer 2003.
- 7 World Bank 2003c.
- 8 Anderson *et al.* 2003.
- 9 Transparency International 2005.
- 10 World bank 2003c.
- 11 Ibid.

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Note on Statistical Sources for Human Development Indicators

The human development data presented in these annex tables have been collected with considerable effort from various international and national sources. For the most part, standardised international sources have been used, particularly the UN system and the World Bank data bank. The UNDP and World Bank offices made their resources available to us for this Report.

Countries in the indicator tables are arranged in descending order according to population size. While most data have been taken from international sources, national sources have been used where international data have been sparse. Such data have to be used with some caution as their international comparability is still to be tested.

Several limitations remain regarding coverage, consistency, and comparability of data across time and countries. The data series presented here will be refined over time, as more accurate and comparable data become available. In particular, policy-makers are invited to note the following deficiencies in the currently available statistical series and to invest sufficient resources to remedy these shortfalls:

Generally the latest data are not available for several indicators. Some

statistical indicators date back ten years or more. Analysis of the current economic and social situation is greatly handicapped in the absence of up-to-date data.

Time series are often missing for even the most basic data as population growth, adult literacy, or enrolment ratios. An effort must be made to build consistent time series for some of the important indicators.

In certain critical areas, reliable data are extremely scarce: for instance, for employment, income distribution, public expenditure on social services, military debt, foreign assistance for human priority areas, etc.

Information regarding the activities of NGOs in social sectors remains fairly sparse.

It is time for policy-makers to make a significant investment in the collection and analysis of up-to-date, reliable, and consistent indicators for social and human development. If development is to be targeted at the people, a great deal of effort must be invested in determining the true condition of these people.

It is hoped that the various gaps visible in this annex will persuade national and international agencies to invest more resources and energy in investigating human development profiles.

1. Basic Human Development Indicators

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Total estimated population (millions) 2004 ^a	1,087	155	139	27	21	2.1	0.3	1,431 ^T	5,181 ^T
Annual population growth rates (%) 1999-2004 ^b	1.6	2.1	1.9	2.2	0.9	2.3	2.6	1.7	1.5
Life expectancy at birth 2004	64	63	63	62	74	63	67	64	65
Adult literacy rate (% age 15 and above) 2004	61	50	41 ^c	49	91	47	96	58	79
Female literacy rate (% age 15 and above) 2004	48	36	31 ^c	35	89	...	96	45	72
Combined 1st, 2nd and 3rd level gross enrolment ratio (%) 2004	62	38	57	57	63	49 ^d	69	59	63
Infant mortality rate (per 1,000 live births) 2004	62	80	56	59	12	67	35	63	57
GNI per capita ^e (US\$) 2004	620	600	440	250	1,010	760	2,410	600	1,502
GDP growth (%) 2003-04	6.9	6.4	6.3	3.5	5.4	4.9	10.8	6.7	7.1
GDP per capita growth (%) 2003-04	5.4	3.9	4.3	1.4	4.5	2.3	8.1	5.0	5.8
GDP per capita (PPP US \$) 2004	3,139	2,225	1,870	1,490	4,390	1,969	4798 ^f	2,902	4,775
Human Development Index (HDI) 2004 ^g	0.611	0.539	0.530	0.537	0.755	0.538	0.739	0.596	0.679
Gender-related Development Index (GDI) 2004 ^h	0.591	0.513	0.524	0.513	0.749	...	...	0.576	...

Notes: a: Population figures for 2004 are taken from UNDP 2005, (Medium Variant). b: The population growth rate has been calculated by using the formula $\{[(\text{new value}/\text{old value})^{1/n}] - 1\} \times 100$. d: Data refer to 2002. e: Data is estimated by UNDP. f: Gross national product (GNP) has been replaced by Gross national income (GNI). g: Data refer to 2002. g: The Human Development Index (HDI) has three components: life expectancy at birth; educational attainment, comprising adult literacy, with two-thirds weight, and a combined primary, secondary and tertiary enrolment ratio, with one-third weight; and income. Any significant difference in the HDI for the South Asian countries is due to change in methodology for calculating the index. Please refer to UNDP's Human Development Report 2004. h: Gender-related Development Index (GDI) adjust the HDI for gender equality in life expectancy, educational attainment and income.

