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Initiative for Policy Dialogue

United Nations Department for Economic and Social Affairs

POVERTY REDUCTION:

From rhetoric to reality

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Covering Development and Poverty Reduction

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Session Objectives

- Understanding the limits of poverty and inequality measurements
- The Washington Consensus and the need of a new development paradigm
- Poverty reduction requires equitable economic and social policies (not micro-interventions)
- Key elements of poverty-reducing National Development Strategies
  - Macro and sectoral policies
  - Empowerment and social mobilization
  - Social policies- key issues
  - Affordability
  - Speed matters
  - Tools for transparency: MTEFs, PERs
- International causes of poverty

Poverty in Perspective

- Poverty is not a new phenomenon (ie. Europe in the 19th century – Dickens, Engels descriptions = similar to poverty/shanty towns in developing countries)
- The lesson is that poverty can be reduced if governments are committed - and it can be reduced quickly.
  - Examples – The "late industrializers", post 2 World War recovery in OECD countries. Policies were generally based on:
    - Full employment
    - Macroeconomic stability
    - Developing national productive capacity
    - Government's involvement in social policies - education, health, social security, housing, enforcement of labor laws and regulations, etc. Generally, universal policies (=for all) were applied progressively to ensure social cohesion.
  - These policies allowed high productivity gains in the workforce, expanded domestic demand, and increased economic growth
  - The populations of Europe, Japan, North America, Australia and New Zealand experienced a prosperity unseen in history

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So… Why not in Developing Countries?

- Government commitment is rare - poverty reduction is generally only one of many developmental objectives
- Public policy-making often captured by some interest groups who benefit disproportionately from public policies, instead of ensuring development for the majority of the population. Rent seeking, corruption, nepotism, mismanagement, damage the poor most
- Economic development and military expenditures are always on top of social policies; social development has been largely neglected, or at best addressed with inadequate resources
- A significant amount of developing countries are starved of capital, pressured by external debt
- Developing countries have limited access to developed countries markets to export their products
- Advise provided by development agencies ("the Washington Consensus") was inadequate and in many cases caused poverty.

Poverty Trends

Poor People Below $2 a day Poverty Line

	1990	2000	2015
In Millions			
East Asia and the Pacific	**1,094**	**873**	**354**
South Asia	**971**	**1052**	**968**
Europe and Central Asia	**31**	**101**	**48**
Latin America	**121**	**136**	**124**
Middle East N. Africa	**50**	**72**	**38**
Sub-Saharan Africa	**386**	**504**	**612**
Total	**2,653**	**2,737**	**2,144**
In %			
East Asia and the Pacific	**68.5**	**48.3**	**18.2**
South Asia	**86.3**	**77.7**	**59.2**
Europe and Central Asia	**6.8**	**21.3**	**10.3**
Latin America	**27.6**	**26.3**	**20.5**
Middle East N. Africa	**21.0**	**24.4**	**10.2**
Sub-Saharan Africa	**76.0**	**76.5**	**70.7**
Total	**60.8**	**53.6**	**36.4**

Source: World Bank, 2004, *Global Economic Prospects*.

Poverty Trends

- Half the world's population (2.8 billion people) live below the international poverty line of US$2 a day, and 1.2 billion people live in extreme poverty, surviving on less than $1 a day
- Most of the poor are in Asia and Africa
- The incidence of poverty is larger in women than men and higher in rural areas than in urban areas. Vulnerable groups such as the elderly, ethnic minorities, refugees or the disabled are much more affected by poverty
- According to official statistics:
  - The incidence of poverty has decreased, and the proportion of people living below the 2 dollar-a-day poverty line declined
  - However, in absolute terms, poverty is not decreasing. Population growth remains high in developing countries, and many are born in poverty and destitution. Using World Bank's data, the number of poor people has actually increased since 1990.
- REALITY: In practice, there are many problems with the definition and measurement of poverty. There are many more poor people than appear registered in official statistics (next slides).

Poverty: Definition and Measurements

- Highly political issue. Governments tend to hide the existence of poverty as it makes them look underdeveloped and shows public policy failures.
- Different countries use different methodologies = Difficult comparisons
- Often based on the per capita expenditure necessary to attain 2000-2500 calories per day, plus a small allowance for non-food consumption
- Poverty measures do not adequately reflect other expenses necessary to cover basic needs - clothing, drinking water, housing, access to basic education and health, among others
- This is why United Nations institutions started using the $1 and $2 dollar-a-day poverty lines
- => If measurements based on a real minimum consumption basket were used, the number of people living in poverty would soar.
- => There is an urgent need to harmonize and strengthen social statistics across the world (as economic and financial statistics were strengthened after the 2 World War).

Beware of statistics (i)

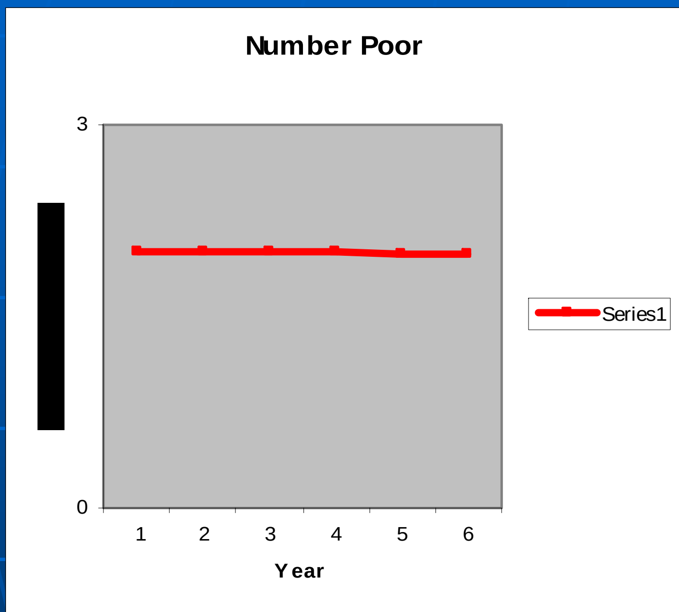
Indonesia: Sensitivity of poverty headcount (% people below poverty line) using different poverty lines

