

# Preface

The subject of chronic poverty has challenged researchers and policy-makers for many years. The chronically poor are everywhere, in industrial and developing countries alike. Their numbers are larger and more apparent in Asia and Africa, yet there are pockets of households that have been poor for several generations on all continents and in many different countries. Asia is the focus in this volume for two reasons. We are most familiar with Asia, having lived and worked in the region for many years and Asia contains the most chronically poor of any of the developing regions.

We approach the subject by first outlining the dimensions of chronic poverty in Asia in Chapter 1. It is important to begin by finding out who the poor are, how they became poor and where they live. In this chapter, the characteristics of poor households are discussed and the geographic, economic and social dimensions of poverty analyzed. Many of the observations are self evident. The bulk of the poor live in rural areas and these rural poor are the primary focus of this book. The poor have low skills, are poorly educated, live in regions where soil fertility is low and connectivity with urban centers is limited. The poor are often minorities that suffer from discrimination, neglect and social isolation. The poor have limited stocks of physical assets, low levels of savings and are vulnerable to the vicissitudes of nature and to illness, both of which can be devastating to those who have little to begin with. The chapter also considers the major factors responsible for chronic poverty in rural areas — limited education and skill, low income, limited capital and availability of social services, lack of capital and low savings. Differences between the chronically poor

and the transient poor are also discussed and ways that the non-poor can sink into chronic poverty.

The determinants of chronic poverty in Asia are addressed in more detail in Chapter 2. Lack of human capital including lower life expectancy and higher morbidity and infant mortality are characteristics of the chronically poor. They also have limited earning power, tend to live in geographic and political isolation and lack financial capital and physical assets. They often suffer from gender, religious, race, class and caste discrimination. Because they have few physical assets, low levels of education and literacy, they are hindered in their ability to move or to otherwise uplift their living standards. The chronically poor are also adversely affected more than their richer counterparts by economic shocks, wars and natural disasters. Children are trapped in the swirl of chronic poverty, unable to extricate themselves by their own efforts. They are too often bound to the wheel of poverty for their generation and generations to come by debts incurred by their parents and grandparents that they and their children are forced to repay.

The dynamics of chronic poverty are discussed in Chapter 3. The yoke of poverty is transferred from generation to generation in different ways. Uneducated parents are sometimes too poor to send their children to school and so illiteracy is passed on, food shortages can result in children's cognitive impairment and when income is limited, girls receive less food than boys. The poor have few physical assets and further fragmented as these are split up among the children. Those poor that have sufficient resources send their children to school either for selfish or altruistic reasons. Often, parents care for children to ensure that they will have someone to care for them in old age. When life is hard and risks of survival to adulthood are high, parents, where possible, seek to ensure this support by bearing as many children as possible, taking care of their health and sanitation needs and sending them to school so that they can earn a living that will support themselves and their parents when they grow up. Too often, debts rather than assets are transferred through a bondage system, particularly in South Asia and sometimes children are sold into debt bondage by parents who are strapped for resources or in debt to other

creditors. There has been little systematic analysis of risks to children or policies suggested to provide better coping mechanisms in chronically poor environments. Similarly, the topic of resilience to trauma has received little effective analysis.

Chapters 4, 5 and 6 consider policies to address chronic poverty. Chapter 4 considers microeconomic policies, Chapter 5 looks at sector policies and finally Chapter 6 reviews macroeconomic policies.

Chapter 4 considers a wide variety of government policies that are designed to aid individual households and villages. These include social safety nets and entitlements; cash transfers and food subsidies, public works programs that are geared toward poor villages and localities; social funds; conditional cash transfers and educational and health subsidies. Each of these programs usually has a specific objective and sometimes narrowly focusing on the poor and chronically poor. In other cases, the focus is broader and the transient poor and non-poor may also benefit from these programs. The effectiveness of each of these programs is considered with reference to individual country experience and lessons learned. The chapter reviews five modalities that are being used to assist the poor: cash transfers, universal food subsidies, rationed food subsidies, public works and social funds. Each of these programs is designed to help individuals and families that are poor to escape from poverty and their effectiveness is increased as the focus on the poor and chronically poor is maintained and improved. The costs and benefits of food subsidies, which have been used as a policy to relieve poverty for many years, are discussed and suggestions offered for improving their focus. Cash transfers to the poor either through direct cash transfers, food stamps or other government vouchers are also reviewed. Public works programs, sometimes called work fare, can have two objectives. The first is to provide income for the poor in exchange for work contributions to a government project. The second is that workers can benefit from the project itself through skill enhancement and experience. Social funds mobilize local community involvement in projects that develop infrastructure in poorer communities. Educational and health subsidies are often used in conjunction with public works programs to induce families to send their children to school. Alternatively, cash or sometimes

food is offered to chronically poor families in exchange for the family commitment to send their children to elementary school. There are also subsidies to children from poor families which generally takes the form of government subsidized education. Such subsidies are generally available to all children and there are only a few examples where the chronically poor might be targeted. The chapter concludes with a discussion of labor mobility as a way for poor families to break the cycle of poverty, either by internal migration, usually from rural to urban movement or, less likely, through international migration.