Sources: Rows 1,2: UNPD 2006b; Rows 5,6,7,12,13: UNDP 2006; Rows 3,4,11: MHHDC 2006 and UNDP 2006; Rows 8,9,10: World Bank 2006g,h.

2. Trends in Human Development

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
GNI per capita (US\$) ^a									
— 1973	130	130	80	90	230	...	...	126	880 ^b
— 2004	620	600	440	250	1,010	760	2,410	600	1,502
GDP per capita (PPP, US\$)									
— 1960	617	820	621	584	1,389	...	...	648	790
— 2004	3,139	2,225	1,870	1,490	4,390	1,969	4,798 ^c	2,902	4,775
Human Development Index (HDI)									
— 1960	0.206	0.183	0.166	0.128	0.475	...	...	0.204	...
— 2004	0.611	0.539	0.530	0.537	0.755	0.538	0.739	0.596	0.679
Life expectancy at birth (years)									
— 1960	44	43	40	38	62	37	44	44	46
— 2004	64	63	63	62	74	63	67	64	65.2
Gross enrolment ratio for all levels ^d									
— 1980	40	19	30	28	58	7	...	37	46
— 2004	62	38	57	57	63	49 ^e	69	59	63
Adult literacy rate (% age 15 and above)									
— 1970	34	21	24	13	77	...	91	32	43
— 2004	61	50	41 ^e	49	91	47	96	58	78.9
Infant mortality rate (per 1,000 live births)									
— 1960	144	139	151	212	90	175	158	144	137
— 2004	62	80	56	59	12	67	35	63	57
Fertility rate									
— 1960	6.0	7.0	6.7	6.0	5.4	6.0	7.0	6.1	6.0
— 2004	3.0	4.1	3.2	3.6	1.9	4.2	4.1	3.1	2.9
Underweight children (% under age 5)									
— 1975	71	47	84	63	58	...	...	69	40
— 1995-2004 ^f	47	38	48	48	29	19	30	46	27

Notes: a: Gross national product (GNP) has been replaced by Gross national income (GNI). b: Data refer to 1979. c: Preliminary estimate of World Bank.
d: Indicator is calculated as a percentage of age group 6-23. e: Data refers to 2003. e: Preliminary estimate of UNESCO Institute for Statistics, subject to further revision. f: Data refer to the most recent year available during the period specified.

Sources: Row 1: World Bank 2006g,h; Rows 2, 3, 4, 5, 7: UNDP 2006; Row 6: MHHDC 2006 and UNDP 2006; Rows 8, 9: UNICEF 2005.

3. Education Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Adult literacy rate (%)									
— 1970	34	21	24	13	77	...	91 ^a	32	43
— 2004	61	50	41 ^b	49	91	47	96	58	78.9
Male literacy rate (% age 15 and above)									
— 1970	47	40	47	22	86	...	...	47	55
— 2004	73	64	50	63	92	61 ^c	96	70	82 ^c
Female literacy rate (% age 15 and above)									
— 1970	19	5	9	3	68	...	...	17	32
— 2004	48	36	31	35	89	34 ^c	96	45	71.7
Primary enrolment (%) gross									
— 1970	73	40	54	26	99	...	...	68	76
— 2004	107	82	106	114	102	73 ^d	131 ^e	104	105
Secondary enrolment (%) gross									
— 1970	26	13	...	10	47	2	...	25	...
— 2004	52	27	51	43	81	5 ^d	49 ^d	49	61
Combined enrolment for all levels (%)									
— 1980	40	19	30	28	58	7	...	37	46
— 2004	62	38	57	57	63	49 ^b	69	59	63
Percentage of children reaching grade 5 (% of grade 1 students) 2003	79	70 ^e	65	67	98 ^g	91 ^c	...	77	...
Public expenditure on education (as % of GDP)									
— 1960	2.3	1.1	0.6	0.4	3.8	...	...	2.0	2.5
— 2002-04	3.3	2.0	2.2	3.4	1.3 ^f	5.2 ^g	8.1 ⁱ	3.0	4.1 ^h

Notes: a: Data refer to 1985. b: Data refer to 2002. c: Data refer to 2000. d: Data refer to 1993. e: Data refer to 2004. f: Data refer to 1998-2000. g: Data refer to 2000-02. h: Data refer to 1998. i: Data refer to UNESCO Institute for Statistics estimate when national estimate is not available.