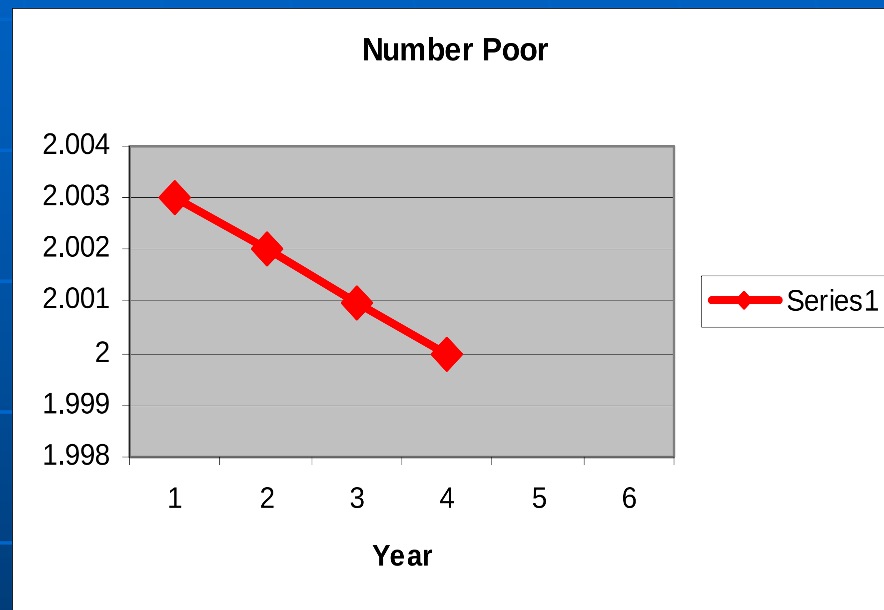
POVERTY LINE IN US$ per person/day	POVERTY LINE Equivalent US$ per person/month	POVERTY LINE Equivalent Rupiah per person /month	HEADCOUNT POVERTY (% population below poverty line)	MILLIONS OF PEOPLE BELOW POVERTY LINE
0.27	8.38	62,870	9.75	22.0
0.29	8.80	66,021	12.10	26.1
0.30	9.22	69,165	14.55	31.4
0.32	9.64	72,309	17.40	37.6
0.33	10.06	75,452	20.18	43.6
0.34	10.47	78,596	23.03	49,7

Source: Based on SMERU and World Bank, 1996 Indonesia.

Beware of statistics (ii)

These 2 graphics say the same... but can be interpreted very differently!!



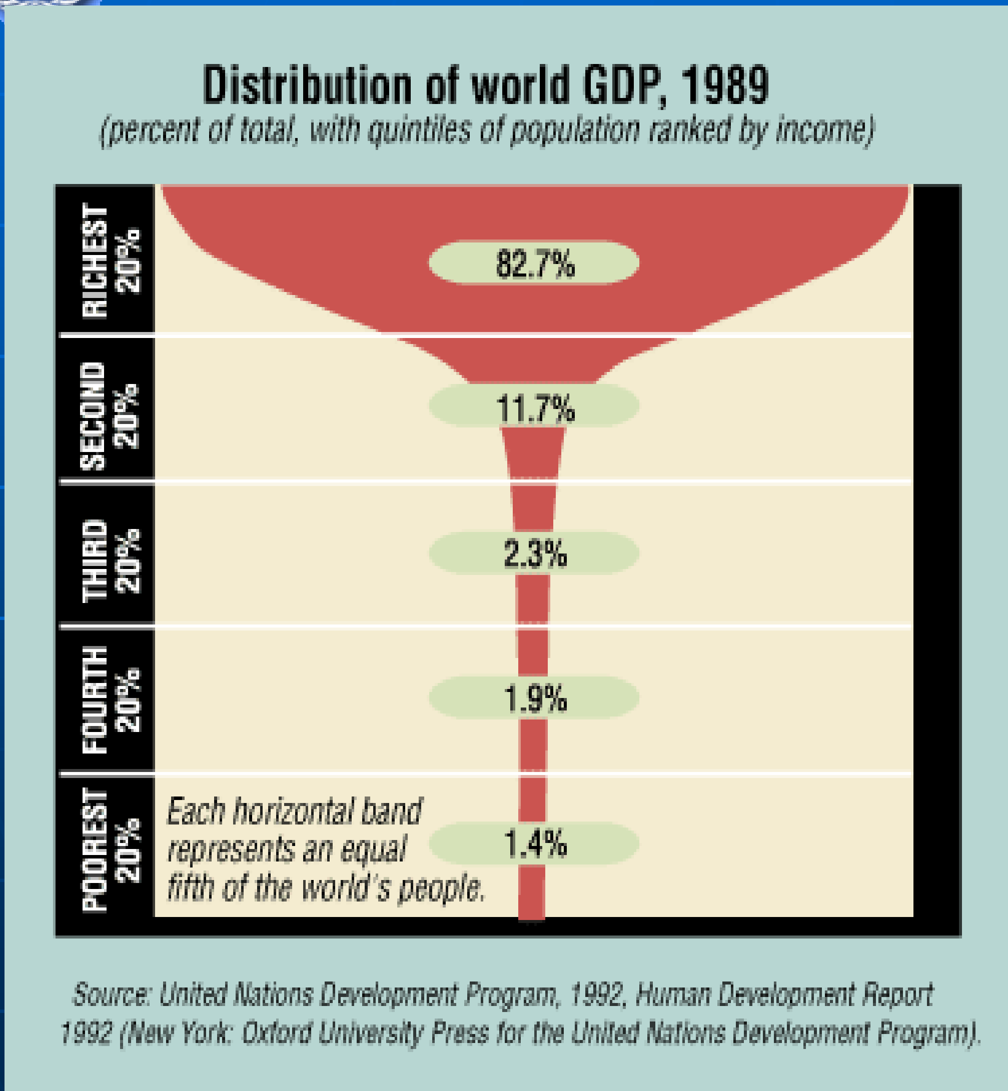


GOVERNMENT POLICIES FAIL!!

GOVERNMENT POLICIES SUCCESS!!

Darrell Huff: "*How to lie with Statistics" Penguin*

Poverty =/= Inequality



- Inequality shows the distribution of income, consumption and other welfare indicators in society ("who gets what") – different socioeconomic groups (Quintiles = Q1 -20% poorest; Q5 -20% richest)
- Comparing what the rich and the poor have => politically sensitive
- Quality of data even worse than poverty indicators . Often, *"Micky Mouse Numbers"* (ie. Egypt and Bangladesh are "officially" more equal societies than Australia or France) Good source: UNU WIDER
- Inequality has risen in the last decades:
  - Within countries
  - Among countries

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Development for whom?

- The benefits of globalization, as it is managed (or mismanaged), go to a few companies and individuals, in a few countries.
- This is a result of the choice of economic policies, combined with very limited investments in social development

1980s-90s: "Washington Consensus": A formula that abandoned development economics and proposed structural adjustments to promote growth -- requiring:

- Anti-inflationary measures
- Cuts in public expenditures
- Debt repayment
- Financial and trade liberalization
- Privatization of public assets and services
- Residual social policies (minimal, targeted to the poor)
- Cost recovery mechanisms (fees for services)

The "Washington Consensus":

- Caused severe financial crisis
- Caused poverty and increased inequality
- Interrupted nation-building development processes
- More interesting, it constrained growth in developing countries!!

