

Poverty Reduction: Theories, Facts, Remedies

Overview

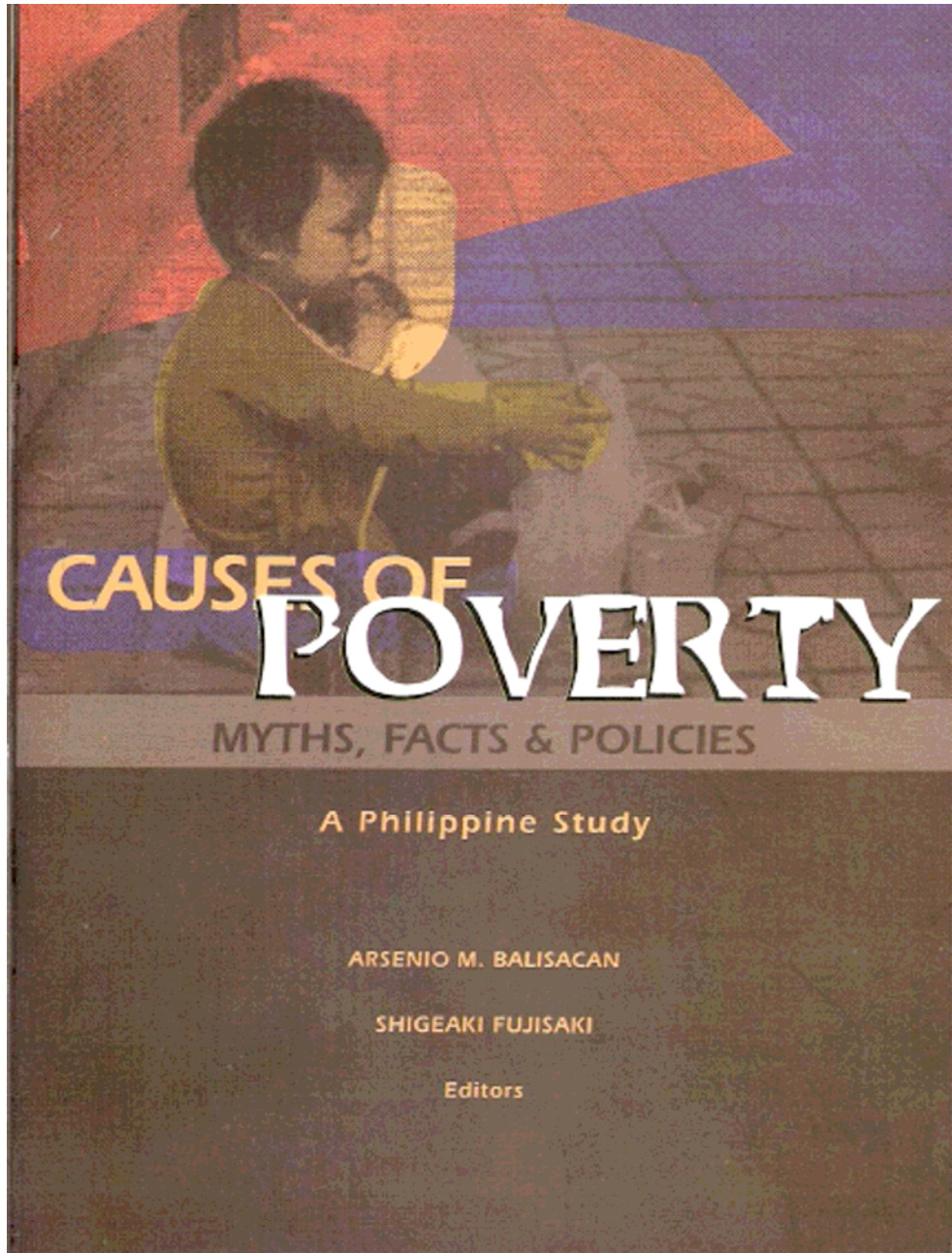
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Amidst and Beyond the Global Economic Crisis,
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The Beginning...



First published in
1999

The “New” Research Team

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Globalization	Raul V. Fabella
Microfinance	Emmanuel F. Esguerra

“Inconvenient Truth”

Absolute poverty

- ⊕ Widespread
- ⊕ Increasing in recent years
- ⊕ Threatening to rip the social fabric

Proposals

- ✦ “It’s the economy, stupid”
- ✦ Not growth but redistribution of wealth & opportunities
- ✦ Growth plus
 - “Pro-poor growth”
 - “Inclusive growth”

The Paper

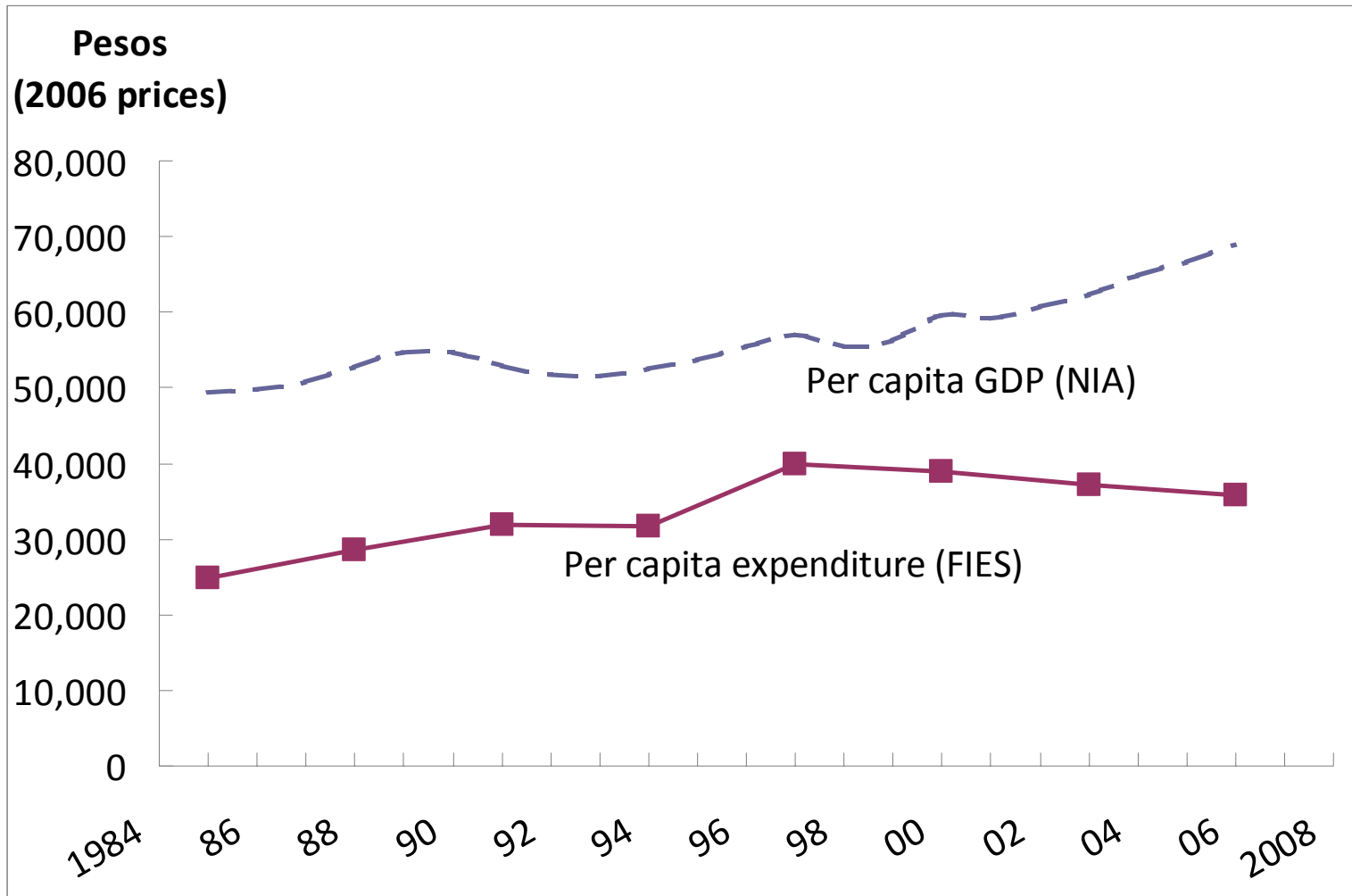
- ⊕ Introduction
- ⊕ What do we know about poverty, and where do we stand?
- ⊕ The poverty-growth nexus
- ⊕ Making poverty reduction more responsive to growth
- ⊕ The other neglected problem
- ⊕ Concluding remarks

Where do we stand?

What do we know about poverty?