Sources: Rows 1, 6, 7: UNDP 2006; Rows 2, 3, 8: MHHDC 2006 and UNDP 2006; Rows 4, 5: MHHDC 2006 and World Bank 2006. g, h.

4. Health Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Population with access to safe water (%)									
— 1990-96	81	60	84	44	46	58	96	78	71
— 2004	86	91	74	90	79	62	83	85	79
Population with access to sanitation (%)									
— 1990-96	16	30	35	6	52	70	66	22	29
— 2004	33	59	39	35	91	70	59	37	49
Child immunisation rate (% of children under age 1)									
— Measles 2004	56	67	77	73	96	87	97	60	75
— DPT 2004	64	65	85	80	97	89	96	67	76
Physicians (per 100,000 people)									
— 1990-2004 ^a	60	74	26	21	55	5	92	57	...
Maternal mortality ratio adjusted (per 100,000 live births)									
— 2000	540	500	380	740	92	420	110	516	440
Contraceptive prevalence rate (% of women aged 15-49)									
— 1996-2004 ^a	47	28	59	38	70	31	39	46	60
Prevalence of anaemia in pregnant women (%)									
— 1985-2000 ^a	52	37	53	65	39	30	...	50	57
Pregnant women receiving prenatal care (%)									
— 2000-04 ^a	60	43	49	28	95	...	...	57	...

Notes: a: Data refer to most recent year available.

Sources: Rows 1, 2, 4: UNDP 2005; Rows 3, 5, 6: UNICEF 2005; Row 7: IIPS 2002, MHHDC 2004 and World Bank 2004; Row 8: World Bank 2005e and World Bank 2006g,h.

5. Human Deprivation Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Population below income poverty line (%)									
— 1\$ a day 1990-2004 ^a	34.7	17.0	36.0	24.1	5.6	...	...	32.4	...
— National poverty line 1990-2003 ^a	28.6	32.6	49.8	30.9	25.0	...	...	31.2	...
Population without access to safe water 2004									
— number (millions)	152.2	15.5	34.8	4.3	4.6	0.8	0.1	212.2T	1,088T
— as a % of total population	14.0	9.0	26.0	10.0	21.0	38.0	17.0	14.7	21.0
Population without access to sanitation 2004									
— number (millions)	728.3	63.6	84.8	17.6	1.9	0.9	0.1	897.2T	2,642T
— as a % of total population	67.0	41.0	61.0	65.0	9.0	30.0	41.0	62.7	51.0
Illiterate adults 2004 ^b									
— number (millions)	292.4	49.8	53.9	8.8	1.5	0.6	0.0	378.9T	767683T
— as a % of total adult population	39.0	50.1	58.9 ^d	51.4	9.3	53 ^c	3.7	42.1	21
Illiterate female adults 2004 ^b									
— number (millions)	190.9	30.6	30.7	5.8	0.9	0.4	0.0	259.3T	511,035T
— as a % of total adult female population	52.2	64.8	68.6 ^d	65.1	11.4	66 ^c	2.8	54.8	28.3
Child malnutrition (weight for age) 1996-2004 ^a									
— % of children under the age 5	47	38	48	48	29	19	30	46	27
Under-five mortality rate (per 1,000 live births)									
— 2004	85	101	77	76	14	80	46	85	88
People living with HIV/AIDS adults (% age 15-49)									
— 2004 ^d	0.9	0.1	<0.1	0.5	<0.10	<0.1	<0.2	...	1.3

Notes: a: Data refer to most recent year available during the period specified b: The number of illiterate adults has been calculated as a percentage of total adult population (15 and above). Illiteracy rates are taken from UNDP 2005. c: Data refer to 2000. d: Data refer to 2003.