  Sustained/high growth occurred precisely where the WC was not followed: Asia prior to the 1997-98 crisis, China, periphery of Europe.
- Remains part of conventional development thinking

=> A NEW DEVELOPMENT PARADIGM IS URGENTLY NEEDED

A New Development Paradigm? Some aspects

"Washington Consensus"	New paradigm
Growth through deregulation, free markets, minimalist governments, supply side economics	Growth and equity through active promotion of domestic economic activities. Integration of social and economic development.
Anti-inflationary measures	Employment-generating growth the priority, tolerance to some inflation
Financial liberalization	Capital controls to avoid crisis/capital flight, national development banks, making finance work for "real economy' growth
Debt repayment	Debt forgiveness
Cuts in public expenditures, avoiding fiscal deficits	Public investment for development; need to expand governments' "policy space"
Minimal taxation to the wealthy (companies/individuals)	Taxation for development and redistributive purposes
Privatization of public assets/ services, minimalist government (state as a predator, crowding out private sector)	Where is the private sector? FDI to 13 main countries. Building state capacity to promote development, public investment
Cost recovery mechanisms (fees for services)	No user fees, except for upper income groups in tertiary services
Residual social policies (minimal, targeted to the poor), safety nets	Universal policies (for all). Importance of social policies for human development, equity, domestic market, nation building, political stability

Redistribution is Essential for Poverty Reduction

- Redistribution/equity topics were out of the development agenda in the 1980s-90s
- However, redistribution is a legitimate goal of public policy, to balance the tendency of the market to concentrate resources.
- Redistribution has much faster impacts on reducing poverty than growth, but economic growth is necessary to sustain the process over time. Redistribution is not antagonistic to growth; it stimulates consumption (expands domestic market), raises productivity and thus is important to sustain growth itself.
- National and international redistribution essential to redress world inequities. Equity entering the agenda of all donor agencies, including the World Bank (i.e. Chief Economist Bourguignon).
- Redistribution may be achieved through
  - domestic taxation
  - increased development aid
  - new proposed international sources such as taxes on short-term speculative financial transactions, on arms trade, pollution and others.
- Public policies can mitigate or exacerbate social differences. Poverty reduction does not happen because of micro-interventions, but because:
  - Macroeconomic and sector policies that promote equity
  - Above all, avoid regressive distribution, e.g., building systems with public resources that mostly benefit the elites and upper income groups

How to prepare a poverty-reducing National Development Strategy

- Diagnosis of social and economic obstacles for poverty reduction
- Policy Priorities to fight poverty
  - Macroeconomic policies
  - Sector priorities (i.e. energy, water…)
  - Social policies (i.e. decent work, social protection…)
- Budget in a multiannual MTEF
- Implementation arrangements
- Monitoring mechanisms including
  - comparable poverty line
  - indicators for each of the social groups – preferably in the form, of National Action Plans for youth, elderly, indigenous populations, disabled, etc (reality check: what happens to people?)
- Participation: National Strategies not technocratic; require national coalitions and alliances, be responsive to citizens

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Diagnosis

- A poverty reducing National Development Strategy should overcome the obstacles for economic and social development.
- A National Development Strategy is not only for the poor, but for all social groups, from the middle classes to the poor, from the young to the old, from the formal to the informal sector, from the disabled to indigenous populations.
- The social analysis should include:
  - Needs and risks of people
  - Potential sources of conflict (=> conflict prevention)
- The economic analysis needs to focus on:
  - How to generate competitive economic activities that can employ the social groups and sustain development in the long term.
  - How to create an enabling environment to promote activities at national and local level, identifying support policies such as technology or inclusive finance
- To be sustainable, National Development Strategies require the creation of supportive political coalitions, and need to be designed with an eye to constituting such coalitions, while resisting policy capture by elite or vested interests.

Key elements of poverty-reducing National Development Strategies I

Policy options:

=> Re-engineering macro and sector policies to make them work for EQUITY and sustainable growth.

Growth - Two main options:

- Employment-generating growth: preferred because labor absorption
- If not, economic activities can be taxed to finance development programs (ie. Exploitation of natural resources)

Macroeconomics: Fiscal policies (critical), monetary policies, exchange rate policy

Sector policies that extend opportunities to the poor/excluded, for example:

- physical assets - infrastructure from which the poor benefit directly, such as water and sanitation, rural electrification, rural roads and means of transport
- natural assets - through policies such as land reform
- financial assets - access to credit
- human assets - investing in health, skills and training, etc

Key elements of poverty-reducing National Development Strategies I

Fiscal Policies: Choices for government revenues

- Taxation
  - Direct taxes: Progressive*, transfer from the wealthy to the poor, more impacts on poverty reduction.
    => Need to fight tax evasion
  - Indirect taxes (ie. VAT – more resources but are REGRESSIVE*)

- Funds resulting from exploitation of natural resources (avoiding the "resource course")
- External financing
  - Development assistance (managed wisely)
  - External debt (caution)
- Printing currency => inflation (caution). Current debate about the degree of annual inflation tolerable

**Any policy has different distribution impacts:*
Policies can be:
Progressive: *if a policy benefits more the poor and lower income groups*
Regressive*: if a policy benefits more the wealthy and upper income groups*

Fiscal Policies: Choices for government expenditures

- All governments do something to reduce poverty – the problem is: HOW MUCH? => Need to distinguish between rhetoric and reality: Budgets reflect best the real priorities of a government
- Governments finance a large amount of activities but in developing countries affectivity tends to be low because of:
    - *Inadequate policy design:* Not focused on maximizing equity and growth impacts; e.g. labor programs centered on flexibilization did not generate employment
    - *Insufficient funds that lead to limited coverage*, serving only a portion of the population, often the wealthiest segments of society instead of the poor (ie. private pensions), and more males than females (i.e. education)
    - *Funds incorrectly distributed among programmes:* Often, most funds go to high-cost low-impact programmes that benefit a few, e.g., Manila, capital of the Philippines (40% population poor), has 4 international airports (more than NYC!), when there are massive rural transport needs.

Development needs are large but resources limited. Two options:

- To reduce less important expenditures, from a public point of view
- To increase resources

- => Need to properly balance needs and resources => to PRIORITIZE INTRA e INTER sector expenditures

The problem with recurrent expenditures

	Needs	Ministry	Donor 1	Donor 2	Clients	GAP
Recurrent Expenditures	220,000,000	133,120,000	38,633,684	14,000,000	20,000,000	14,246,316
1. Salaries	100,000,000	100,000,000	0	0	0	0
1.2. School Maintenance	35,000,000	5,000,000	10,000,000	0	20,000,000	0
1.2.1.Buildingmaintenance	12,000,000	11,000,000	0	0	0	1,000,000
1.2.2.Maintenace furniture	18,000,000	0	17,633,684	0	0	366,316
1.2.3.Maintenance buses	12,000,000	1,120,000	5,000,000	0	0	5,880,000
1.2.4.Electricity, telf. water	5,000,000	0	0	0	0	5,000,000
1.3 Teacher incentives	6,000,000	0	4,000,000	2,000,000	0	0
1.4. Inspections	20,000,000	16,000,000	2,000,000	0	0	2,000,000
1.5. Public Information campaigns	12,000,000	0	0	12,000,000	0	0
Capital Investments	180,500,000	0	5,500,000	57,500,000	0	17,500,000
2.1.New Schools	150,000,000	0	0	50,000,000	0	0
2.2. School buses	5,000,000	0	5,000,000	0	0	0
2.3. Materials	12,000,000	0	0	0	0	12,000,000
2.3.1 Furniture etc.	7,000,000	0	0	7,000,000	0	0
2.3.2 Textbooks	5,000,000	0	0	0	0	5,000,000
2.4. Refresher training teachers	500,000	0	0	500,000	0	0
2.5. School food program	1,000,000		500,000			500,000
Subtotal Education	400,500,000	133,120,000	44,133,684	71,500,000	20,000,000	31,746,316
Contingencies 1%	4,005,000	1,331,200	441,336	715,000	200,000	317,463
Total Education	404,505,000	134,451,200	44,575,020	71,715,000	20,200,000	32,063,779

Public Expenditures and Poverty

Who benefits most from public expenditures? Is spending progressive, "pro poor" ? Or is it sustaining administrative structures or vested interests? Are key sectoral programs (agriculture, infrastructure, education, health, pensions, etc) working to reduce poverty?

