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Poverty in South Asia

M. IRFAN

I. INTRODUCTION

In this paper, an attempt is made to document and analyse the poverty situation in South Asia. Available data on poverty levels and trends are discussed in the first section. Major focus of the paper is to examine the progress made during the decade of 1990s. During this decade, it may be noted that all the countries of the region were implementing some variant of structural adjustment and stabilisation programme. Performance of the national economies discussed briefly in the second section of the paper provides some clues regarding the possible effects of the reforms on poverty reduction. The safety-networks and targeting issues to improve their cost effectiveness are discussed in the final section.

Poverty Levels

One possible description of South Asia can be a region with 22 percent of the global population, 2 percent of Global GDP and 1.3 percent of world trade. Thus no wonder South Asia accounts for 44 percent of the poverty stricken segment of the world. Poverty line applied in this case is P.P.P. adjusted US dollar one per day. However, if the US$ 2 per day is set as a norm, then a dismal picture is obtained wherein around 85 percent of the regional population fails to qualify this standard. In the global context, South Asia is only marginally better off than Sub-Saharan Africa with 46 percent poor and far behind the rest of the world.

Intra-regional comparison across the countries depicted in Table 1 is suggestive of very comfortable and top position of Sri Lanka with only 7 percent population poor on the basis of US$ one per day. On the other hand, India lies at the bottom with 44 percent poor in 1997. Bangladesh emerges to be second only to Sri Lanka. Additional indicators of poverty such as life expectancy, mortality, sanitation and access to safe drinking water reported in Table 1 reflect the under-development and backwardness of the region. Intra-regional comparison confirms the leadership of Sri Lanka which is far ahead than other countries of the region. Pakistan in this context emerges to be a laggard.

M. Irfan is a former Joint Director of the Pakistan Institute of Development Economics, Islamabad.

Table 1

Poverty Indicators—South Asia

Indictors	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Poverty (% Below)					
(a) USD 1 per Day	29.1	44.2	37.7	31.0	6.6
	(1996)	(1997)	(1996)	(1996)	(1995)
(b) USD 2 per Day	77.8	86.2	82.5	84.7	45.5
	(1996)	(1997)	(1996	(1996)	(1995)
Income Distribution					
(a) Gini Index	33.6	37.8	36.7	31.2	34.4
	(1995-96)	(1997)	(1995-96)	(1996-97)	(1995)
(b) Consumption or Income	28.6	33.5	29.8	27.5	28
Share of Top 20 %	(1995-96)	(1997)	(1995-96)	(1996-97)	(1995)
(c) Consumption or Income	8.7	8.1	7.6	9.5	8
Share of Bottom 20 %	(1995-96)	(1997)	(1995-96)	(1996-97)	(1995)
Others					
(a) Life Expectancy at Birth (Years)					
(i) Male	58	62	58	61	71
(ii) Female	59	64	56	63	76
(b) Under Five Mortality Rate	96	83	107	120	18
(c) Access to Improved Water Sources % of Population	84	61	44	60	46
(d) Adult Illiteracy Rate					
(i) Male	49	33	43	42	6
(ii) Female	71	57	78	71	12
(e) Primary School Enrolment	75	77	78	NA	100
Rate (Net)	(1997)	(1997)	(1997)		(1977)

Source: World Development Report 2000-2001.

Note: The data reported pertain to1998. Wherever it is different, the relevant year is given in parenthesis.

Income distribution as yielded by Gini Index appears to be somewhat moderate in the global context but certainly worse off than the neighbouring East Asia. The Gini coefficients reported for the period 1995–97 ranges between 0.31 to 0 37. On the basis of relative income poverty (less than one-thirds of the average national consumption), 40 percent of the population of the region can be identified as poor in 1999, a position slightly better than Latin America (51 percent) and Sub-Sahara Africa (50 percent) but substantially inferior to that of East Asia (19.6 percent).