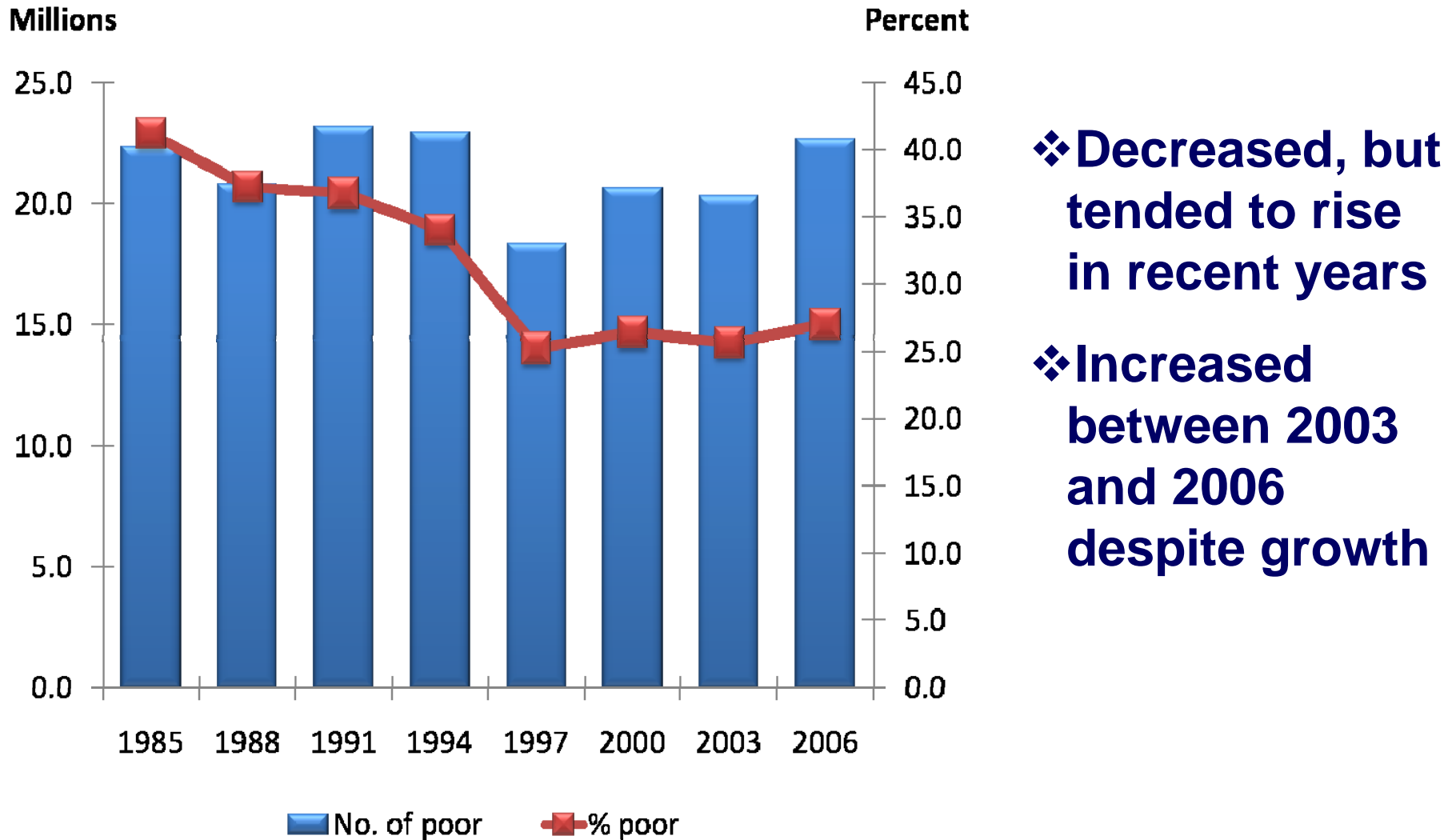
- ⊕ Comparability problems in official poverty statistics
- ⊕ Quality of economic & household data

National Income Accounts (NIA) vs Household Survey Data (FIES)



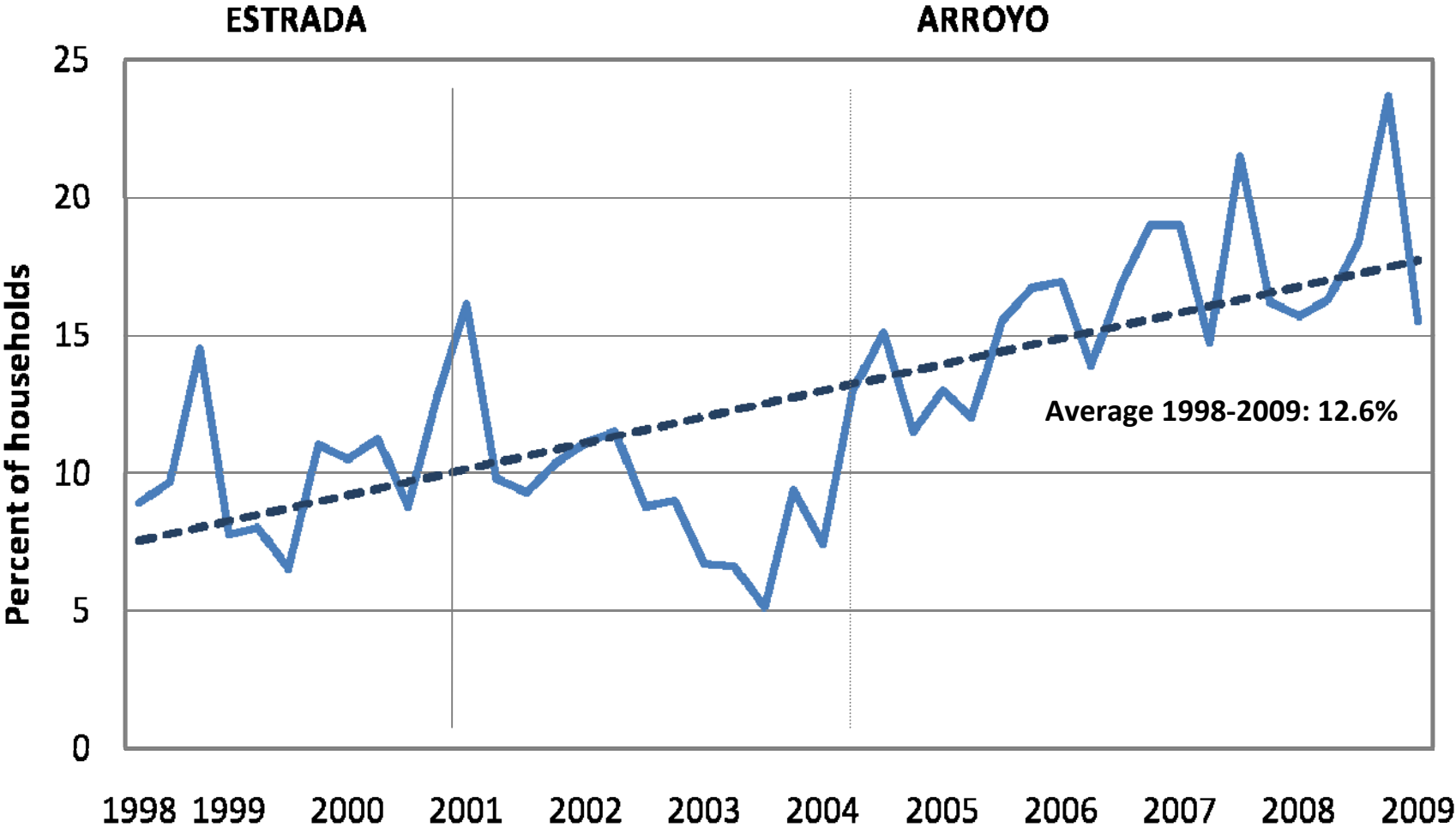
Sources: National Statistical Coordination Board; Family Income and Expenditures Survey, various years.

Poverty trend (Our estimates)