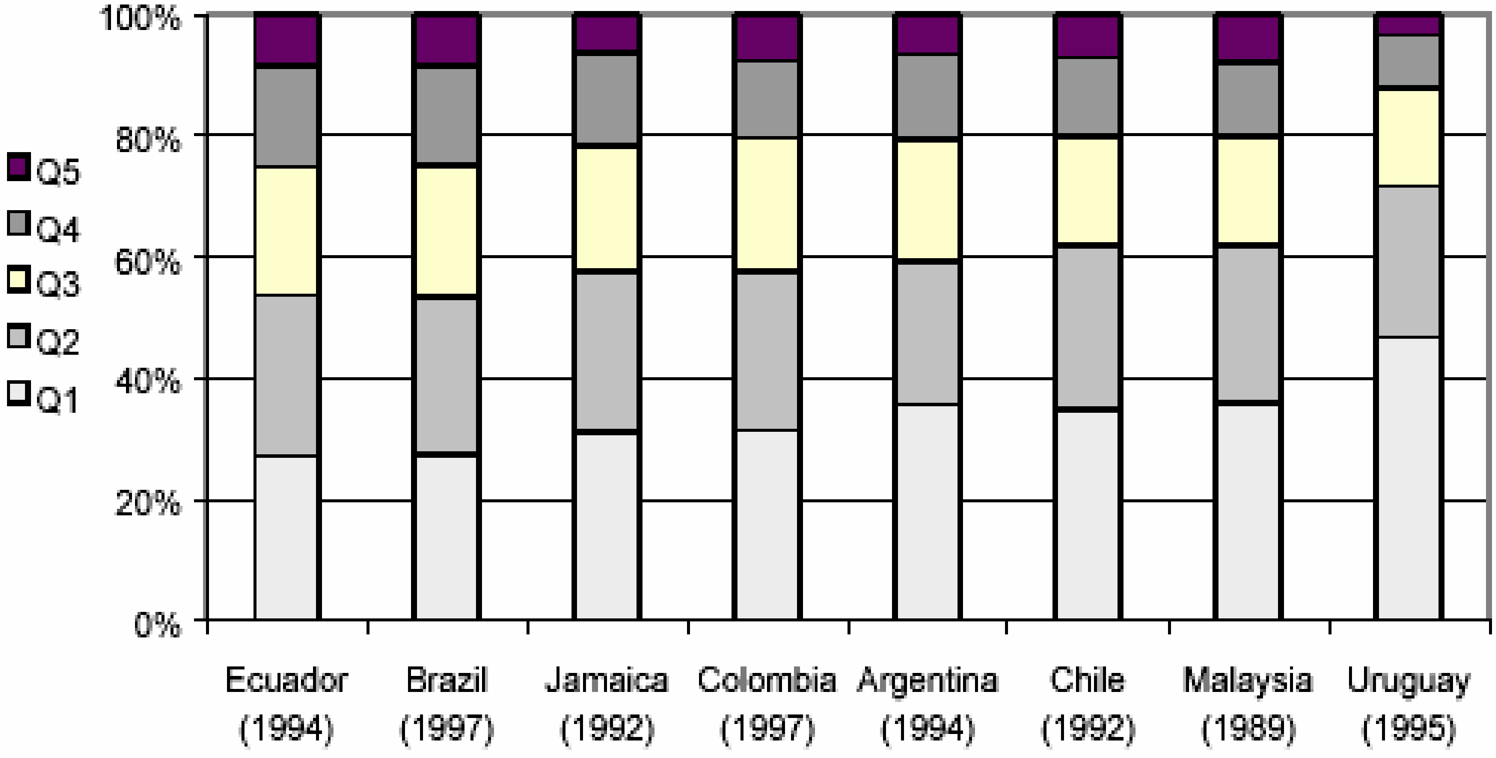
ALWAYS ASK WHO BENEFITS:

- **Who benefits? Who is not benefiting, is there a coverage gap? Why?**
- **How are budget decisions done? Are allocations in accordance with national objectives? Are they done transparently, resisting elite capture and rent-seeking?**

Main issues when evaluating a program:

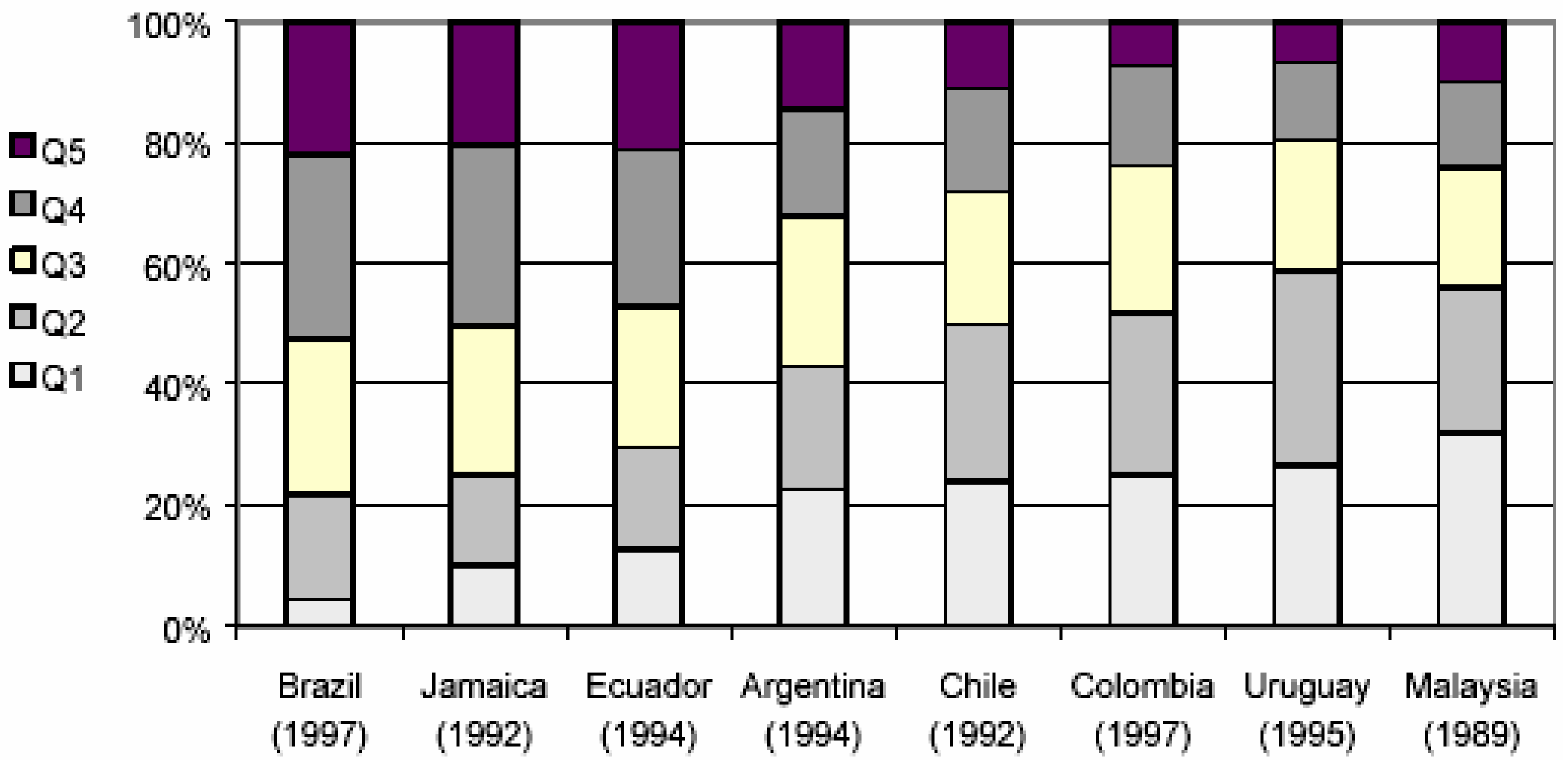
- **Coverage**
- **Adequacy of benefits/services**
- **Sustainability**
- **Efficiency**
- **Adequacy of institutional arrangements**
- **Incidence benefit analysis - *who receives how much*? The distribution of benefits**
  - **by socio-economic group (quintiles - 20% richest to 20% poorest)**
  - **by geographical area (X to Z region) etc**