Sector policies to reduce chronic poverty are the focus of Chapter 5. The role of transportation and communications in improving the connectivity of high poverty by-passed regions is considered. Improved communication with others is an important way to spread the availability of new information and technology to poor communities. For example, telecommunications access can be improved by the use of cellular phones, where usage is increasing by leaps and bounds. New applications for cell phone use will develop as new technology evolves like recharging from solar batteries, lower prices and more sophisticated instruments. Rural electrification also plays a critical role in facilitating the flow of information and commerce to these regions and there were a variety of other benefits that have accrued from electrification. Security and mobility at night was enhanced by the availability of electricity which also afforded more time for work and leisure. Access to the news media also increased awareness of the importance of education, personal hygiene, inoculations and consultations with qualified medical personnel. This resulted in a reduction in the number of infant and child mortality, improved hygiene and better school attendance. Electricity played a catalyst in the educational process by extending the time period for study and creating a comfortable learning environment. The role of regional infrastructure including irrigation, agricultural extension and the transfer of new technologies to the rural poor is also reviewed and policies suggested. Irrigation benefits the poor through providing more food at lower prices and stimulating the shift from subsistence farming to higher value crops for sale to the market. Micro irrigation systems also have strong potential for reducing poverty. Even greater poverty reduction

can be achieved by targeting irrigation to poorer communities by reducing the unequal distribution of water rights as well as reducing the inequality in land holdings. Regarding the relationship between rural poverty and spending on roads, studies show that investment in roads had a significant impact on non-agricultural economic activities which in turn helped to reduce poverty. Pumping for irrigation and potable water along with lighting and TV for homes and health centers are also ways in which electricity has improved living conditions for the chronically poor throughout the Asian region. Discussion of land reform and technological innovation conclude the chapter. The chronically poor, many of whom are illiterate or have limited education, will probably not be involved with the leading edge advances in agricultural science. Nevertheless, some of the newer aspects of agricultural extension and cropping systems may be relevant to some chronically poor who either own a little land or who can benefit from these developments as members of the agricultural sector work force. One of these developments is *no-till* farming. No-till farming is a system where fields are not tilled after the harvesting of the previous crop but rather seeded immediately with plant residues and some mulching material. No-till farming has the advantage of water conservation, time saving, reduced sowing and soil preparation costs, reduced reliance on tractors and burning of fossil fuels. Regarding land reform, there have been few reforms that have been subject to rigorous analysis. However, the evidence that does exist suggests that land reform that change tenancy laws and regulations that make tenure legally binding have a powerful positive impact on poverty reduction. While the poor are not directly involved in technology and technological transfer, they benefit from new research and adoption of new varieties indirectly through higher yields and greater income. In recent years, there has been a slowdown in rice yield growth and this is partly the result of a slowdown in the rate of public investment in agricultural research and development, primarily by international agencies. This trend needs to be reversed by greater efforts to develop and disseminate new technologies.

Macroeconomic policies to reduce chronic poverty are the focus of Chapter 6. Clearly, overall economic growth is the most important

macroeconomic variable that could impact poverty. There is ample evidence that rapid economic growth results in a decline in poverty. There has been strong growth in income in Asia since 1990 along with a significant reduction in the overall level of poverty. Despite the strong relationship between poverty reduction and income growth in Asia in this 15 year period, income growth alone does not fully account for the reduction in poverty. Other factors and policies, both at the sector and macroeconomic level have also worked to reduce chronic poverty. The pace of infrastructure spending is considered in Chapter 6, following the discussion of individual components of infrastructure spending in Chapter 5, the point being that lags in infrastructure can introduce bottlenecks that retard the overall expansion of economic activity. Fiscal deficits can reduce the pace of poverty reduction if they have a negative impact on the pace of development spending. India is a case in point. The fiscal deficit remains substantial (7 percent to 8 percent of GDP) which could pose a problem in addressing poverty reduction issues. How can India finance greater capital investment as well as development spending while keeping the deficit in check? Excessive regulation of labor markets can also prove to be an impediment to poverty alleviation. Restrictive labor laws are particularly burdensome to small and medium scale industries. For example, Indian textile plants have lower capacity than Chinese plants and hence operate at lower efficiency and higher costs. Compared to other countries, there are smaller firms in India than in other countries and labor laws protect only a few well paid salary workers. Such a dualistic system also perpetuates discrimination against women and minorities and helps to perpetuate existing poverty traps and low living standards for the chronically poor. Despite the conventional belief that minimum wage legislation reduces the supply of labor and tends to increase poverty, there is limited evidence for the impact of minimum wage legislation on the chronically poor. To the contrary, there are some results that suggest that in particular circumstances, minimum wage legislation can result in a win-win outcome where wages for the poor increase without a commensurate reduction in employment. Government development spending can have a salutary impact on poverty, particularly in specific areas where expenditures can be