Poverty Trends in South Asia during 1990s

It is well known that defining and measuring poverty poses considerable challenges. The task of discerning inter-temporal trends in particular confronts additional complexities. Application of arbitrary poverty lines, non-comparability of data sources used to construct time profile and methods opted for estimation of poverty may vary from one period to another. It may be added that household surveys which furnish data for poverty estimation may not be random as is often believed. Design and clustering tend to bear upon this assumed randomness which has to be adjusted through statistical procedures to improve the comparability of the data. These limitations have to be kept in view while interpreting the results discussed below.

World Development Report 1999 indicates that on the basis of US one dollar a day poverty has declined during 1990s in South Asia from 44 percent to 40 percent of the population. This trend is also borne out by the data based on national poverty lines applied to various household surveys (see Table 2). With the exception of Pakistan, percentage of poor population declined over the years. Certain qualifications pertaining to country specific experience merit attention.

Table 2

Poverty Trends in South Asia
Population Below Poverty Line (%)

Bangladesh			India			Pakistan		
Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
59.6 (1983-84)	50.2	58.5	53.0 (197)	45.2	51.3	38.9 (1963-64)	44.5	40.2
56.7 (1995-96)	35.0	53.1	45.7 (1983)	40.8	44.5	32.5 (1979)	25.9	30.7
46.8 (1997)	43.4	41.0	39.1 (1987-88)	38.2	38.9	18.3 (1987-88)	15.0	17.3
44.9 (1999)	43.3	44.7	37.3 (1993-94)	32.4	36.0	34.8 (1998-99)	25.9	32.6

Source: (1) India: *India Development Report 1999-2000* (ed) Parikh. Oxford University Press, 1999.
(2) Pakistan: "*Poverty Assessment Study* " by A. R. Kemal and G. M. Arif, PIDE, October 2000.
(3) Bangladesh: "*Poverty Trends and Growth Performance: Some Issues in Bangladesh*" by Mustafa K. Mujeri BIDS, Dhaka January 2001.
Note: Years of the information are reported in parenthesis.

(1) In case of Bangladesh, for instance, the data sources and estimation procedures are not uniform over the period under comparison. In fact the information relating to 1997 and 1999 which tends to convey a message of substantial reduction in poverty is based on different data source and method of estimation than what was applied for earlier years.
(2) In case of Pakistan the results pertaining to period prior to 1987-88 are not strictly comparable with the findings of the subsequent period. However, the result that poverty has worsened during 1987-1999 does not suffer from non-comparability.
(3) In case of India, although poverty reduction has been experienced but the pace at which poverty has declined certainly has slowed down during the 1990s or post reform period. Some research studies suggested that both

> rural as well as urban poverty rose during the first two years of the reforms in India. Also there was a decline in the absolute number of poor in India during 1980s, a result attributed to variety of factors in addition to agricultural growth. In contrast during post-1991 period the absolute number of poor rose in India.

During the decade of 1990s the poverty did decline with the unique exception of Pakistan. However, the pace at which the reduction took place was slower than pre-reform era in India. A radical departure from the past in case of other countries is hardly obtained either. Overall little positive impact on poverty, if any, of the reforms appears to have been evidenced in the region, because either the poverty level increased (Pakistan) or the pace at which poverty situation improved certainly was slower than the one experienced during the decade of 1980s.

II. GROWTH PERFORMANCE OF SOUTH ASIA DURING 1990s

Over the past decade and half countries of South Asia implemented various IMF and World Bank stabilisation and structural adjustment programmes with varying degrees of success. Sri Lanka was the first country to opt these reform packages and India was the last. The liberalisation and subsequent integration of the economies of the region took place in different time periods. Below the growth performance of various countries is discussed briefly to gain some insights pertaining to poverty trends discussed above.