Figure 5.1: Incidence of public expenditure on primary education by income quintiles



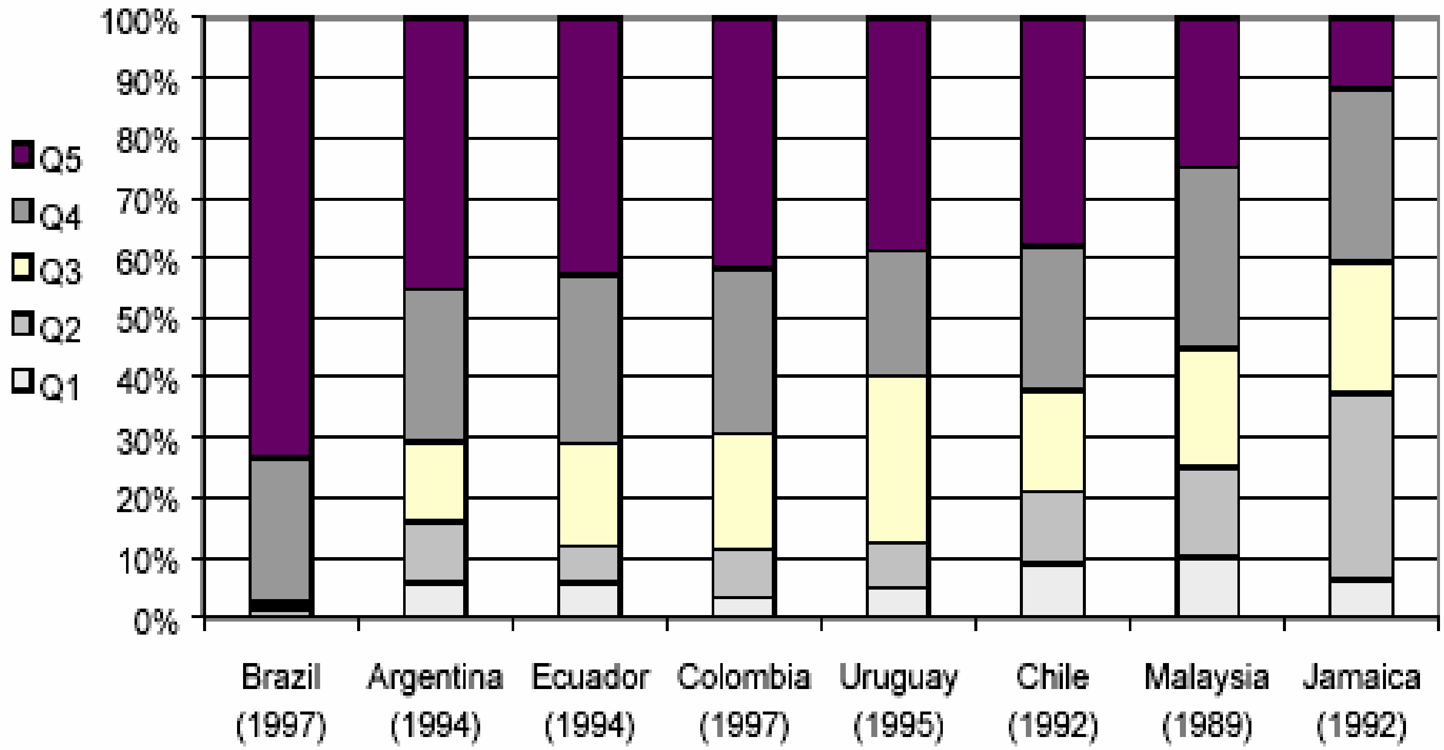
Source: Inter American Development Bank, 1999

Figure 5.2: Incidence of public expenditure on secondary education by income quintiles



Source: Inter American Development Bank, 1999

Figure 5.3: Incidence of public expenditure on tertiary education by income quintiles



Source: Inter American Development Bank, 1999

Similar public policy and incidence benefit analyses developed around the world for a variety of public sectors evidence that… (next slide)

Thematic Budgets: Example of Gender Budgets

- How much expenditures benefit a specific population group? (gender, youth…)
- Example of Gender – How much does a budget benefit woman?
- For this, need to estimate the distribution of expenditures between men and women
- Not easy to quantify – estimates

Indian State	Total expendi-ture in Crore Rupies	Total Social Expendi-tures	Expendi-tures for Women	Expenditures on women as % Total Expensitures	Expenditu-res on women as % Social ExpenDitu-res
West Bengal	29328.33	8787.61	5028.01	**17.1**	**57.0**
Gujarat	33466.70	14523.32	5828.39	**17.4**	**40.1**
Arunachal Pradesh	1324.59	330.02	104.05	**7.9**	**31.5**
Tripura	2724.97	1022.74	258.84	**9.5**	**25.3**
Bihar	15599.02	4632.09	1039.67	**6.7**	**22.4**
Himachal Pradesh	5558.31	1718.45	334.16	**6.0**	**19.5**
Tamil Nadu	28471.71	9789.09	1603.21	**5.6**	**16.4**
Madhya Pradesh	16794.59	5182.68	400.27	**2.4**	**7.8**
Kerala	14495.55	4861.36	175.93	**1.2**	**3.6**
Orissa	12768.74	3521.63	88.80	**0.7**	**2.5**

Sector Priorities for Equity and Poverty Reduction

Area	Typical interventions with EQUITABLE/PROGRESSIVE outcomes	Typical interventions with INEQUITABLE/REGRESSIVE outcomes
Culture	Multicultural activities, popular events that foster social cohesion	Subsidies to elitist events/ exclusive art
Education	Universal primary and secondary education; programmes to ensure access and retention of students	User fees in primary and secondary education
Energy and Mining	Rural electrification; life-line tariffs (subsidized basic consumption for low income households)	Large power plants, Untaxed oil/mineral extraction
Finance	Regional rural banks, microfinance; managing finance (current accounts, capital flight…)	Reform/rescue of banking system (transfers to large banks); subsidies to large private enterprises
Health	Universal primary and secondary health services, nutrition programmes	User fees, commercialization of health, tertiary highly specialized clinics (e.g. cardiology centres)
Housing	Subsidized housing finance, upgrading of substandard housing	Housing finance for upper income groups
Industry	Supporting competitive, employment-generating domestic industries, SMEs	Deregulation
Labour	Active and passive labour programmes	Labour flexibilization