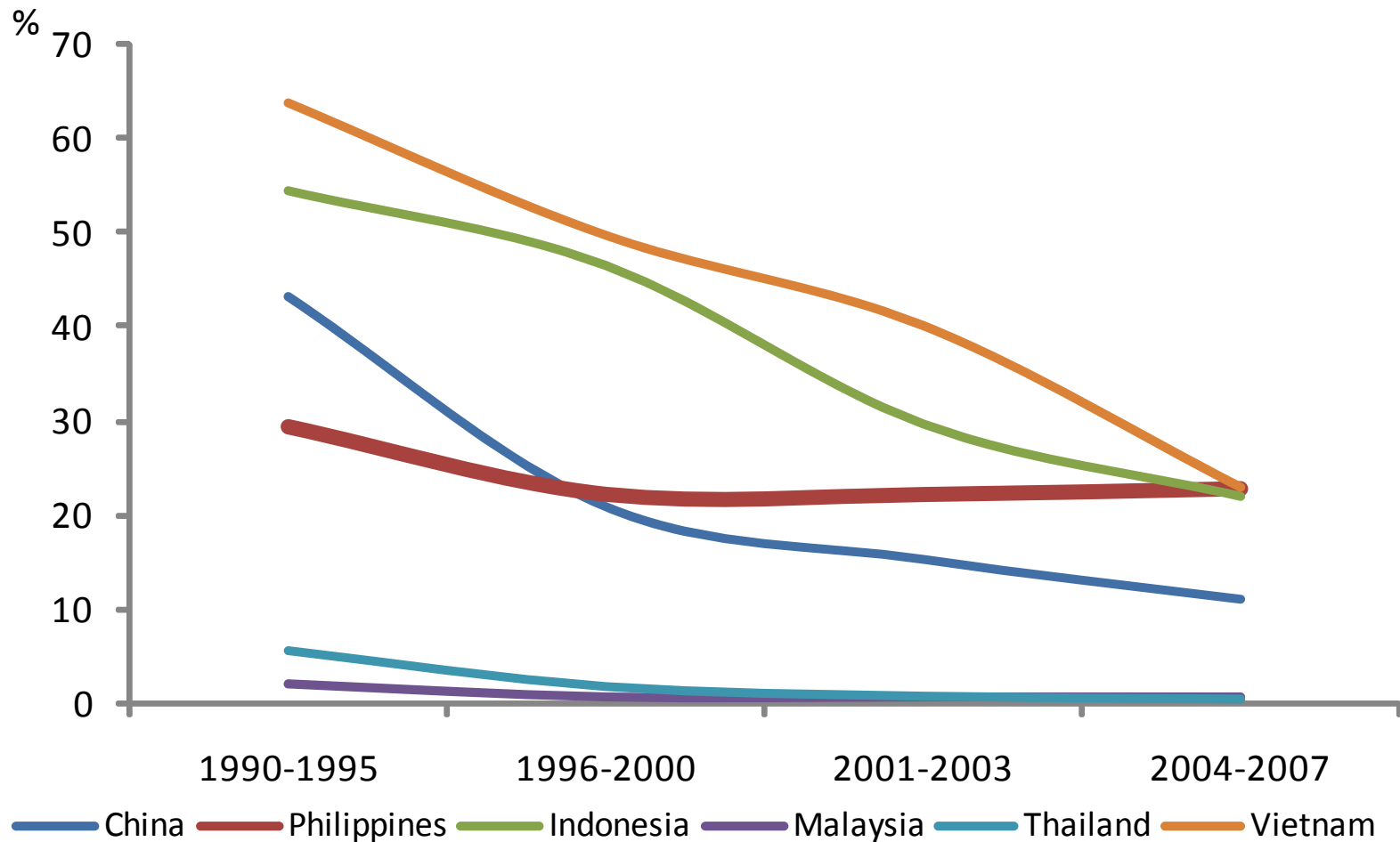
Source: Author's estimates based on the *Family Income and Expenditures Survey*, various years.

Percent of households experiencing hunger July 1998 – February 2009



Source: Social Weather Stations

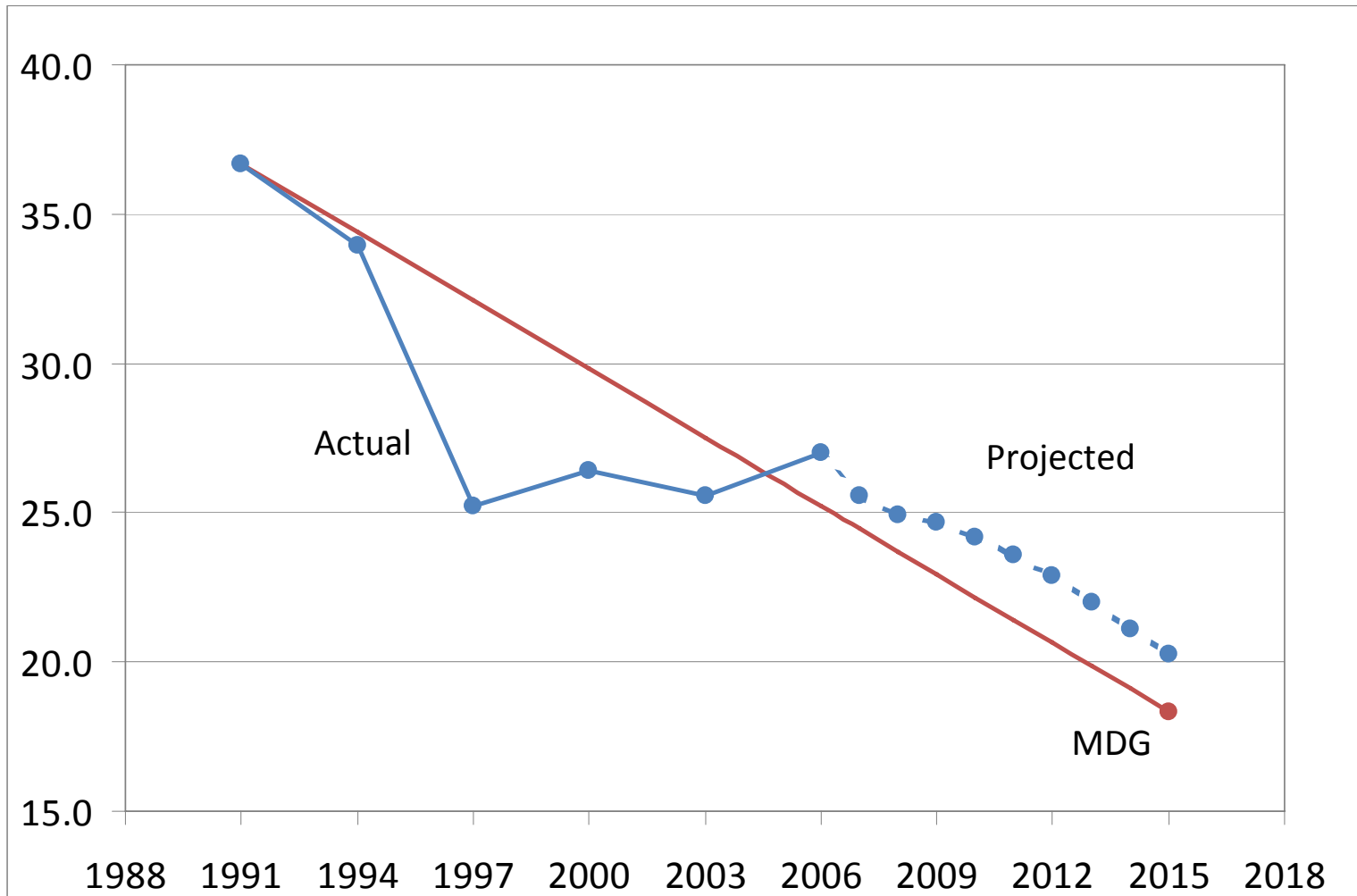
Poverty reduction has been fast in East Asia, but not so in the Philippines...



Notes: Estimates refer to the proportion of population with income per capita below US\$1.25 a day (in PPP). Figures for Indonesia are approximation from urban/rural estimates.

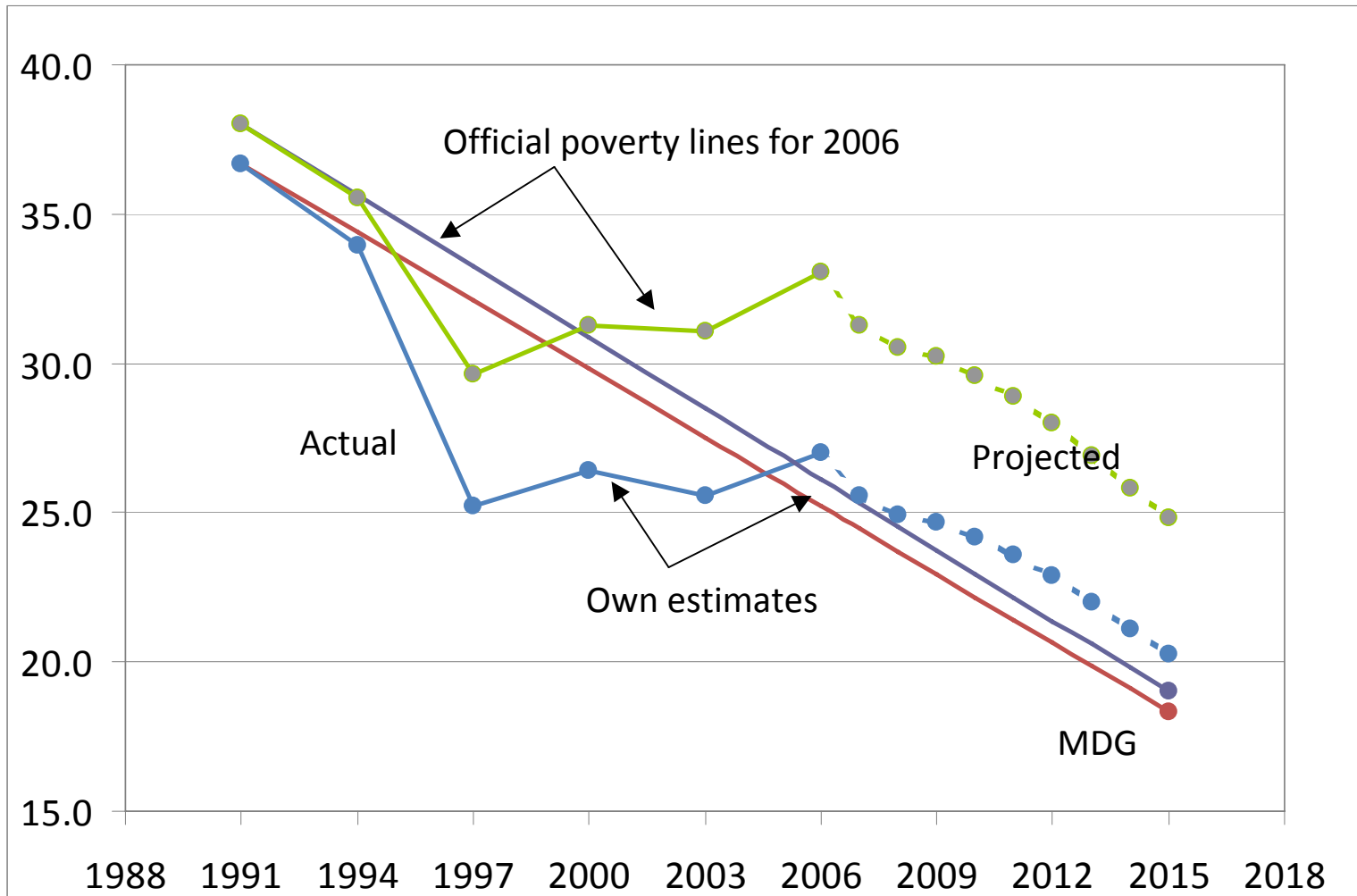
Sources: PovcalNet – World Bank; Chen and Ravallion (2008) for China estimates; Badan Pusat Statistik for urban and rural population ratios.

