

The Human Development in South Asia Report 2006 titled *Poverty in South Asia: Challenges and Responses*, was launched on May 25, 2007 in Islamabad, Pakistan.

The Prime Minister of Pakistan, Mr. Shaukat Aziz was the Chief Guest. The launching ceremony was attended by distinguished scholars, members of academia, foreign diplomats, representatives of various international organizations, NGOs and government ministries.

Following are the introductory remarks on the occasion by Khadija Haq, President MHHDC.

POVERTY IN SOUTH ASIA: CHALLENGES AND RESPONSES

Today we are launching the tenth report on *Human Development in South Asia 2006*. Through these annual reports, we try to carry forward the rich legacy of Mahbub ul Haq's core development philosophy. A people-centred development perspective is the heart of human development model – not just investment in human resources, or concern with human welfare, vital though these concerns are. As Dr Haq asserted, 'All processes of economic, political and social development must be judged by only one criterion: what do they actually mean for the people?' Looking from that perspective, despite impressive economic growth rates across the region the sheer magnitude of the number of poor people in South Asia, makes one wonder how much of this growth has actually meant for the poor.

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

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

The negative impact of globalization on the poor in every region has now made poverty alleviation a priority in all development policies of multilateral and bilateral

development institutions. This has made the national development policies to be framed in terms of poverty alleviation strategies. Gone are the days when the GDP growth rate was the focus of all economic policies. Then the economic managers thought that distribution could come later. But now poverty alleviation has become the yardstick to judge all economic performance. But has it really? We needed to substantiate that in this year's report of Mahbub ul Haq Human Development Centre.

In 1997 in the first South Asia Human Development Report, Mahbub ul Haq had lamented that while the South Asia region contained a quarter of the world's population, its share in the world's poor people was 40 per cent. Since then the situation has not changed much, although the per capita GDP of all the countries has gone up. Globalization has changed the face of South Asia. Many good things are happening - from more and better schools, hospitals, roads, to employment opportunities in many new fields. Yet this new South Asia has left many people behind – those who are illiterate, out of school, in poor health, in poor areas and without income. Those are the ones we are focusing on in this Report – the voiceless majority of South Asia.

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

Today South Asia as a region has become one of the fastest growing regions of the world, and India with its huge size, population and high economic growth rates over a decade is leading the region. But for all its shining metropolitan cities and IT-related boom, India still has the largest absolute number of poor people in the world. Other countries provide even a bleaker picture, the success of Grameen Bank and other similar initiatives in Bangladesh and in other countries notwithstanding.

Thus this year's South Asia Human Development Report starts with some questions: Has the impressive economic growth rate of the region been able to significantly improve the living condition of the majority of South Asians? As each country in the region has been implementing poverty alleviation programmes, including programmes of micro-credit, how successful have these been in moving people out of poverty? And, why do women still bear the brunt of poverty and deprivation? This Report has attempted to answer some of these and other related questions.

Main findings

Let me now summarize the main findings of the Report,

First, poverty reduction is not possible without growth, but growth that is happening in South Asia is not led by job creation and thus not socially sustainable without participation of the poor in the growth process.

Second, despite the recent efforts of South Asian governments to integrate the policies for economic growth with those of poverty alleviation, the rate of decline of poverty reduction (the head count ratio of poverty) is far below the economic growth rate.

Third, women continue to bear the heaviest burden of poverty in South Asia.

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

Fifth, the specific poverty alleviation programmes implemented in all the countries have been able to provide some relief to the poor but, based on limited evaluation reports, all these programmes suffered from major implementation problems, and none succeeded in reducing poverty to a significant extent.

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

Major poverty challenges

South Asia faces some major poverty challenges:

First, the statistics. After decades of economic growth, South Asia remains the most impoverished region of the world. The statistics of South Asia's poverty are staggering:

- While South Asia's share in the world population is 22 percent, it contains more than 40 percent of the world's poor.
- Nearly half a billion people live below US \$1 a day, while three-fourths of the population survives below US \$2 a day.
- Over 62 percent of population is without access to basic sanitation, 42 percent of the adult population is unable to read or write, 55 percent of women are illiterate, and 46 percent of children under five are malnourished.
- Poverty in South Asia is also distributed disproportionately across regions and socio-economic groups.