Sector Priorities for Equity and Poverty Reduction

Area	Typical interventions with EQUITABLE/PROGRESSIVE outcomes	Typical interventions with INEQUITABLE/REGRESSIVE outcomes
Macro-economics	Employment-sensitive monetary and fiscal policies, countercyclical policies, direct taxation on income	Cyclical policies, indirect taxation (VAT)
Public Expenditures	Pro-poor expenditures	Military spending
Rural Development	Secure access to land, water, markets, livestock, credit for smallholders	Large investments such as irrigation systems that benefit landowners,
Social Protection	Non-contributory pensions, cash transfers, social services, etc.; almost all SPs are aimed at redistribution	Private pension systems
Tourism	Small-scale local companies	
Trade	Linking employment-generating local companies with export markets	Most bilateral free trade agreements
Transport and Infrastructure	Rural roads, affordable public transport, non-motorized transport for households (bicycles, buffalos, etc)	Airports, motorways (are necessary for development but the poor benefit less)
Urban Development	Slum upgrading, accessible universal design	Large urban infrastructure projects in wealthy areas
Water	Rural water supply and sanitation	Poorly negotiated privatizations

Speed Matters

- Most development programs tend to take a long time to show results (ie. education). When a government intends to develop equitable social policies, it may want to consider two different sets:
  - *Medium and long-term policies* include most important initiatives such as expanding coverage of education services, health and social security, improved labour standards, adequate wage and employment policies, etc
  - *Short-term high-impact initiatives*: A set of fast high impact initiatives can assist governments address basic needs among the neediest segments of the population. These programs may contain components such as:
    - free school meal programmes
    - nutrition, vitamin and micronutrient supplements for mothers and children,
    - upgrading programmes for substandard housing (water, sanitation, energy-efficiency, household repairs),
    - unconditional cash transfers such as social pensions for the elderly poor or persons with disabilities.

Examples of short-term high-impact programs: *Fome Zero* (Zero Hunger) in Brazil has been essential for rapid poverty reduction (Brazil is the only country in the world that has reduced inequality in recent years) at very low cost (*Fome Zero* costs only 0.2 % GDP; rural non-contributory pensions 1% GDP – compare with contributory pensions that do not benefit the poor and cost 7% GDP in Brazil). Other programs: *Hambre Urgente* (Argentina, 2003) and *Bolivia Urgente* (2006)

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Key elements of poverty-reducing National Development Strategies II

Empowerment and Social Mobilization

Participation: To ensure accountability of the government to its citizens.

All stages of policy making can be participatory:

- Identifying issues and priorities
- Drafting plans,
- Elaborating budgets
- Monitoring and evaluation.

Example: Participatory Budgeting

When people are asked => Budgets look very different

Participatory budgeting -- Process in which a wide range of stakeholders debate, analyze, prioritize and monitor decisions about public expenditures and investments

The case of Porto Alegre – Deindustrialized city in Brazil

***Workers Party* at the municipal government (1989-) started participatory budgeting.**

Highly successful model. From 1989 to 1996 (only 7 years!);

- No. homes with access to water supply increased from 80% to 98%

- No. homes with access to sanitation - 46% to 85%

- No. children going to school – 100% increase

80 cities in Brasil following model + left-leaning municipalities in Europe.

BUT: Participation is successful when people are empowered to make informed decisions. The success of participatory budgets appears to be due to the fact that local governments clearly showed the social consequences of public investments to the public.

Key elements of poverty-reducing National Development Strategies II

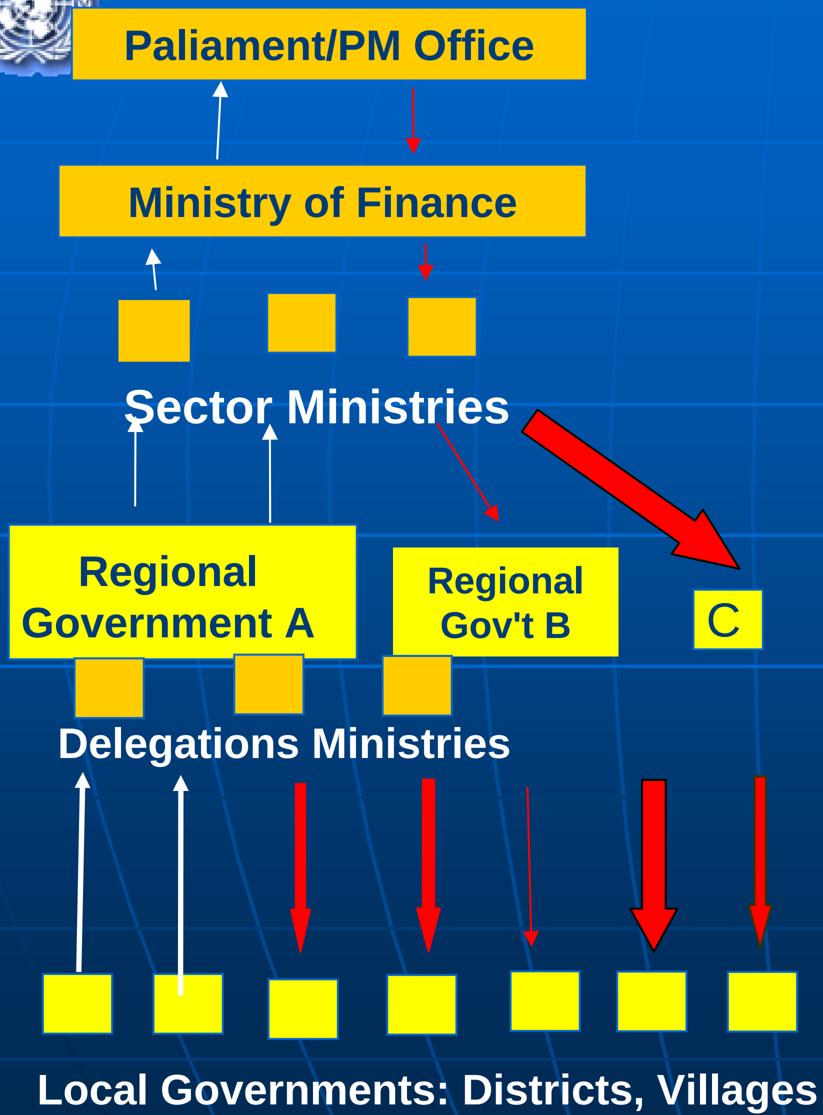
Empowerment and Social Mobilization

- *Organizing the poor and excluded groups to fight for their rights:* social development would not have happened in developed countries without the fight of unions and civil rights groups

- *Empowering people and promoting associations:*
  - Excluded people tend to internalize inferiority and repress their voice.
  - When people associate and share their problems, the result is often increased encouragement, capacity for self-advocacy, ability to organize, to create positive change for themselves and their communities.
  - Associations help communities to defend their interests, and can be linked to microfinance, cooperatives and other local development programmes.
  - As people's associations sometimes stand up against powerful local interest groups, it is necessary to protect them from extortion and intimidation.
- Empowerment and social mobilization are intrinsically linked to the broader agenda of good governance.

