

Human Development Index and Its Relevance for Developing countries¹

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First I would like to thank Ambassador Fauzia Nasreen, Director General of Foreign Service Academy, for inviting me to address this Advanced Diplomatic Course on the topic of human development index and its relevance for developing countries. I am facing here a distinguished audience from, I think, about 16 countries. Some countries of this group belong to high-income category, others in low to medium income category. In Human Development Index (HDI for short), some countries have done well in terms of improving the wellbeing of their people as compared to their gross domestic product (GDP for short); others have lagged behind. In this hour I intend to investigate the reasons for that by looking at the HDI and GDP per capita of the countries represented here within the framework of the relevance of HDI for developing countries.

But first a few words about the human development model itself. In this era of competitive global markets and national aspirations for a better living standard, the concept of human development becomes a critical element in any strategy for economic development. But in our preoccupation with the quantitative rate of economic growth, as expressed by GDP, we sometimes lose sight of the elements that are the backbone for a sustainable economic development of a country. The human development model was conceived, articulated and advocated around the world by the late Dr. Mahbub ul Haq, and which is now recognized as one of the few great ideas of the 20th century. The human development model goes beyond treating human beings as only a means to the production process. While human productivity is an essential element of economic growth, to treat human being as only a resource for the production process obscures the centrality of people as the ultimate end of development. Human development is concerned not only with building human capabilities through investment in education and health it is also concerned with using those capabilities fully through an enabling framework for growth and employment. Human development model regards economic growth as essential, but pays equal attention to

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its quality and distribution, its link to human lives and to its sustainability.

The critical difference between economic growth model and human development model is that the first focuses exclusively on the expansion of income while the second embraces the enlargement of all human choices – economic, political, social and cultural. The human development model questions the presumed automatic link between expanding income and expanding human choices. Such a link depends on the quality and distribution of economic growth, and not only on the quantity of such growth. A link between growth and human lives has to be created consciously through deliberate public policy – such as public spending on social services, and fiscal policy to redistribute income and assets. Such a deliberate, forward-looking and equitable public policy has been lacking in many developing countries.

Central claims of all UNDP *Human Development Reports*, published since 1990, are that people are both the end and chief means of development, whereas economic growth is only a means. Human development is a rich, multidimensional concept that is constantly evolving. To lead a long and healthy life, to be educated, and to enjoy a decent standard of living are the most critical elements of human development model. Other elements such as political freedom, broader human rights and environmental sustainability have also become important components of human development. The genius of human development framework stems in large part from its ability to flexibly absorb a broad complex agenda while remaining relevant as an analytical tool and foundation for conceiving creative policy and institutional reform ideas.

Human development index

Before the advent of human development, the dominant yardstick for measuring economic progress was gross national product which, according to Mahbub ul Haq, was deeply flawed as it failed to recognize non-monetized activities (subsistence agriculture, household work, unpaid services etc) and, most critically, remained silent about distribution, character or quality of economic growth. There was a long search for a more comprehensive measure that could serve as a better yardstick of socio-economic progress of nations. The principle guided

the authors of the index in this search was that the index must be able to measure the basic components of human development that include to live a long life, to acquire knowledge, to have a comfortable standard of living, to be employed, to be free etc. However, as all of these components could not be quantified, it was decided that the new index would include only a limited number of variables to keep it simple and manageable. Thus, initially, life expectancy was chosen as an index of longevity, adult literacy as an index of knowledge, and GDP per capita adjusted for purchasing power parity as an index of access to a number of economic choices.

Thus HDI began as a simple aggregate of indicators reflecting three major components of human development: longevity, knowledge, and command over resources needed for a decent standard of living. Countries were ranked according to their performance in HDI. Once the index was constructed for over 150 countries, the rankings became both a point of controversy as well as a tool to persuade policy-makers to invest adequate amounts in accelerating human development of their people, and in investing resources to collect relevant data. International institutions were also encouraged to prepare comparable statistical systems.

The HDI vs GDP

The HDI does not replace GDP, but it adds considerably to an understanding of the real position of a society in several aspects:

- Besides income, the HDI measures education and health and is thus multidimensional.
- It focuses the attention of policy-makers on the ultimate objective of development, which is people's wellbeing.
- It is more meaningful as a national average than income as there are much greater extremes in income distribution than in the distribution of life expectancy or literacy.
- It shows that human development gaps between nations could be reduced faster than gaps in income.
- The HDI can be usefully disaggregated by gender, geographic region or in many other ways to present relevant policy choices.