Sources: Rows 1, 2, 3, 7, 8: UNDP 2006; Rows 4, 5: MHHDC 2005 and UNDP 2006; Row 6: UNICEF 2005.

6. Gender Disparities Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Female population 2004									
— Number (millions)	529.36	75.13	68.05	13.41	10.11	1.04	0.16	697.26T	2555.99T
— As a % of male	95	94	96	102	97	97	95	95	97
Adult female literacy (as % of male)									
— 1970	41	35	35	12	80	...	...	40	...
— 2004	65	57	62 ^a	56	97	...	100 ^a	64	84
Female primary school gross enrolment (as % of male)									
— 1970	64	37	48	20	92	6	107	60	79
— 2000-04 ^b	94	71	104	89	99	76 ^c	98	93	94
Female 1st, 2nd and 3rd level gross enrolment ratio (as % of male) 2004	88	72	104	83	102	88	101	88	87 ^d
Female life expectancy (as % of male)									
— 1970	97	99	97	97	103	104	95	97	103
— 2004	105	101	103	101	107	104	99	104	106
Economic activity rate (age 15+) (female as % of male)									
— 1970	43	11	6	52	37	52	35	37	53
— 2004	41	38	61	63	45	55	64	43	67
Female professional and technical workers (as % of total)									
— 1992-2004 ^b	...	26	12	...	46	...	40	21	...
Seats in parliament held by women (% of total)									
— 2006 ^e	9.2	20.4	14.8	6.7	4.9	9.3	12.0	10.9	...
Gender-related Development Index (GDI) 2004	0.591	0.513	0.524	0.513	0.749	...	...	0.576	...
Gender Empowerment Measure (GEM) 2004	...	0.377	0.374	...	0.372	...	...	0.375	...

Notes: a: Estimated by UNESCO for 2002. b: Data refers to most recent year available. c: Data refer to 1998-2002. d: Data refer to 2001/02. e: As of 31st May 2006.

Sources: Row 1: UNPD 2006b; Rows 2, 4, 6, 7, 8, 9, 10: UNDP 2006; Rows 3: MHHDC 2006 and UNICEF 2005; Row 5: UNICEF 2005.

7. Child Survival and Development Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Population under 18 2004									
— number (millions)	419	71	59	12	6.1	0.97	0.16	569 ^T	1925 ^T
— as a % of total population	39	46	42	45	29	46	52	40	37
Population under-five 2003									
— number (millions)	120	21	17	3.6	1.6	0.29	0.05	164	548
— as a % of total population	11	13	12	13	8	14	15	11	11
Infant mortality rate (per 1,000 live births)									
— 1970	127	117	145	165	65	156	157	144	109
— 2004	62	80	56	59	12	67	35	63	60
Under-5 mortality rate (per 1,000 live births)									
— 1970	202	181	239	250	100	267	255	235	167
— 2004	85	101	77	76	14	80	46	85	88
One-year-olds fully immunised against tuberculosis (%)									
— 1980	14	9	1	43	63	9	8	13	...
— 2004	73	80	95	85	99	92	98	77	85
One-year-olds fully immunised against measles (%)									
— 1980	1	3	2	2	0	18	30	1	...
— 2004	56	67	77	73	96	87	97	60	75
Births attended by trained health personnel (%)									
— 1996-2004 ^a	43	23	13	15	96	37	70	38	59
Low birthweight infants (%)									
— 1998-2004 ^a	30	19	36	21	22	15	22	29	17
Children (aged 7-14) in the labour force (% age group 7-14)									
— 1999-2003 ^a	5	14 ^b	18	47	1 ^b	55	6	8	12 ^d

Notes: a: Data refer to most recent year available. b: Data is for children aged 10-14.

Sources: Rows 1, 2: UNICEF 2005; Rows 3, 4, 5, 6, 7: UNDP 2006; Row 8: UNICEF 2004; Row 9: MHHDC 2006 and World Bank 2006g,h.