Progress in poverty reduction—MDG, achievements, and projections to 2015



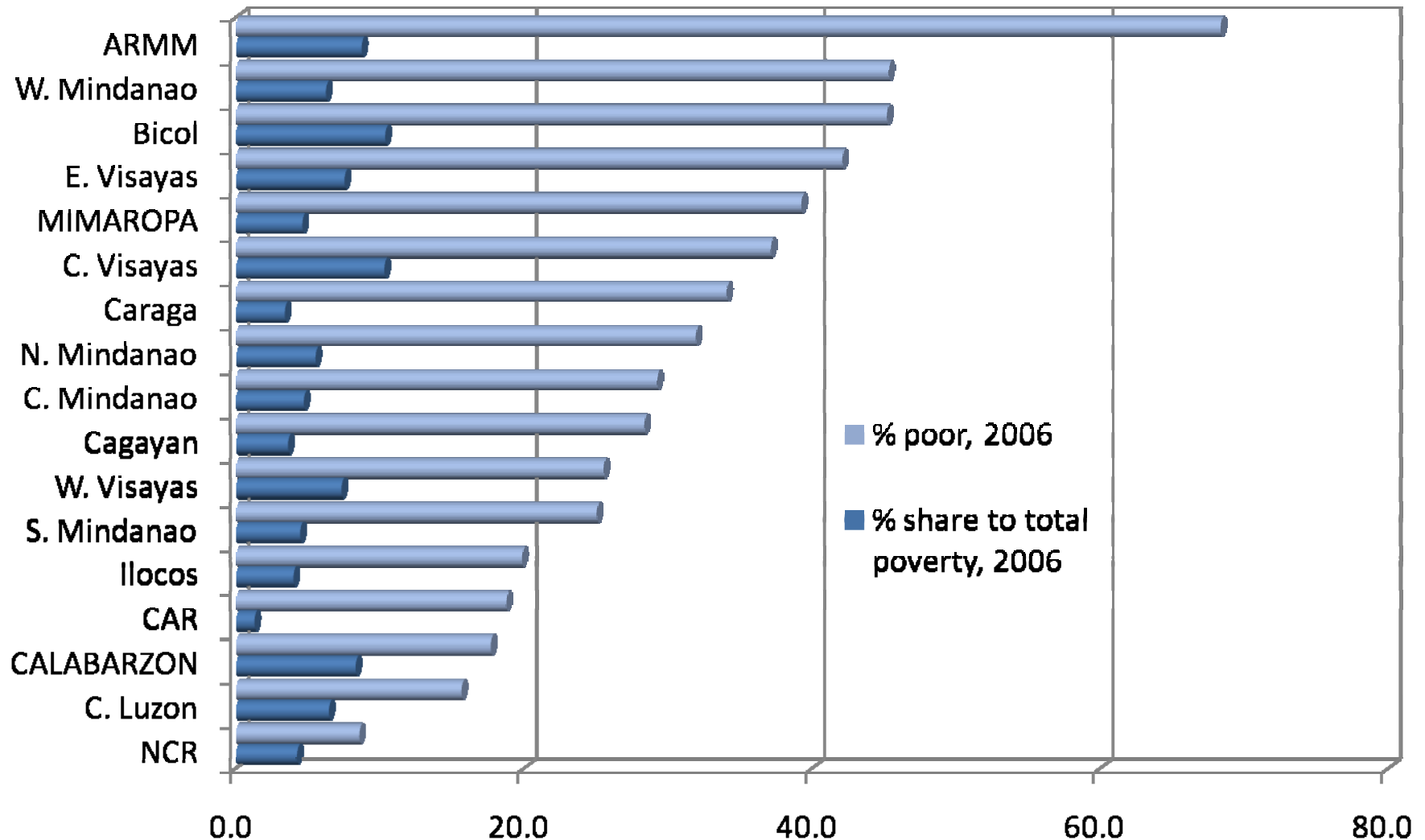
Source: Author's estimates

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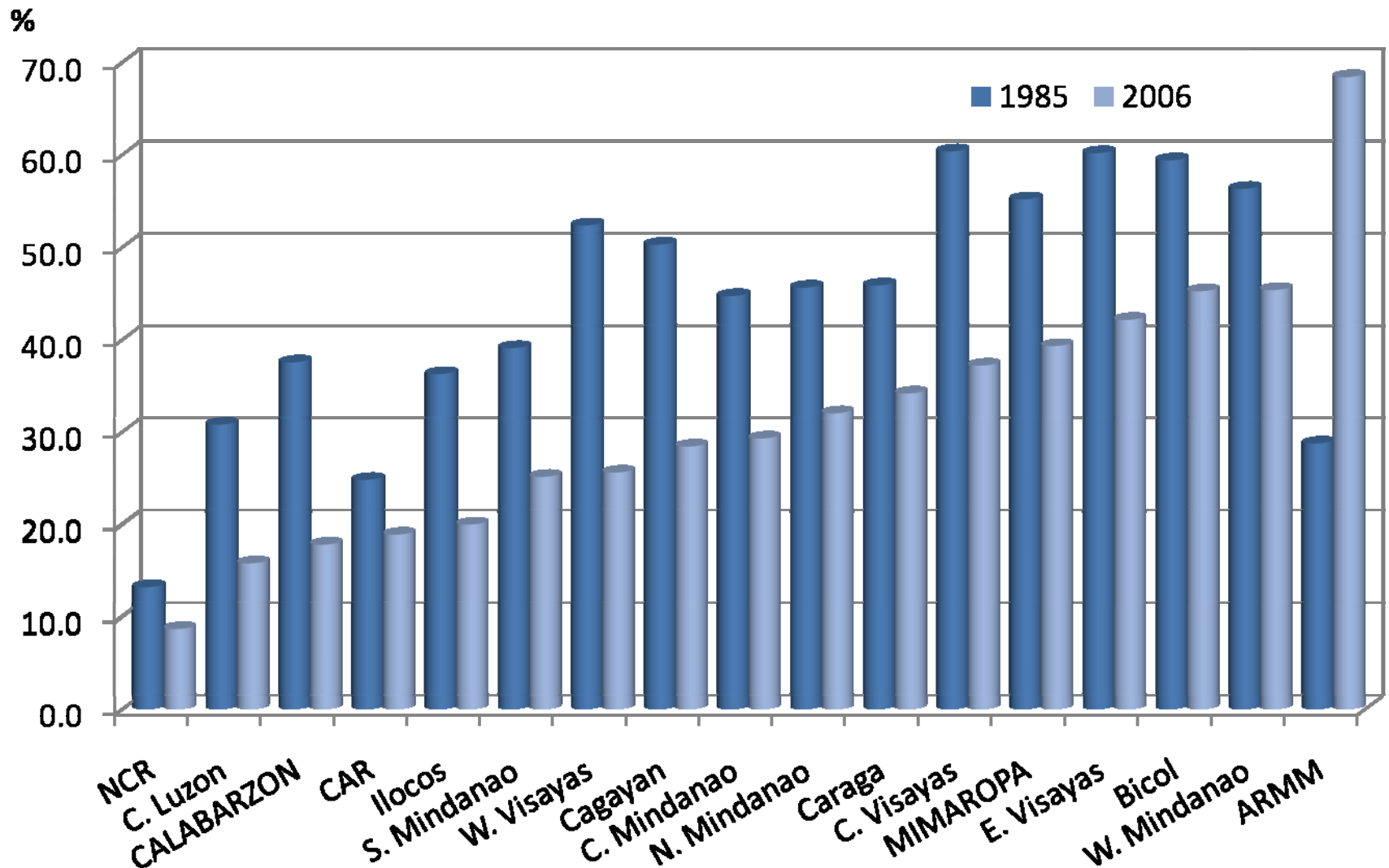
Source: Author's estimates

Remarkably high regional diversity in the extent of poverty...