Overall the regional GDP grew at an annual average rate of 5.7 percent during 1990–96 which was not dissimilar from the one experienced during 1980–90 (see Table 3). This rate of growth admittedly higher than the global rate certainly is lower than what was experienced by East-Asian countries (7.4 percent) during 1990–98. It may, however, be pointed out that excluding Pakistan where GDP growth has been subdued and lower in 1990s compared to 1980s the rest of South Asian countries experienced a gain in their GDP growth rates. In terms of industrial origin of the GDP it appears that growth in the commodity production has rather slowed during 1990s with the exception of India and Sri Lanka while the growth rate registered by services sector in all the countries of the region was above the respective national average during the period under review.

A closer focus on the growth performance during 1990s indicates that growth rates experienced during the first six years of the decade were higher than the subsequent sub-period. Growth seems to have been arrested since 1997. For instance, Indian economy registered growth rates of 7.8 percent during 1994-96 which declined subsequently to 5.8 percent during 1997–99. This deceleration in the GDP growth is visible also in case of Sri Lanka, Bangladesh and Nepal during the 1997–2000. Slowing down of GDP growth can be partly attributed to slowing down of Japan's economy and Asian financial crisis. However, as viewed by Kemal (2000),

Table 3

Annual Growth Rates of GDP and Export South Asia 1980–98

	Bangladesh		India		Nepal		Pakistan		Sri Lanka	
	1980–90	1990–98	1980–90	1990–98	1980–90	1990–98	1980–90	1990–98	1980–90	1990–98
GDP	4.3	4.8	5.8	6.1	4.5	4.8	6.3	4.0	4.0	5.3
Value-added										
(i) Agriculture	2.7	2.3	3.1	3.8	4.0	2.3	4.3	4.3	2.2	1.5
(ii) Industry	4.9	3.9	7.0	6.7	8.7	7.0	7.3	4.9	4.6	7.4
(iii) Services	5.2	6.3	6.9	7.7	3.9	6.0	6.8	4.6	4.7	5.6
Exports of Goods/ Services	7.7	13.2	5.9	11.3	3.9	14.3	8.4	2.7	4.9	8.4

Source: World Development Report 2000-2001.

the unconstrained supply of inputs after elimination from negative list, a measure under liberalisation, was responsible for high growth in the initial years. Further reduction in tariff rates culminating in reduction of effective tariff rate unaccompanied by increased access to export markets and higher level of investments tended to generate the phenomenon of sick industries because the structure created behind high protective walls in the past could not compete in the international market. In Pakistan, more than 4000 units are sick, while in India 2500 large units are regarded to be weak and sick. It may be added here that growth rate of manufacturing value-added in India fell dramatically from 13.8 percent in 1995-96 to 4.3 percent in 1998-99. Does this suggest that South Asia will recoil back to low level of growth and stagnation and impact of liberalisation was only a one-shot affair?

Export growth, excluding Pakistan, similarly lends an impression of substantial improvement over the decade of 1980–90, though most of the success in this respect occurred in first half of the 1990s. Merchandised exports for instance registered a growth of 15 percent during 1993 but during post 1995 period export growth substantially reduced and turned negative in 1998. All the countries had similar experience. In case of India for instance, merchandised exports grew at the rate of 20 percent during 1993–95 which plummeted to 5.6 percent in 1999 and is estimated to be 4 percent for year 2000. Spectacular growth and export performance of Indian software (service industry) have to be reckoned too. At present software export accounts for 10 percent of the total export of India reflecting a very high growth rate over the years.

Substantial fall in the world demand, especially from the advanced countries arrested the growth of exports from South Asia during the post 1996 period. Protectionist tendencies displayed by the advanced countries through non-tariff barriers such as higher quality requirement, labelling, and investigations relating to dumping and subsidies constitute hindrance in this respect. Price competitiveness may have also been adversely affected by relatively larger depreciations of various South-East Asian countries after financial crisis.