8. Profile of Military Spending

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Defence expenditure (US \$ millions, 1999 prices)									
— 1985	7,207	2,088	308	22	214	...	...	9,839T	189,727T
— 2003	12,570	3,360	600	90	570	...	...	17,190T	210,900T
Defence expenditure annual % increase (1985-2002) ^a	3.1	2.7	3.8	8.1	5.6	...	...	3.1	0.6
Defence expenditure — (as a % of GNP) 1985	2.5	5.1	1.3	0.7	2.6	...	...	3.0	7.2
— (as a % of GDP) 2004	2.3	4.1	1.2	1.7	2.8	...	...	2.4	2.0
Defence expenditure (as % of central government expenditure)									
— 1980	19.8	30.6	9.4	6.7	1.7	...	...	21.3	...
— 2004	14.8	28.1	13.2	8.6 ^b	13.6	...	...	15.9	13.7
Defence expenditure per capita (US\$, 1999 prices)									
— 1985	9.4	22.0	3.1	1.3	14.0	...	...	9.9	52.0
— 2003	11.7	22.1	4.4	3.4	27.9	...	...	12.2	41.0
Armed forces personnel (no. in thousands)									
— 1985	1,260	484	91	25	22	...	...	1,882T	16,027T
— 2006	1,325	619	126	69	111	5	...	2,161T	13,300T
Employment in arms production (000's) 2003	170	50	...	...	...	...	...	220T	2,769T
Aggregate number of heavy weapons 2003 ^c	10,210	5,510	580	50	560	...	...	16,910T	210,191T

Notes: a: The growth rate has been calculated by using the formula $\{[(\text{new value}/\text{old value})^{1/n}] - 1\} \times 100$. b: Data refer to 2002. c: Military holdings include ships, combat aircrafts, tanks and artillery that country possesses. The index is a calculation based on the aggregate number of heavy weapons.

Sources: Rows 1, 2, 5, 6, 7, 8: BICC 2005; Row 3: World Bank 2006g,h; Row 4: MHHDC 2006 and World Bank 2006g,h.

9. Profile of Wealth and Poverty

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Total GDP (US\$ billions)									
— 2004	691.2	96.1	56.6	6.7	20.1	0.7	0.8	872T	8,347T
GDP per capita (PPP US\$)									
— 2004	3,139	2,225	1,870	1,490	4,390	1,969	4798 ^a	2,682	4,775
GNI per capita (US\$) ^b									
— 2004	620	600	440	250	1,010	760	2,410	600	1,502
Income share: ratio of highest 20% to lowest 20% 1995-2000 ^c	4.9	4.3	4.6	9.1	5.1	...	...	4.9	...
Population below income poverty line (%)									
— \$1 a day (1993 PPP US\$)									
1990-2004 ^c	34.7	17.0	36.0	24.1	5.6	...	...	32.4	...
— national poverty line 1990-2003 ^c	28.6	32.6	49.8	30.9	25.0	...	...	31.2	...
Population below income poverty line (%) 1995-2004 ^c									
— urban	24.7	24.2	36.6	9.0	15.0	...	...	25.4	...
— rural	30.2	35.9	53.0	34.6	27.0	...	...	33.1	...
Public expenditure on education (as % of GDP) 2002-04 ^c	3.3	2.0	2.2	3.4	1.3	5.2	8.1	3.0	...
Public expenditure on health (as % of GDP) 2003	1.2	1.7	1.1	1.5	1.6	4.1	5.5	1.3	...
Gross capital formation (as % of GDP) 2004	24	17	24	26	25	47 ^d	...	23	25
Gross domestic savings (as % of GDP) 2004	23	23	31	27	19	...	...	24	27
Industry value added (as % of GDP) 2004	27	25	27	23	27	37 ^e	...	27	36
Tax revenue (as % of GDP) 2004	10	11	8	10	14	8 ^d	21 ^d	10	12
Exports (as % of GDP) 2004	19	16	15	17	36	22 ^f	95	19	39
Total debt service (as % of exports of goods, services and net income from abroad) 2004	19.5	22.8	6.9	8.9	8.8	4.7 ^f	4.5	18.3	7.0
Total net official development assistance received 2004									
— US\$ millions	691	1,421	1,404	427	519	78	28	4569T	53,287T
— as % of GDP	0.1	1.5	2.5	6.4	2.6	11.6	3.7	0.7	0.5
Total external debt (US\$ billions) 2003	122.72	35.69	20.34	3.35	10.89	...	...	193T	2,756T

Notes: a: Data refer to 2001. b: Gross national product (GNP) has been replaced by Gross national income (GNI). c: Data refer to most recent year available. d: Data refer to 1998. e: Data refer to 2000. f: Data refer to 2002.