Key elements of poverty-reducing National Development Strategies II

Decentralization



- How to make expenditures reach the local level, populations? Poverty is fundamentally a rural phenomenon
- Equality in governance issues requires decentralized mechanisms, with attention to avoid local elite capture.
- Regional/equalization transfers => mechanism to reduce poverty
- To decentralize:
  - Local govemtments need capacity
  - Local governments accountable
  - National strategic priorities must be clear and fully shared
  - Clear division of responsibilities
  - Caution with bad decentralization!

Key elements of poverty-reducing National Development Strategies III

SOCIAL POLICIES: Labour, Education, Health, Social Protection

KEY ISSUES: UNIVERSAL VS. TARGETED POLICIES:

- If resources so limited, should a country focus on the poor? What about the middle classes?
- Washington Consensus defended a "residual approach":
  - Public services only for the poor
  - Main reforms focused on privatizing services for middle and upper classes
  - Cost recovery mechanisms included fees for services
  - It backfired politically, middle classes had to pay for both expensive services and for the poor
  - It increased poverty: the poor could not afford even basic fees
  - Public services became of bad quality.

⇒United Nations agencies defend UNIVERSAL services (= for all, including middle classes, as part of a country's social contract) combined with targeting to fast-track access of the poor.

- First priority of all social policies is EXPANDING COVERAGE
- No fees (or nominal) for basic services, but progressive fees for specialized services (ie. Universities, tertiary health care).

Key elements of poverty-reducing National Development Strategies III

SOCIAL POLICIES: Employment and Labour

- **Generating DECENT employment must be first priority of a National Development Strategy**
- **This requires a combination of adequate economic and labour policies**
- **It is not only about generating employment, many people work but cannot bring their families out of poverty, <u>adequate salary and working conditions essential</u> => Decent work agenda.**

Main labour policies:

Active labour market programmes

•Direct employment generation (promoting SMEs, cooperatives, wage subsidies, public works, guaranteed job schemes).
•Labour exchanges or employment services (job brokerage, counselling offices)
•Skills development programmes (training and retraining of labour to enhance employability and productivity).
•Special programmes for youth and persons with disabilities.

Passive Labour market policies

•Unemployment insurance, income support policies.
•Labour regulations and standards such as adequate wage policies (minimum salaries, wage indexation, equal pay for work of equal value), job security provisions (recruitment/dismissal of employees), working conditions (occupational health and safety minimum age, maximum working hours and overtime, leave provisions), special protection for mothers, and antidiscrimination provisions to protect women and minorities.

Social Dialogue – Collective Bargaining

Key elements of poverty-reducing National Development Strategies III

Employment and Labour: Issues about Labour Flexibility

- In 1965, CEOs were paid 51 times as much as a minimum wage earner in the United States; in 2005, this had risen to about 821 times
- In most developing countries, particularly in Africa, the number of "working poor" has increased; labour reforms led to increased informalization of the labour force, predominantly in Latin America, Easter Europe and the former Soviet Union.
- Increased precariousness of work not only had negative impacts on people selling their labour, it also reduced national tax bases and induced migration.
- Growth does not necessarily generate employment => It does in China, but in most countries the experience has been *"Jobless Growth"*

- Washington Consensus fostered labour market reforms, as an investment incentive.
- However, labour flexibility not accompanied by increased employment in economies where the demand for labour is low, a situation common to most countries. Instead, it led to increased inequalities
- The strong welfare states of northern Europe (Denmark, Netherlands, Norway and Sweden), with employment rates as high as the United States and the United Kingdom, demonstrate that employment is fully compatible with "rigid" labour markets, high social protection and collective bargaining.

⇒ **Employment is not related to labour market flexibility, but to economic policies that are effectively coordinated with adequate social policies.**

Key elements of poverty-reducing National Development Strategies III

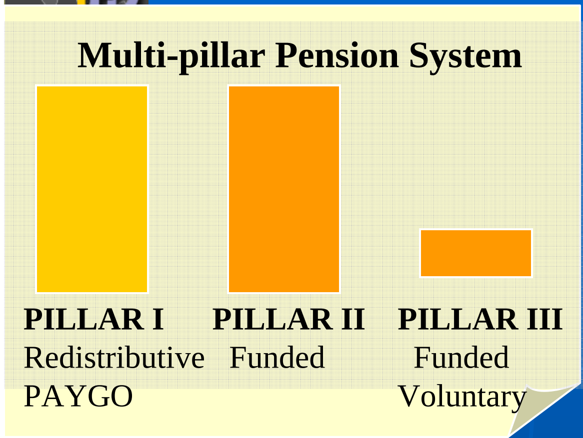
SOCIAL POLICIES: Social Protection

Social protection programmes include:

- *Social insurance* (old-age pensions, disability, etc)
- *Social assistance* (programs for vulnerable groups like streetchildren, battered women, etc).
- *Schemes to assist communities and the informal sector* include agricultural insurance, food security programmes, social funds, disaster prevention and management.

- Because of the strong redistributive character of most social protection policies, they were not favoured by conventional approaches during the 1980s-90s (except pension reform projects). In extreme cases like Bolivia, the Ministry of Social Security was closed down.
- In the 1980s-90s, Washington consensus pushed for pension reform, moving away from PAYGO public systems towards funded systems (privately managed, invested in capital markets) (next slide)
- Given the urgency to eradicate poverty, social protection, in particular social transfers, are currently at the forefront of the social development agenda.

SOCIAL POLICIES: Social Protection

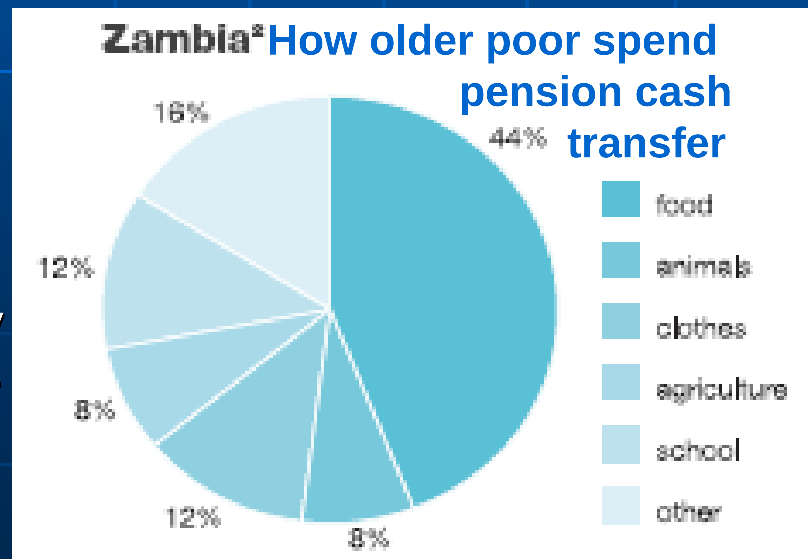


Funded pension systems (private pillars II-III)

- Do not serve the poor or low income groups; pension coverage did not expand.
- Are expensive (transition costs) – ie. In Brazil, 7.3% GDP, as compared to 1% of GDP public rural pensions for the poor
- Administrative costs of pension funds are very high, making returns on investments lower.
- Financial risk left to pensioners; the state has to bail out companies and provide safety nets in case of crisis.
- By investing savings in capital markets, loss of resources to governments

Social Pensions (public, pillar I):

- Have high impact on poverty reduction (ILO: 35% to 40% reduction)
- Older people spend their pensions supporting household, important for food security
- Ideal to expand coverage
- Monetizes rural economies
- Countries like Brazil, Argentina, South Africa, Namibia, Zambia, have introduced non-contributory pension schemes as an instrument to fight poverty.
- Increased donor support, relatively easy to implement through budgetary support



Making choices: Is it affordable?