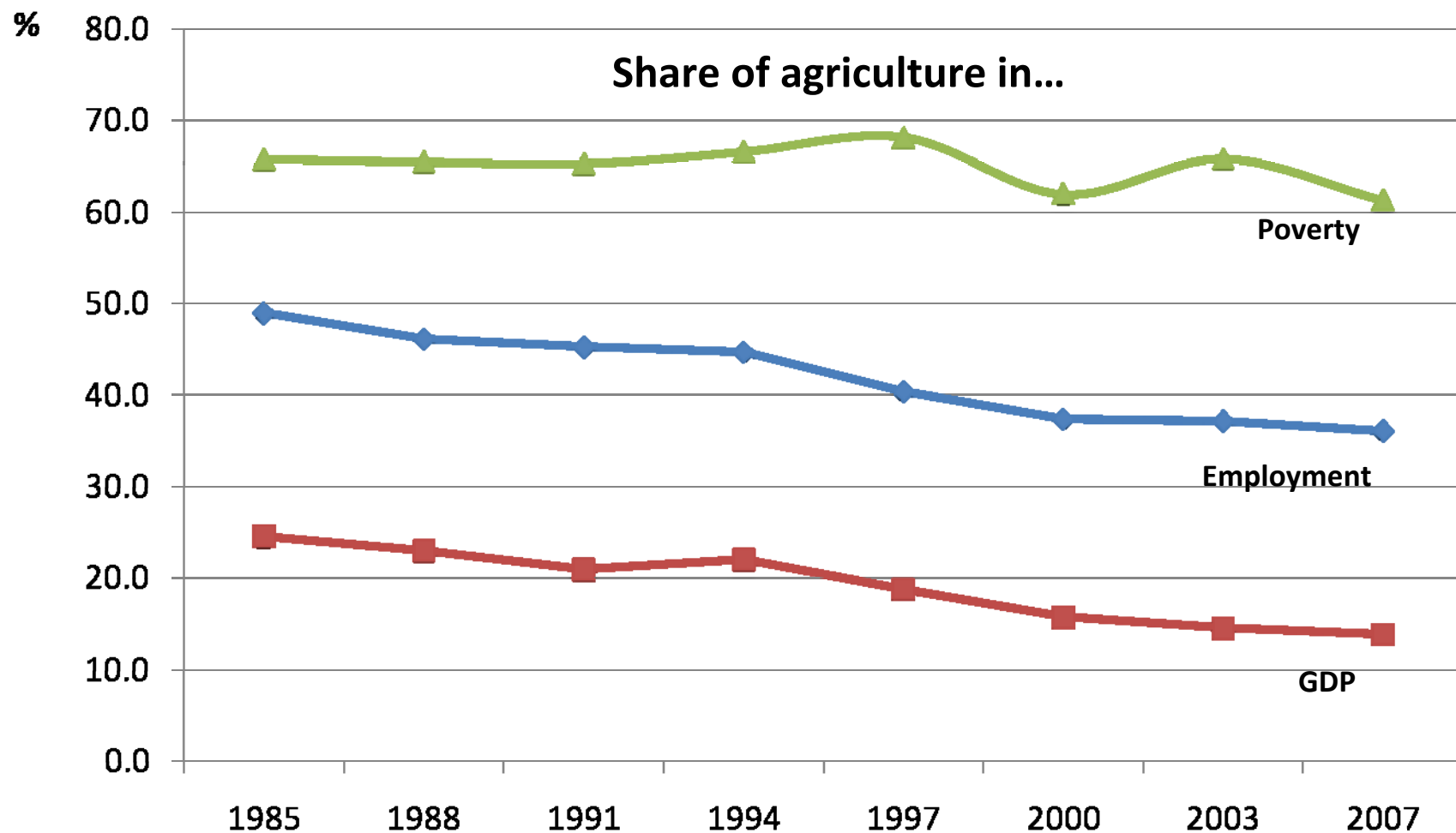
Note: Provinces were grouped consistently to their 2000 regional classification. Estimates use spatially consistent cost-of-basic-needs poverty lines (see Balisacan 2006).

Also highly uneven progress in poverty reduction across regions...



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Declining importance of agriculture in the national economy... ... but agriculture continues to contribute the bulk of total poverty



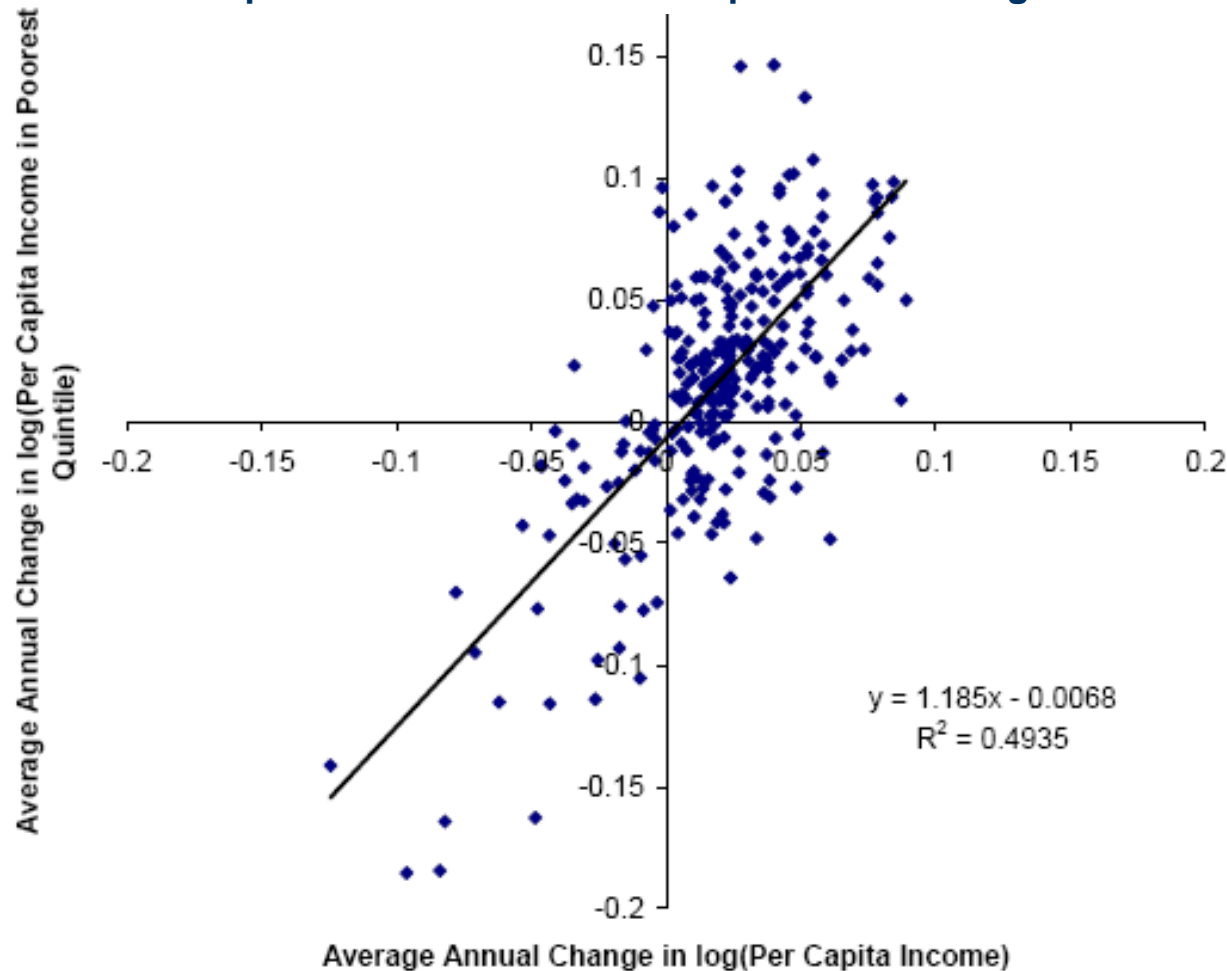
Source: Author's estimates based on FIES, various years.

The Poverty-Growth Nexus

Economic growth is fundamental to poverty reduction.