Sources: Rows 1, 4, 5, 8, 13, 14, 15: UNDP 2006; Rows 2, 7: MHHDC 2006 and UNDP 2005; Rows 3, 6, 10, 16: World Bank 2006g,h; Rows 9, 11, 12: MHHDC 2006 and World Bank 2006g,h.

10. Demographic Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Population (in millions)									
— 1960	442	50	51	9	10	1.0	0.1	563 T	2,070 T
— 2004	1,087	155	139	27	21	2.1	0.3	1,431T	5,181T
Population growth rate (annual %)									
— 1960-70	2.3	2.8	2.6	2.0	2.4	1.8	2.0	2.4	2.5
— 1970-80	2.2	2.6	2.8	2.6	1.7	2.0	2.7	2.3	2.2
— 1980-90	2.1	3.6	2.1	2.6	1.6	2.2	3.2	2.3	2.1
— 1990-95 ^a	1.9	2.4	2.3	2.5	1.2	1.1	3.1	2.0	2.1
— 1995-2000 ^a	1.8	2.5	2.0	2.4	1.0	2.2	2.8	1.9	1.9
— 2000-05 ^a	1.6	2.0	1.9	2.1	0.9	2.2	2.5	1.6	1.7
Population doubling date (at current growth rate)									
— 2004 ^b	2048	2039	2041	2037	2081	2036	2032	2048	...
Crude birth rate (per 1,000 live births)									
— 1970	40	43	46	42	29	42	40	41	42
— 2004	24	31	27	30	16	30	31	25	23
— % decline (1970-2004)	40	28	41	29	45	29	23	39	45
Crude death rate (per 1,000 live births)									
— 1970	17	18	21	22	8	22	17	17	20
— 2004	9	8	8	8	6	8	6	9	9
— % decline (1970-2004)	47	56	62	64	25	64	65	49	55
Total fertility rate									
— 1960	6.0	7.0	6.7	6.0	5.4	6.0	7.0	6.1	6.0
— 2004	3.0	4.1	3.2	3.6	1.9	4.2	4.1	3.1	2.9
— % decline (1960-2004)	50	41	52	40	65	30	41	49	52
Total labour force (in millions)									
— 1980	300	29	40	7	5			382T	1678T
— 2004	427	55	62	10	8	...	...	563T	2,493T
Female labour force (in millions)									
— 2004	121	15	23	4	2	...	...	166T	980T
Percentage annual growth in labour force									
— 1990-2004	1.7	2.6	2.0	3.1	0.9	...	...	1.8	1.7
Unemployment rate (as % of labour force)									
— 2000-2004 ^c	4.3	7.8	3.3	...	9.0	2.9	2.0	4.6	5.6
Employment by economic activity (%) 1995-2003 ^c									
Agriculture									
— Female	...	73	77	...	49	...	5	73	...
— Male	...	44	53	...	38	...	18	48	...
Industry									
— Female	...	9	9	...	22	...	24	10	
— Male	...	20	11	...	23	...	16	16	
Services									
— Female	...	18	12	...	27	...	39	16	
— Male	...	36	30	...	37	...	55	33	

Notes: a: Data has been updated by UNPD 2004 estimates, therefore there might be discrepancy with the data provided in previous MHHDC reports.

b: Compound growth rate formula (see table 1, note a) used to calculate the population doubling rate. Population base year is 2004 and population growth rate of 2000-2005 is used. c: Data refer to most recent year available.

Sources: Rows 1, 2, 3: UNPD 2006b; Rows 4, 5, 6: UNICEF 2005; Rows 7, 8, 9: World Bank 2006g,h; Row 10: World Bank 2006g,h and MHHDC 2006; Row 11: UNDP 2006.