- Often expenditures for poverty reduction and social development are declined "cannot be afforded" because of:
  - a loss in potential investment/GDP due to a supposed equity/ efficiency trade-off, and
  - the assumption that large social needs will create unmanageable fiscal deficits

Counterarguments:

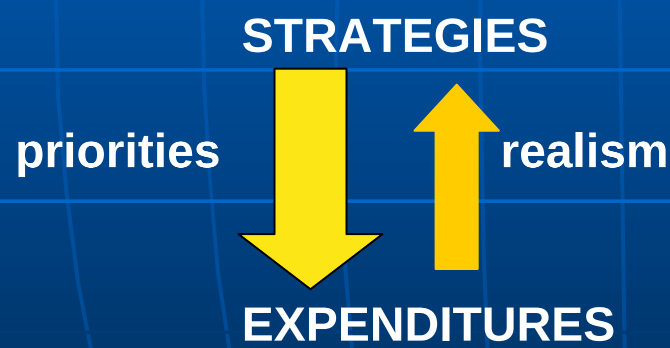
- Social development is also an important investment. Investing in people enhances their productivity and thus growth; raising the incomes of the poor encourages domestic demand = growth.
- A significant proportion of national budgets is spent on non-productive activities, such as the military, or activities with very low returns; social investments do not need to displace highly productive economic investments.
- Ultimately, affordability depends on a society's willingness to finance social policies through taxes and contributions. Affordability is at the core of the social contract between governments and citizens: how much a society is willing to redistribute, and how.
- Countries at the same level of economic development differ significantly in their social spending – OECD countries spend between 15 and 35 per cent of their GDP on health, education and social protection alone (compare to 4% in S. Asia)

Public Expenditure Reviews (PER) and Medium Term Expenditure Frameworks (MTEF)

How are decisions on budget allocations taken? **The more untransparent, the more margin for nepotism and rent seeking...**

TWO MAIN INSTRUMENTS TO BRING TRANSPARENCY:

- **PUBLIC EXPENDITURE REVIEWS – Desk studies, should include distributional impacts (earlier slides)**
- **MTEF is an medium-term instrument (3 to 5 years) that combines strategic priorities with budgets in a decision-making process**



- **MTEFs should ensure that poverty reducing priorities are effectively translated into multi-annual budgets and thus public expenditures are progressive/pro-poor.**
- **Most OECD countries use MTEFs; developing countries starting**

MTEF Process

National Development Strategy

Routine Vaccination - Dept x	NEEDS	MoH	Donor 1	Donor 2	Population	GAP
Recurrent expenditures	254 000 000	133 653 000	53 633 684	17 400 000	20 000 000	29 313 316
1.1.1 Wages	100 000 000	100 000 000	0	0	0	0
1.2.1 Drugs	35 000 000	5 000 000	10 000 000	0	20 000 000	0
1.2.2 Vaccines	6 000 000	0	4 000 000	2 000 000	0	0
1.2.4 Other medical supplies	10 000 000	0	0	0	0	10 000 000
1.3.1. Non medical supplies	5 000 000	0	0	0	0	5 000 000
1.4.1. Maintenance of buildings	12 000 000	11 000 000	0	0	0	1 000 000
1.4.2. Maintenance of equipment	18 000 000	0	17 633 684	0	0	366 316
1.4.3. Maintenance of cold chain	4 000 000	533 000	0	3 400 000	0	67 000
1.4.4. Maintenance of vehicles	12 000 000	1 120 000	5 000 000	0	0	5 880 000
1.5.1. Tel. / Fax / Electricity / Water	5 000 000	0	0	0	0	5 000 000
1.6.2. Supervision / monitoring	20 000 000	16 000 000	2 000 000	0	0	2 000 000
1.6.3. HIS	15 000 000	0	15 000 000	0	0	0
1.6.4. IEC / Social mobilization	12 000 000	0	0	12 000 000	0	0
Investment expenditures	116 000 000	0	25 000 000	74 000 000	0	17 000 000
2.1.1 buildings	50 000 000	0	0	50 000 000	0	0
2.2.1 Vehicles	25 000 000	0	25 000 000	0	0	0
2.3.1 Medical equipment	12 000 000	0	0	0	0	12 000 000
2.3.2 Cold Chain	7 000 000	0	0	7 000 000	0	0
2.3.3 Non medical equipment	5 000 000	0	0	0	0	5 000 000
2.4.1 Training	17 000 000	0	0	17 000 000	0	0
Total FCFA	370 000 000	133 653 000	78 633 684	91 400 000	20 000 000	46 313 316

Ministry of Finance consolidates all sectors

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Budget Year 1

Budget Y2

Budget Y3

Sector Ministry

Approval by Parliament/Authority

if consistent with national strategic priorities

The international aspects of poverty (I)

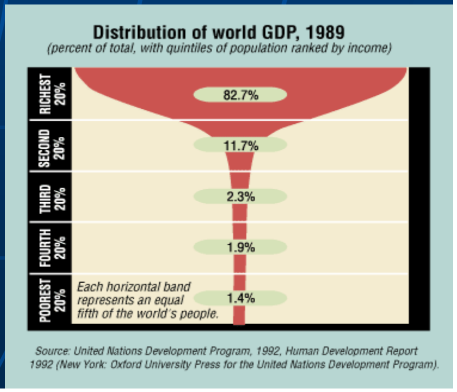
The international aspects of poverty are missing from significant part of literature. Alternative proposals tend to focus on the need to:

1. *Manage international finance:* Continual shocks and instabilities in today's financial markets => "global casino". They are a result of deregulating finance in the 1980s-90s (eliminating controls, opening current accounts). Need to regulate finance back through a new financial architecture that:

- **supports development and macroeconomic stability**
- **fights short-term speculative capital flows,**
- **fights tax evasion and money laundering**

2. *Condone developing countries debt* – agreed in September 2005 (evolution to watch out + need to avoid new irresponsible indebtment)

3. *Increase North-South Transfers* : A "Marshall Plan for the South", increased aid - See presentation on Development Aid



The international aspects of poverty (II)

4. *Reform international trade*, abandoning the present model based on supposedly free, no discriminatory competition among countries.

- The model is a fallacy given that the EU, US and Japanese subsidize their own producers, including the agricultural sector - agriculture is one of the few economic activities that poor countries can develop to reduce poverty
- Instead, in the name of "efficiency" and "free markets", developing countries are told to open-up and liberalize their economies => domestic producers cannot compete with the subsidized, higher quality products from developed countries and close down, generating further unemployment and poverty
- Commodity prices keep falling while manufacturing prices rising: Developing countries need more than agriculture
- To reduce poverty, current trade policies should be replaced for a system of "fair" trade discriminating in favor of the poorer regions, ensuring that developing countries are given a role in the world economy, and assisting local producers to export.