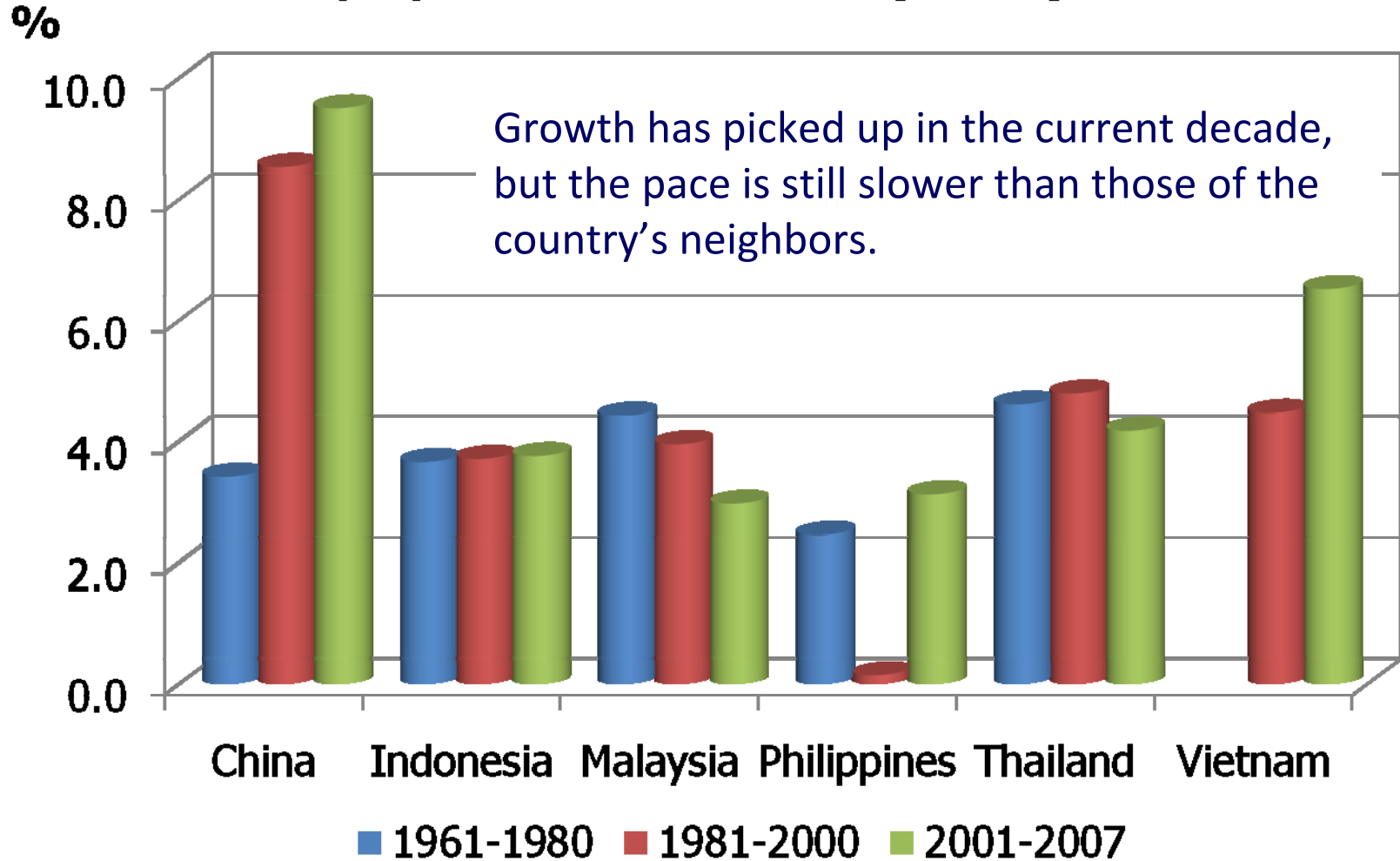
Cross-country evidence

Response of the income of the poor to income growth



Economic growth is fundamental to poverty reduction.

Average growth rate of real per capita GDP

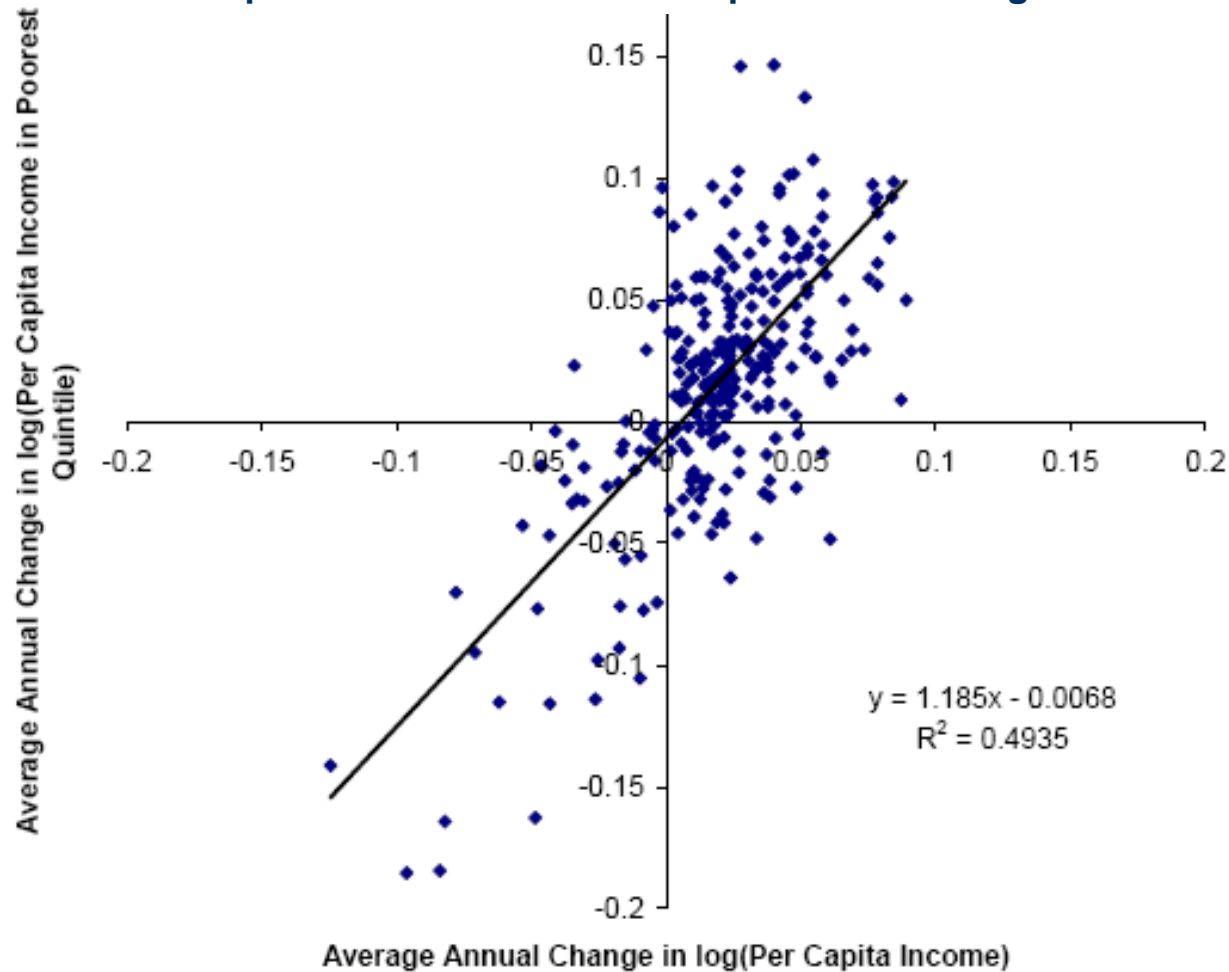


Source: World Development Indicators, World Bank

But growth is not enough...

Cross-country evidence

Response of the income of the poor to income growth



Weak response of poverty to growth in RP...

Country	Estimate	Source
<u>A. Percent change in poverty incidence arising from 1% change in mean income</u>		
Philippines (1988-1997)	-1.6	Balisacan and Fuwa (2004)
Philippines (1988-2003)	-1.3	Balisacan (2007)
East Asia (1990-2006)	-2.1	World Bank (2009)
<i>Indonesia</i>	-2.3	
<i>Philippines</i>	-1.6	
<i>Thailand</i>	-4.9	
<i>Vietnam</i>	-1.6	
47 Developing countries	-2.5	Ravallion (2001)
Philippines	-1.6	Balisacan and Fuwa (2004)
<u>B. Percent change in the income of the poorest quintile with respect to 1% change in mean income</u>		
Indonesia	0.7	Balisacan, Pernia and Asra (2003)
Vietnam	1.3	Balisacan, Pernia, and Estrada (2003)
Philippines	0.5	Balisacan and Pernia (2003)