Gross domestic savings and investment as a fraction of GDP hardly undergo a substantial change during 1990s, again with the exception of Pakistan where investment has fallen from 19 percent of GDP in 1990 to 15 percent in 1999. Tax and non-tax revenue generation appears to have slackened as a proportion of GDP in all the countries, presumably a cost of liberalisation through massive reduction in tariff rates and inelastic domestic taxation structure. Reduction in budget deficit again with the exception of Pakistan and Sri Lanka has been achieved, however, through reduction in government consumption from 11 percent in 1990 to 10 percent in 1999. It may also be added that government capital expenditure as a fraction of GDP declined in all the countries of the region (see Table 4). This curtailment of public expenditure has been held responsible for deceleration of growth of rural non-farm employment in India.

Table 4

South Asia Investment, Saving, Budget Deficit, and Capital Expenditure as % of GDP 1990 and 1999

	Bangladesh		India		Nepal		Pakistan		Sri Lanka	
	1990	1999	1990	1999	1990	1999	1990	1999	1990	1999
Gross Domestic Saving	11	14	22	20	8	11	11	11	14	19
Gross Domestic Investment	19	20	25	24	18	19	19	15	22	25
Capital Expenditure										
Government	NA	NA	1.8	1.6	NA	NA	2.6	2.5	6.1	5.3
Overall Deficit	NA	NA	–7.5	–5.2	–6.8	–4.2	–5.4	–6.3	–7.8	–8.0
Tax and Non-tax Revenue										
(Current)	NA	NA	12.3	11.6	8.4	10.7	19.1	15.9	21.0	17.2

Source: Asian Development Bank (1999); *Asian Development Outlook.*

In Pakistan, unemployment rate has increased and real wages stagnated and declined. World Employment Report of 1998 suggests that real wage growth in the region has been negative during 1990–96. The report also indicates that except for Sri Lanka, employment did not grow at a level higher than pre-reform era. Employment and real wages are intimately related to poverty reduction, in addition rising food prices may have had a role in slowing the poverty reduction in the region.

Admittedly, pre-reform era can be characterised as biased against agriculture due to heavy protection of industries, overvalued exchange rate and rigid controls on exports. In the post reform era, terms of trade have tilted in favour of agriculture thereby attracting investment in agriculture. This is the implication of standard 2×2 (two good, two input) trade theoretic model. However it is well known that none of the assumptions of this model-full employment, perfect factor mobility across sectors and agriculture being the constant return to scale industry—obtains in reality. If an additional dimension i.e. the two classes of consumer, (the landless and landlords) is

Table 5

Employment Generation

Country	Unemployment Rates			Employment Growth Rates		Growth Rate of Real Wages
	1987	1993	1996	1987–96	1993–96	1990–96
Bangladesh	1.2	–	2.5	1.2	–	–
India	3.4	2.3	–	2.2	2.3	–5.5
Pakistan	3.1	4.7	5.4	1.9	1.9	–5.7
Sri Lanka	14.1	14.7	11.3	1.7	3.3	–0.4

Source: World Employment Report 1998-99.

incorporated then this 2×2×2 model yields interesting insights, of course under stringent assumptions. According to this model in the short run everybody is hurt by rising food prices. If real wages fail to rise as fast as food prices then poor are hurt in the long run. This model also admits the possibility of co-existence of increasing employment and stagnant wages in agriculture. (See Eswaran and Kotwal (1994) for application in case of India.)

The investment in agriculture may have risen as is evidenced by Indian data but growth rate of all crops combined index in the post-reform period was lower (1.71 percent) than pre-reform (2.6 percent). This clearly highlights the limits to which "right prices" can achieve in the context of complementarities between price incentive and non-price factors as pointed out by Dantwala (1967) three decades ago.