Secondly, the gender dimension of poverty. In South Asia the challenge of poverty is also highly discriminatory. Being a woman increases the likelihood of being poor since women have lower access to education, health and productive resources. Poverty and gender inequality form a vicious cycle that pushes millions of women and girls into a trap of constant denial of rights, deprivation and discrimination.

- Although South Asia is home to almost one-quarter of the world's female population, its share in the world's female labour force is less than 14 percent.
- Lower education and skill levels of women also lead to lower earnings.
- Gender discrimination in health starts even before birth in the form of female foeticide or infanticide and continues throughout life.
- Though gender gaps in education are closing, South Asia as a region still contains the highest number of female illiterates in the world. Women in South Asia also lag behind in vocational and technical training restricting their access to job opportunities.

Thirdly, high levels of economic growth have reduced the proportion of people in poverty compared to total population, but the region still hosts the largest absolute number of poor people in the world. The economic growth policies pursued by the South Asian governments in recent years have not been able to ensure broad-based participation of the poor in the growth process. For example,

- Economic growth has not been accompanied by adequate employment generation. This is reflected in stagnant/declining labour force participation rates (LFPRs) and rising unemployment in all major South Asian countries.
- Low educational attainment and poor skill levels have made it difficult for the deprived to exploit the employment opportunities created by economic growth.
- Income distribution, as measured by Gini coefficient, has worsened significantly in all South Asian countries.
- Growth has mostly occurred in areas that are better equipped with infrastructure facilities and human capital. Poverty remains concentrated in backward and underdeveloped areas.
- High growth rates have been driven predominantly by acceleration in the services sector, benefiting mostly the urban middle class.
- There has been only a marginal increase in the productivity of the agricultural sector — the source of livelihood for the majority of poor in South Asia. Rural poverty remains high and in some South Asian countries such as Nepal, Pakistan and Sri Lanka, rural poverty has in fact gone up in recent decade.

- Unequal distribution of land remains a serious impediment to agricultural productivity and uplift of the rural poor.
- Lack of access to credit by the poor is also a major source of rural poverty and is associated closely with the restricted access to land.
- Fiscal policies in the region have cut public investment and welfare expenditures. High military spending and the rising fiscal cost of public debt remain important constraints on poverty reduction programmes.
- The ongoing privatization process in South Asia has also contributed to inequality and poverty. Given that the state is the largest employer in South Asia, privatization has mostly resulted in massive layoffs, a heightened level of job insecurity and loss of pension benefits.

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

And, finally, the failure of governance to protect the poor. In South Asia, public service delivery is fraught with failure of governance system that tends to hit the poor more than the rich. While South Asia is one of the most deprived regions in the world in terms of human development, it also turns out to be the one that spends the least on social development. Public spending on health and education as percentage of GDP has been lower than what was required, although in recent years this amount is going up in almost all South Asian countries. But the actual utilization of the amount that is allocated is low and inefficient due to poor bureaucratic procedures, corruption and misallocation across various heads. The poor in South Asia also face several problems in accessing social services. These include high transportation costs to reach a public facility; costs of using a service such as education, and higher prices faced by the poor relative to the rich. Corruption also imposes an extra cost on the poor in accessing the services that they are entitled to.

What are the policy implications?

South Asia needs to ensure that the benefits of poverty alleviation programmes reach those that are the most deserving. More importantly, the region needs to move well beyond the poverty alleviation programmes and address the root causes of poverty that inevitably lie in the inequitable and exploitative economic and political structures. In this

context, decentralization and devolution of power to local levels of government becomes a critical tool in South Asia for placing the institutions of governance closer to people. In almost all South Asian countries an institutionalised effort to decentralize is underway. The process however remains marred by a plethora of problems. The local governments are saddled with issues like absence of constitutional cover and legal powers, lack of fiscal and administrative autonomy, dearth of resources, absence of monitoring and accountability mechanisms and low citizen participation. In fact except the states of Kerala and West Bengal in India, in most countries of South Asia the agenda of decentralization has not been fully implemented.

In order to reduce poverty in South Asia, it is imperative to design and implement policies in a pro-poor manner. Pro-poor policies do not undermine growth but in fact reinforce growth. Pro-poor governance can be used as a powerful tool to reduce poverty by providing an enabling environment for growth and by empowering people through building up their physical and human assets.

To conclude, economic growth in South Asia has in fact reduced poverty, though not at the same pace across the countries and across different regions within a country. The challenge for the governments now is to focus on the disadvantaged regions and groups to distribute the benefits of growth across each country.