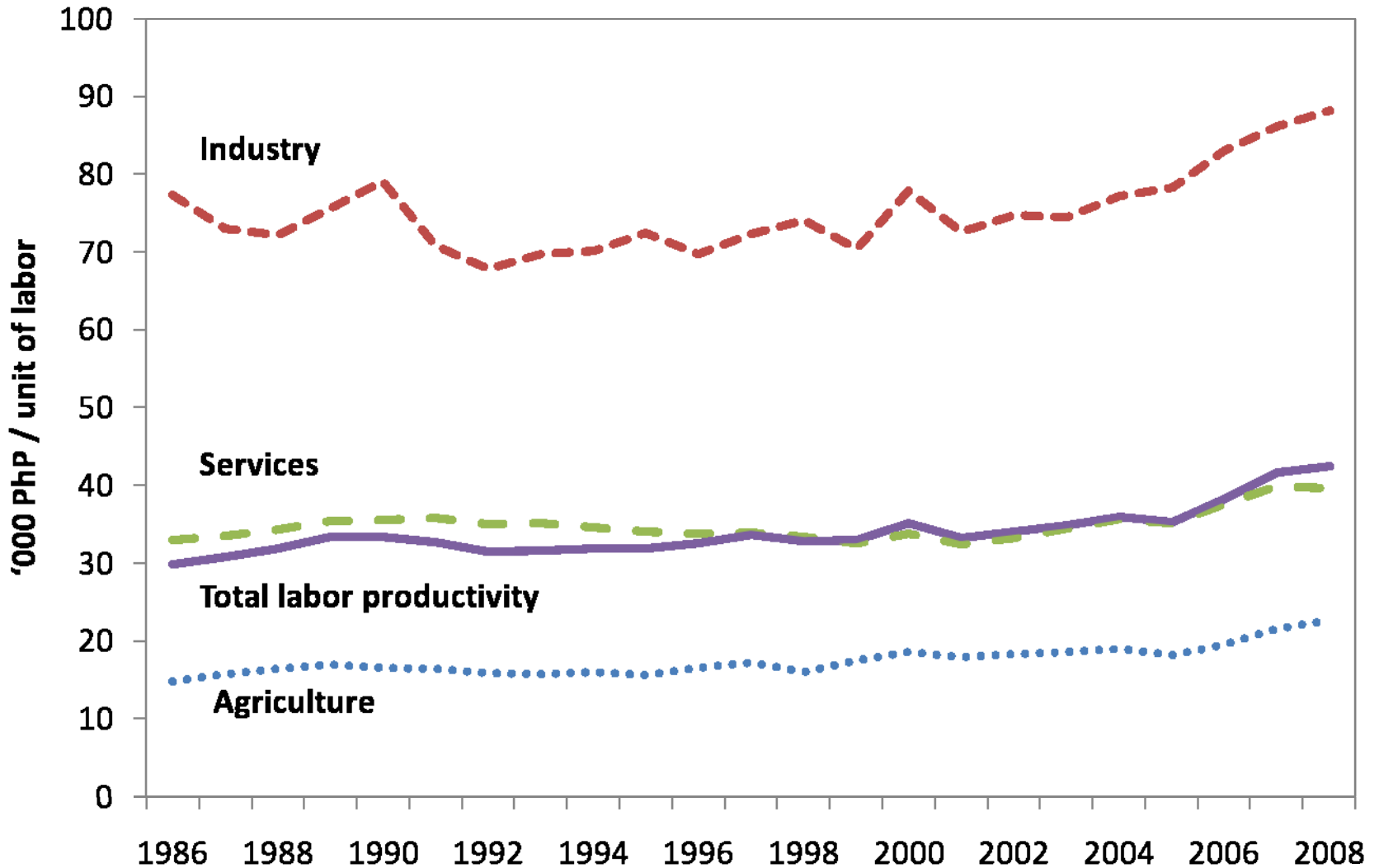
**Making poverty reduction
more responsive to growth**

What does it take to sharpen the response of poverty to growth?

Focus on

- ⊕ Creating productive employment opportunities
 - ✓ Infrastructure development is key
- ⊕ Facilitating diversification of economic activities—
pathways out of rural poverty
 - ✓ Infrastructure development is key
- ⊕ Raising productivity in agriculture
 - ✓ R&D and access to credit are key
- ⊕ Expanding ACCESS of the poor to productive assets and social services, particularly education, health, and family planning services
- ⊕ Seizing opportunities from globalization

Sluggish growth in labor productivity, low quality of employment



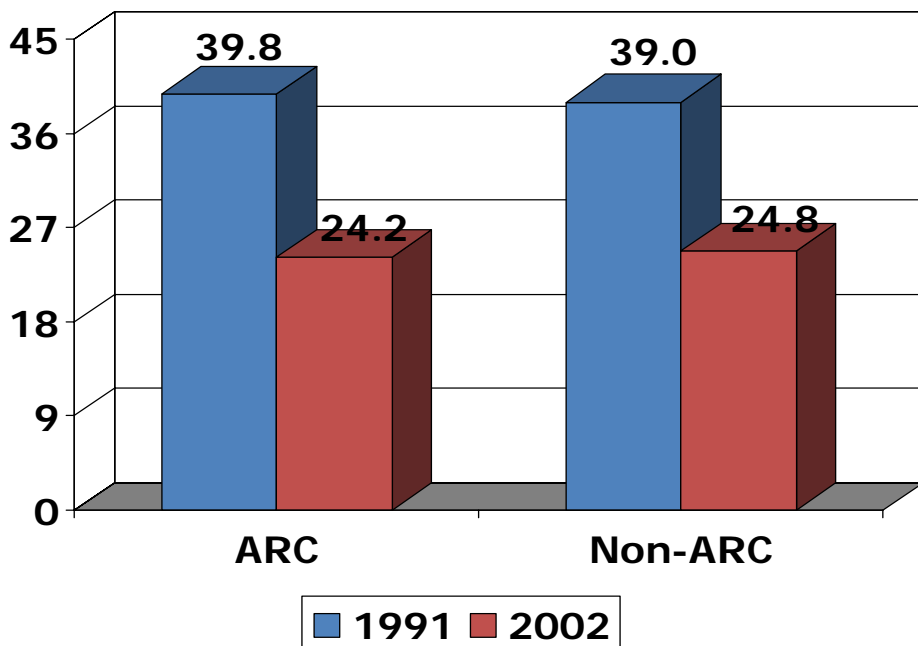
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CARP has stifled the flow of credit to agriculture, contributing to its minimal impact on rural poverty

Impact of CARP on rural poverty

Poverty incidence (% deemed poor)



- ✦ Research findings: Better access to credit for farm households holding individual land titles
- ✦ Preferential mode of implementation is issuance of collective, not individual titles.
- ✦ Severe restrictions on transferability of awarded titles.
- ✦ Result: At the national level, little impact of CARP on rural income and poverty

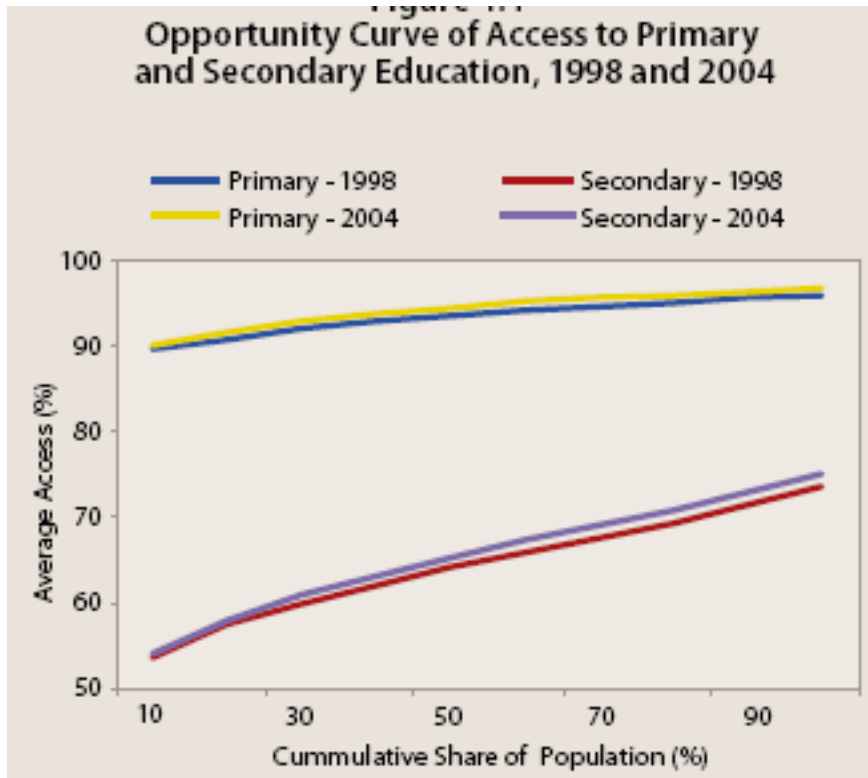
Sources: Balisacan et al., *Comprehensive Agrarian Reform Program Impact Assessment: Study on the Impact of CARP on Poverty Reduction and Prospects for Long-Term Growth*. Asia-Pacific Policy Center, Quezon City, 2007.

World Bank, *Land Reform, Rural Development and Poverty in the Philippines: Revisiting the Agenda*. Draft, 2009.