11. Profile of Food Security and Natural Resources

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing countries
Food production net per capita — 2005 (1999-2001=100)	97.9	100.0	99.9	101.3	102.8	87.9	79.2	98.5	107.2
Food exports (% of merchandise exports) — 2004	10.0	10.0	8.0	21.0	21.0	23.0 ^a	79.0 ^b	10.2	9.0
Food imports (% of merchandise imports) — 2004	4	11	19	17	12	21.5 ^a	22.8 ^b	3.5	8.0
Cereal production (1,000 metric tons) — 2005	235,913	32,972	41,586	7,577	3,172	127	0	321,347T	1,299,228T
Cereal imports (1,000 metric tons) — 2004	15.0	112.4	3,324.5	34.9	1,358.2	35.4	40.3	4,920.6T	167,094.2T
Cereal exports (1,000 metric tons) — 2004	8,149.7	2,273.1	0.4	11.4	14.4	6.6	0.0	10,455.6T	67,738.5T
Forest production (1,000 cu. m) 2004 — Roundwood — Fuelwood	322,985 303,839	28,278 25,599	27,976 27,694	13,962 12,702	6,340 5,646	4,612 4,479	0 ...	404,153T 379,959T	2,034,282T 1,593,269T
Crop production index (1999-2001=100) — 2002-04	100	103	105	111	99	...	...	101	108
Land area (1,000 sq. km) 2004	2,973	771	130	143	65	...	...	4,082T	96,645T
Land use — Arable land (% of land area) 2003 — Permanent cropped area (% land area) 2003	54.0 3.1	25.2 0.9	61.3 3.4	16.5 0.9	14.2 15.5	... ...	... ...	50.3 3.0	10.8 1.2
Irrigated land (as % of cropland) 2001-2003	32.7	83.9	54.3	47.1	34.4	...	...	40.6	20.0
Average annual deforestation (%) 1990-2005	-0.4	1.7	0.1	1.6	1.2	...	...	-0.075	0.2
Total renewable resources per capita cu. m 2004	1,167	345	754	7,454	2,575	...	...	1,176	6,358
Annual fresh water withdrawals — as % of internal resources — billion cu. m 1987-2002	51.2 645.8	323.3 169.4	75.6 79.4	5.1 10.2	25.2 12.6	... ...	... ...	80.3 917T	8.6 2,908T

Notes: a: Data refer to 1994. b: Data refer to 1997. c: Withdrawals can exceed 100 per cent of total renewable resources where extraction from non-renewable aquifers or desalination plants is considerable or where there is significant water reuse.

Sources: Rows 1, 4, 5, 6, 7: FAO 2006; Rows 2, 3: MHHDC 2006 and World Bank 2006; Rows 8, 9, 10, 11, 12, 13, 14: World Bank 2006g,h.