increased or targeted to reach the chronically poor, particularly education and health and rural road investments. While the pace of international migration by the chronically poor is likely to be slow, policies regarding internal migration can help the chronically poor by focusing on providing information on job opportunities to villages in rural locations and the development of information networks including the internet, particularly in poor villages. While some government departments can be involved, the private sector is already doing a good job of providing information for prospective job seekers. Which social programs are most relevant for the chronically poor? First are policies which can help families to break out of the poverty trap by educating the next generation. These include subsidies for education at the primary level, either through workfare or the introduction of small subsidies to families for shoes, uniforms and free lunches to reduce out of pocket costs for parents. Second are social programs and expenditures that protect assets and income by smoothing consumption and income for the vulnerable poor who can't get out of poverty given their current occupation, education and geographic location. Work fare programs can provide employment for the poor during these gaps with work on public schemes to build and rehabilitate infrastructure in their villages or surrounding areas. Selective food subsidies can be used to bring health outcomes up to standard for those families with nutritional deficits. Another initiative is needed to help poor household get out of debt that are indebted to landlords or money lenders and may even have some family members in virtual bondage to these landlords or money lenders. Imaginative schemes which serve to break this debt bondage are critical if this cycle of chronic poverty for literally millions of farmers and other rural families is to be broken. Third are social programs that both protect against shocks and provide assistance after shocks occur. Since the shocks are unanticipated, much of what has to be done here is preventative or reactive in nature. For the chronically poor, it only takes a major shock to have devastating impacts on the chronically poor. Crop failure, either from pests or adverse weather (drought or flood) or escalating prices for food and other essentials poses the most significant risk.

Chapter 7 provides an extensive review of 11 individual country experiences with a focus on the incidence of poverty, determinants of poverty and micro, sector and macroeconomic policies which have been adopted to deal with these chronic poverty challenges. The countries reviewed include the three most populous economies, China, India, Indonesia; four countries in South Asia, Bangladesh, Nepal, Pakistan and Sri Lanka, one economy in Southeast Asia that have significant numbers of chronically poor, namely the Philippines; and lastly the three Mekong countries, Cambodia, Laos and Vietnam. The Chronic Poverty Research Center has tagged China, Indonesia Vietnam as a “consistent improver” with their fight against chronic poverty. Some of the poverty reduction policies that proved successful at targeting the so-called “invisible” chronic poor are particularly highlighted. Lastly, each country review concludes with a section on future policy agenda and challenges.

Final thoughts on policy are presented in Chapter 8. An overview of the policies and challenges covered in Chapters 1 through 7 is provided. Where chronic poverty fits into the overall poverty reduction picture and an analysis of the cost of eliminating chronic poverty in Asia is presented. The cost, estimated to be \$64 billion, is not that high considering the scope of suffering that the chronically poor endure every day. A summary of issues for social protection and social assistance, assisting isolated poor communities, migration as a strategy for the chronically poor, creation of assets for the chronically poor and discrimination and gender empowerment are also provided. The chapter concludes with two sections that are forward looking; an analysis of chronic poverty and the global financial crisis as well as medium term prospects for reducing chronic poverty. Governments need to prepare further for this contingency by setting aside some funds to protect the poor, should the global recession deepen further. They also need to adopt appropriate countercyclical macroeconomic policies to compensate for the slowdown in exports by way of compensatory monetary and fiscal stimulus. Governments also need to be ready to provide resources to protect the chronically poor from further deterioration in their living standards. In our view, a deeper recession scenario becomes more probable every day the global crisis

persists and the possibility of further contagion spreading to stock markets and banking systems in Asia increases. In light of these developments, it is unlikely that much progress will be made in poverty reduction in the immediate future. Nevertheless, projection made by the Asian Development Bank present an optimistic medium term scenario whereby pro-poor policies stress more equitable distribution of income and policies that address the problems of the poor. Under this scenario, South Asia can reduce poverty from 42.5 percent in 2005 to around 16 percent by 2015. Estimates for Southeast Asia which includes the Mekong countries goes from 18.8 percent to 7.3 percent and China (and Mongolia) from 15.9 percent to 2.6 percent within the same time period. For the Asia and Pacific region, poverty will fall from around 900 million in 2005 to 342 million if pro-poor policies are adopted. On the other hand, 160 million fewer people will be raised out of poverty if pro-rich policies are adopted.