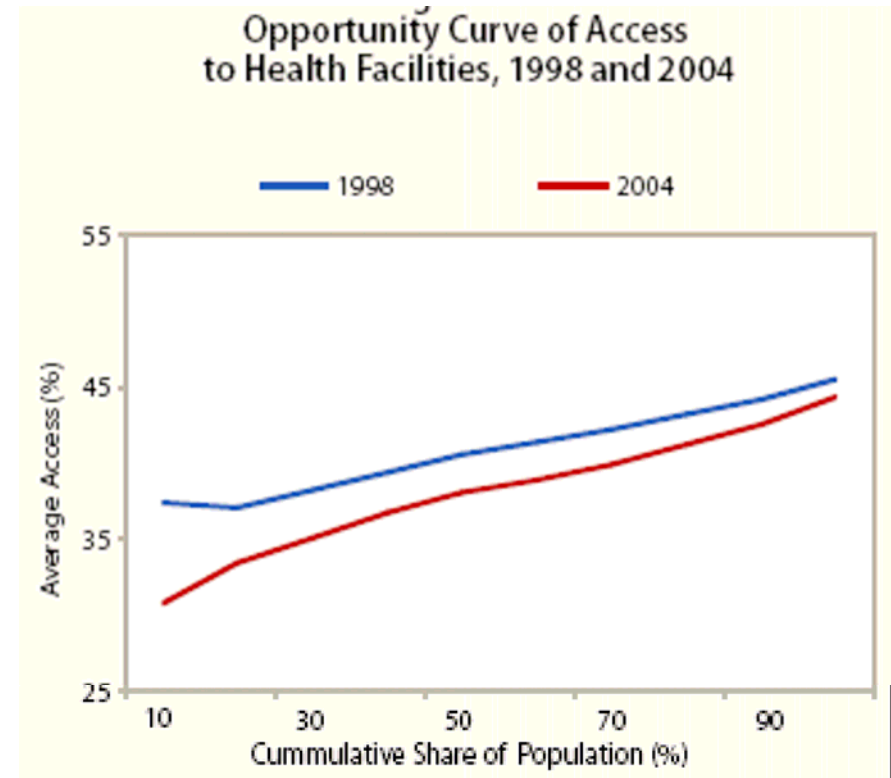
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Access to opportunities in health & education is inequitably distributed



(a) Primary & secondary education



(b) Basic health facilities

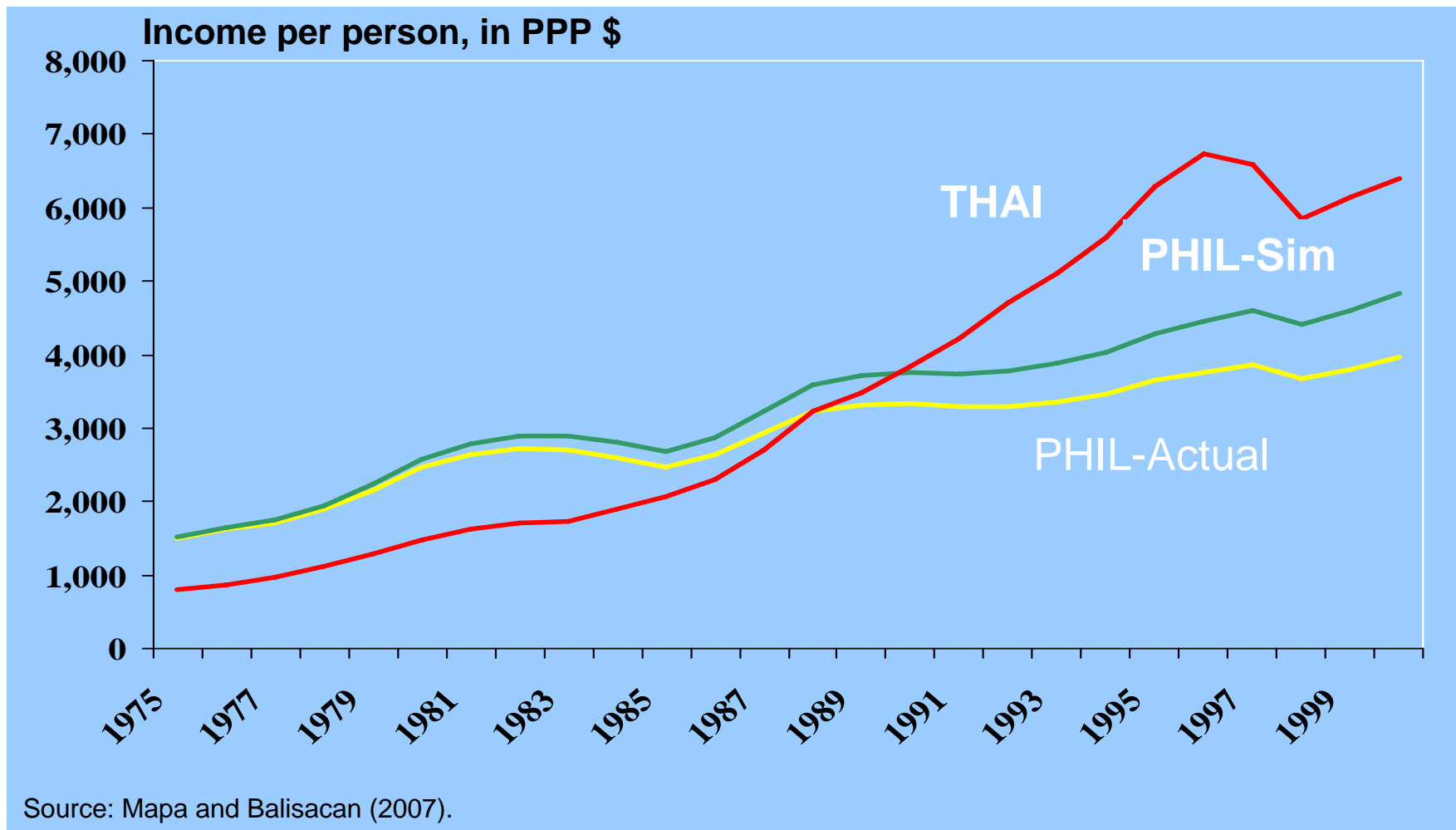
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- ⊕ Seizing opportunities from globalization
 - ✓ Quality of domestic institutions is key

The other neglected problem

Rapid population growth

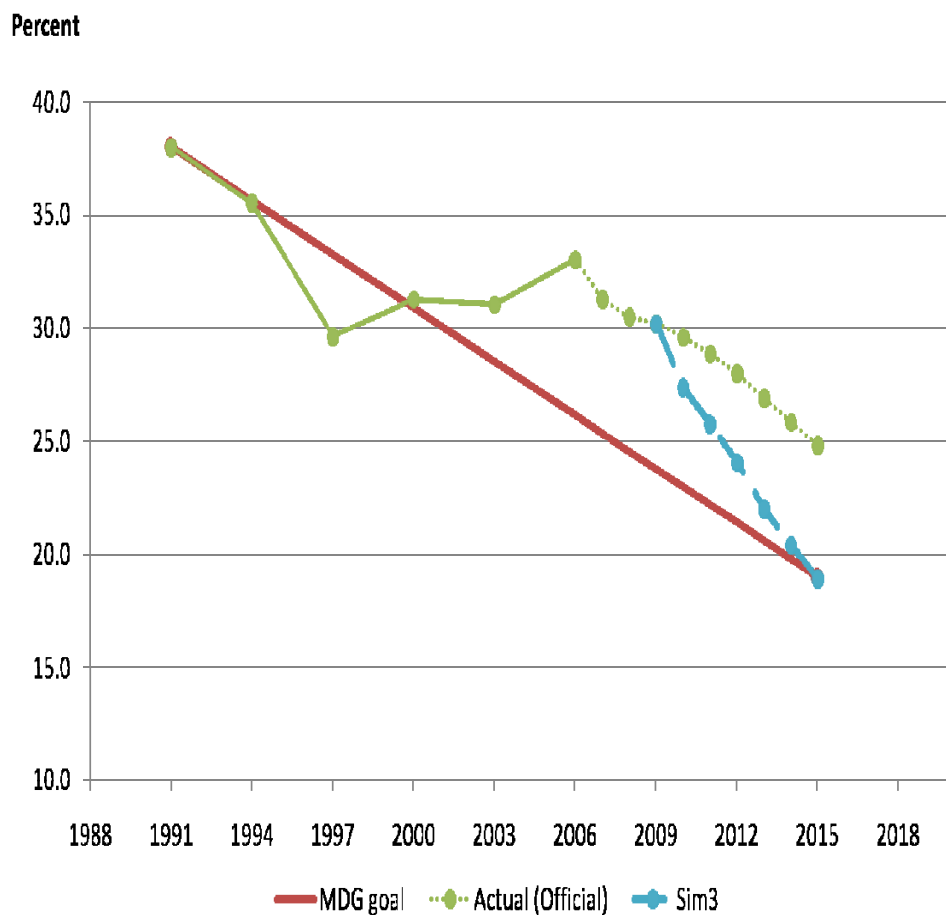
Tale of two countries: What would have been the per capita income growth if the country's population growth path was similar to that of Thailand?



Indicative areas for national government spending on a poverty program

Areas to spend more	Areas to spend less
1. Basic education, especially teaching materials; technical education and skills development esp. in rural areas.	Tertiary education: cost-recovery (but with scholarships for the poor)
2. Basic health; family planning services; health insurance for the poor	Tertiary health care: cost-recovery
3. Basic infrastructure, especially transport & power (but w/ coordination)	Public works equipment program (except for short-term disaster relief)
4. Conditional cash transfers (food subsidy if children attend schools, visit health clinics, practice family planning)	General food price subsidies
5. R&D; irrigation (rehabilitation & investment in small-scale systems)	Postharvest facilities (private goods); fertilizers and seeds
6. Capacity building for LGUs & microfinance providers	Livelihood programs (except for short-term disaster relief)
7. CARP: conversion of collective CLOAs to individual titles; focus in rural areas remote from urbanized centers	CARP in urbanized or rapidly urbanizing areas

What does it take to meet the MDG poverty challenge?



“Business as usual” regime: MDG on poverty will most probably be missed.

Strong development (MDG) agenda: Good governance plus additional investment in basic social services (esp. health & education) and infrastructure of, on average, P270 billion per year between 2010 and 2015.

The Big Challenge

- **Pro-poor development agenda in a regime of weak governance**
- **Upgrading quality of institutions**

Thank You!