III. POVERTY ALLEVIATION—OPTIONS FOR SOUTH ASIA

Options have to be discussed in the broader context of development policy. However ideas about the development policy, as usual, are in flux. Let us recall the journey over past 40 or 50 years. Disenchantment with growth only, during 1960s led to a shift hinted by Macnamara in Nairobi speech. Hence Redistribution with Growth wherein Economic Growth was still the major objective but provision of basic needs and Human Development were to be pursued also. Crisis generated by oil price hikes experienced in 1973 and 1979, unsustainable borrowings resulting into debt crisis in some countries of Latin America and high interventionist policies of certain states led to a re-examination of the approaches. An additional factor, not even grudgingly admitted, was the emerging solidarity and collaboration among the developing world as reflected by group of 77, New International Economic Order (NIEO) of 1974 and other activities such as Willy Brandts Commission. These efforts aimed at fundamental changes in the international economic order may have been perceived to be threatening.

Macro-economic Stabilisation Programmes and Structural Adjustment were, therefore, identified, by those who matter, as the new desirable approach. In the WDR 1990 (Poverty), broad based growth extensive in labour use, openness, provision of social services and targeted poverty alleviation programmes were regarded to be a panacea.

Some important shifts along this journey from Redistribution with Growth to Macro-economic Stabilisation need to be kept in sight. Prior to 1980 Structural Adjustment was meant for the developed world to facilitate the transition of the industries finding it difficult to compete with cheaper products of the developing world. Since mid 1980s the locus of responsibility was shifted. Now the developing countries must put their houses in order. The state was no more regarded as benevolent agent let the market take the lead. Similarly Keynes was out while in was the Mono-economics.

Still what was the experience? WDR 2001 "Attacking Poverty" admits "a wider set of policies is necessary for long term growth and poverty reduction than was envisaged in 1990". An evaluation of strategy and performance sponsored by World Bank admits that "the transmission mechanism or linkages between this policy agenda (macro stabilisation, liberalisation and trade/tariff reforms) and poverty were left nuclear." Now in 2001 to reduce the poor by half by 2015 is the international development goal. [WDR (2001).] There are however some additional recommendations too over and above to that of 1990.

(i) Promoting opportunity—essentially a function of economic growth.
(ii) Enhancing Security—risk management.
(iii) Facilitating Empowerment.

Empowerment according to WDR 2001 "means enhancing capacity of poor to influence the state institutions." The governments are expected to initiate debates and raise awareness about the beneficial impact of pro-poor public action and muster political support. What about the notions that governments represent the coalition of vested interests? It is not difficult to understand the type of pressures felt by these agencies which put them in least enviable position of tension between deeds and words. Clearly there is a need to demystify the jargons.

Neither Government's nor NGOs have ideological resource to mobilise poor politically around pro-poor agenda and movements. Provocation can mobilise the poor, but it means they should be hurt to begin with. Conscientisation through dispatch of social mobiliser or preachers can succeed to some extent but only when they are not employed to work with poor in relation to agency programs because of two kinds of hazards. First there is an incentive to control and discourage mobilisation, once it becomes uncomfortable to agency. Secondly mobilisers may act as sales person to market what ever is provided by clients irrespective of its appropriateness. In other words existing paternalistic charity based system is not likely to change.

Washington Consensus appears to have attracted many detractors while some would suggest it did not go far enough. Lessons learnt over the years, however, can provide meaningful policy-relevant insights. As pointed out by Rodrik, "a better understanding of the importance of private initiative and markets in driving economic development" constitutes one of these lessons. However, the dependence of market for better performance on non-market institution has to be reckoned too. Equally there is a realisation that while the import-substitution strategy of the 1960s and 1970s was flawed, the Washington consensus is hardly perfect either. Also it is imperative to regard liberalisation and globalisation as means towards an end. While formulating the development strategies the local sensitivities and specifics need to be factored in. It is in this context that a focus on rural and agricultural development along with targeted poverty alleviation programmes discussed below appear to be relevant for poverty alleviation in South Asia. Ramifications of changing demographic scene for future growth prospects and the required international action is also mentioned briefly.