KEY TO INDICATORS

Indicator	Indicator table	Original source	Indicator	Indicator table	Original source
A, B, C			F		
Access to,			Fertility rate	2, 10	UNICEF
safe water	4	UNDP	Female professional & technical workers	6	UNDP
sanitation	4	UNDP	Food		
Armed forces personnel	8	BICC	as a % of merchandise exports	11	WB
Birth rate, crude	10	UNICEF	as % of merchandise imports	11	WB
Births attended by trained health staff	7	UNDP	net production per capita	11	FAO
Birth weight, low	7	UNICEF	Forest production (1,000 cu.m.)		
Cereal,			fuel wood	11	FAO
exports	11	FAO	round wood	11	FAO
imports	11	FAO	Freshwater withdrawals	11	WB
production	11	FAO			
Contraceptive prevalence rate	4	UNICEF	G		
Crop production index	11	WB	GDP,		
Children reaching grade 5	3	UNDP	growth rate	1	WB
D			per capita, PPP US\$	1, 2, 9	UNDP
Death rate, crude	10	UNICEF	per capita growth	1	WB
Debt,			total	9	UNDP
total external	9	WB	Gender empowerment measure	6	UNDP
servicing	9	UNDP	Gender-related Development Index	1, 6	UNDP
Defence			GNI per capita	1, 2, 9	WB
armed forces personnel, total	8	BICC	Gross capital formation	9	WB
expenditure,			Gross domestic savings	9	WB
annual % increase	8	BICC			
as % of central govt.			H, I, J		
expenditure per capita	8	WB	Health expenditure,		
as % of GDP	8	WB	public, as % of GDP	9	UNDP
as % of GNP	8	WB	HIV/AIDS,		
total	8	BICC	among adult population	5	UNDP
Deforestation, average annual	11	WB	Human development index	1, 2	UNDP
E			Illiterate,		
Economic activity rate,			adults		
female as % of male	6	UNDP	percentage of total		
Education expenditure,			adult population	5	UNDP
as % of GDP	3, 9	UNDP	total	5	UNDP
Employment by economic activity			females,		
agriculture female, male	10	UNDP	percentage of total		
industry female, male	10	UNDP	adult female population	5	UNDP
services female, male	10	UNDP	total	5	UNDP
in arms production	8	BICC	Immunisation,		
Enrolment,			children		
combined 1st, 2nd & 3rd level, gross	1, 2, 3	UNDP	DPT	4	UNICEF
combined 1st, 2nd & 3rd level gross,			Measles	4	UNICEF
female as % of male	6	UNDP	Income share: ratio of top		
primary level, gross	3	WB	20% to bottom 20%	9	UNDP
primary level, gross			Industry, value added % of GDP	9	WB
female as % of male	6	UNICEF	Infant mortality rate,	1, 2, 7	UNDP
secondary level, gross	3	WB			
Exports, % of GDP	9	UNDP	K, L		
			Labour force,		
			annual growth rate, average	10	WB
			child	7	WB
			female	10	WB
			total	10	WB
			Land area	11	WB
			Land irrigated, as % of cropland	11	WB

Indicator	Indicator table	Original source	Indicator	Indicator table	Original source
Land use			Poverty,		
arable, % of land area	11	WB	absolute, children living in		
permanent cropped area,			income, people living below		
% of land area	11	WB	\$1 a day	9, 5	UNDP
Life expectancy at birth,			national poverty line	9, 5	UNDP
total	1, 2	UNDP	rural	9	WB
female as % of male	6	UNICEF	urban	9	WB
Literacy rate,			Pregnant women,		
adults	1, 2, 3	UNDP	received		
female	1, 3, 6	UNDP	prenatal care	4	WB
as % of male	6	UNDP	with anaemia	4	WB, IIPS
male	3	UNDP	Renewable freshwater resources,		
Low birth weight	7	UNICEF	per capita	11	WB
M, N, O			S		
Malnourished, children under-five	5	UNDP	Safe water,		
Maternal mortality			access to	4	UNDP
ratio	4	UNICEF	percentage without access to	5	UNDP
Measles, one-year-olds			Sanitation,		
fully immunised	7	UNDP	access to	4	UNDP
Mortality rate,			percentage without access to	5	UNDP
infant	1, 2, 7	UNDP			
under-five	5, 7	UNDP	T, U, V		
Official development			Tax revenue, as % of GDP	9	WB
assistance received,			Tuberculosis,		
as percentage of GDP	9	UNDP	one-year-olds immunised against	7	UNDP
total	9	UNDP	Unemployment rate	10	WB
P, Q, R			Under-five mortality rate,	5, 7	UNDP
Physicians, per 100,000 people	4	UNDP	Underweight, children	2, 5	UNICEF
Population,			W, X, Y, Z		
doubling date	10	UNPD	Weapons, number of	8	BICC
estimated			Women,		
female	6	UNPD	pregnant		
female to male ratio	6	UNPD	prevalence of anaemia	4	WB, IIPS
growth rate, annual	1, 10	UNPD	receiving prenatal care	4	WB
total	1, 10	UNPD	professional & technical workers	6	UNDP
under-five	7	UNICEF	seats held in parliaments	6	UNDP
under 18	7	UNICEF			

Key to source abbreviations

ADB	Asian Development Bank
BICC	Bonn International Centre for Conversion
FAO	Food and Agriculture Organisation
IIPS	International Institute of Population Sciences
MHHDC	Mahbub ul Haq Human Development Centre
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNPD	United Nations Population Division
WB	World Bank
WHO	World Health Organization