Recharge Agriculture

Poverty in South Asia is a rural phenomenon, because of low level of urbanisation wherein most of the poor live in rural areas. Growth in agriculture and rural non-farm employment is essential for poverty alleviation. It may be added that recharging agriculture poses considerable challenges because the sources of growth experienced in the wake of Green Revolution appear to have run their course. Investment in R&D in agriculture, infrastructure development, better crop management and water use is needed. Similarly, non-farm employment growth requires massive support to rural small scale industries and public sector initiatives. Public sector expenditure as well as its role has to be enhanced.

Demographic Scene

Declining Fertility

Nearly all the countries of South Asia are experiencing decline in fertility. Sri Lanka may be very near to approaching replacement level fertility, while other countries are on their way to achieve this. It is in this phase of demographic transition that the changing age structure bears some important implications for economic growth, employment policies and poverty too. Curtailment in the dependency ratio, an offshoot of changing age structure, has been identified as Demographic gift contributing almost 30 percent of the GDP growth in East Asia. It was made possible by successful employment generation programmes. This adds to the importance and urgency to accord top priority to employment generation and more effective population programmes in South Asia which are also most pertinent as far as poverty alleviation is concerned.

Global Demographic Imbalances

The capital is mobile internationally to acquire the equalising differential and may widen the gap between the rich and poor nations. Similar mobility is not permitted to labour wherein stringent immigration laws obstruct this flow. This is despite the fact that research studies suggest possibility of accrual of large benefits. For instance, Hamiltons and Whalleys (1984) simulations reflect that the efficiency gains from a marginal increase in labour mobility are higher than the trade or investment liberalisation.

Global demographic imbalances wherein the share of the developed West has shrunk adds a new perspective to labour mobility. There is all the likelihood that emigration from developing countries will rise despite restrictions. The conditions which guarantee beneficial impact for labour exporting countries need to be understood. In addition, emigration of the highly educated often termed as "brain-drain" hardly affords internalisation of the dividends of the investment in human capital. It can also threaten the success or viability of some industries. Software industry in India is currently facing this problem of brain-drain.

Poverty Alleviation Programmes

Targeted poverty alleviation programmes have acquired additional importance and urgency since Asian Financial Crisis. Poverty alleviation is sought through various safety-nets and programmes are undertaken for poverty alleviation. These are for instance direct transfers, such as Zakat or nutritional programmes of children, employment generation through infrastructure development projects and credit-based self employment programme. In order to enhance cost effectiveness targeting is regarded as essential.

Targeting and Cost-effectiveness

Identification of poor is important for success of targeted poverty alleviation programme. Three broad approaches to identify poor, i.e. (a) means testing, (b) indicator testing and (c) self-targeting are suggested. Self-targeting is often top-rated for poverty alleviation because of its simplicity. Public employment programmes requiring to do manual work for instance effectively exclude the non-poor. In case of India, studies reveal that participation of poor is highest in public works programmes while participation in credit based self employment programme fails to have better targeting [Ravallion and Dutt (1995)]. Similarly, benefit-cost ratio is found the highest in public works program in comparison to the other. Equally important in this respect would be to keep in view the E and F errors as pointed out by Cornia and Stewart—excessive coverage and failure to reach the target. In addition, cost effectiveness—cost per one rupee of income transferred matters too. Education and health programmes have effects in the long term hence should not be compared with short run programmes.

Government and donor driven credit programmes do not have financial sustainability. Positive interest rates, low default rate and administrative costs as well as encouragement of savings are needed for successful credit programme. Only B.K.K. of Indonesia and Grameen Bank of Bangladesh qualify under these conditions. However, there are limits, as far as poverty alleviation is concerned, to which the NGO led endeavours can make contribution. Poverty in Bangladesh is relatively high despite the operation of Grameen Bank for the past twenty years.

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