GDP by itself reveals little about how the people in a society live and breathe. It is the actual distribution and use of income that is decisive. To examine the link between economic and social progress, we must see how income is distributed and used in a society and how far it has been translated into the lives of people. If a country's HDI rank is higher than its GDP per capita rank, this should reassure policy-makers that their social priorities are headed in the right direction and that the country is building up an adequate base of human capital for accelerated growth. On the other hand, this should also remind them that social progress cannot be sustained for long without an adequate economic base, so they should correct the imbalance on the economic growth side.

But if the HDI rank is lower than the GDP per capita rank, this should signal policy-makers that the benefits of economic growth are not being distributed equitably among all sections of society. It should prompt them to devise policies to change course. Comparison with other countries with similar incomes should reassure them that it is possible to generate greater human welfare at that level of income. Sri Lanka has been a shining example in South Asia in providing education and health to its people at a very modest level of GDP. So there should be no tension between HDI and GDP measures. Both are equally useful to inform public policy.

What is the relevance of HDI for developing countries?

Before the advent of human development, a country's performance in economic growth was judged by only one indicator – GNP (later GDP) growth. Sometimes a country with a very high level of national income recorded a very high percentage of population in poverty, illiteracy, in poor health, and a huge disparity based on gender, ethnicity and income. This model of economic growth was based on a very weak foundation that was not sustainable over the long-term politically, economically or ethically.

Human development brought a whole new perspective – a revolutionary way to recast the conventional approach to development. Human development approach improved the economic growth model in several ways:

- **First, by focusing on improving education, health and skills of people, it enables people to participate in the growth process as well as share its benefits, particularly through employment.**
- **Secondly, human development focuses on a more equitable distribution of income and assets which create a closer link between economic growth and human development. This is where human development goes beyond programmes of social development or social welfare. It goes beyond developing human capabilities or providing social safety nets, very important though these are, to policies for creating jobs, opening up opportunities and empowering people to participate in economic and political institutions of a country.**

For developing countries, human development is particularly relevant as it captures far more reality than GDP of a country. For policy makers of developing countries it is useful in several critical areas:

1. It helps set national priorities. A quick look at HDI rankings shows which countries are combining economic growth with social development and which lag behind. As mentioned before, HDI rankings put pressure on governments to improve their performance if their neighbours or competitors are doing better.

Table 1 Human Development Index in selected developing countries

Country	HDI rank Human development index (HDI) 2004		Life expectancy at birth Years 2004	Adult literacy rate (% 15 years and older) 2004	Combined gross enrolment ratio for primary, secondary and tertiary schools (%) 2004	GDP per capita (PPP US \$) 2004
	Rank	Value				
Brunei Darussalam	34	0.871	76.6	92.7	77	19,210
Malaysia	61	0.805	73.4	88.7	73	10,276
Turkmenistan	105	0.724	62.5	98.8	-	4,584
Kyrgystan	110	0.705	67.1	98.70	78	1,935
South Africa	121	0.653	47.0	82.40	77	11,192
Tajikistan	122	0.652	63.7	99.50	71	1,202
Botswana	131	0.570	34.9	81.20	71	9,945
Pakistan	134	0.539	63.4	49.40	38	2,225
Congo	140	0.520	52.3	-	52	978
Swaziland	146	0.500	31.3	79.60	58	5,638
Yemen	150	0.492	61.1	-	55	879
Gambia	155	0.479	56.1	-	50	1,991
Guinea-Bissau	173	0.349	44.8	-	37	722
Niger	177	0.311	44.6	28.70	21	779
Iraq	-	-	58.8	74.10	59.7	-

Note: HDI ranking for 177 countries

Source: UNDP, Human Development Report 2006

Looking at table 1, you can see the rankings of countries which are represented here. Out of 15 countries only one, Brunei Darussalam, is ranked among the first 50 high HDI countries. If we add Malaysia then two countries are among the first 100 high HDI countries. All others are ranked below 100, with considerable variation among them – 8 in medium HDI and 4 in the low HDI countries.

2. It identifies the areas that need priority policy attention. Again looking at table 1, it is revealing that South Africa and Botswana, despite reasonable GDP per capita, have comparatively low HDI because their life expectancy has been negatively impacted by AIDS. So the focus of these governments has been on improving the healthcare facilities. Pakistan, on the otherhand, has got very low educational indicators impacting on its HDI. That is why you see the policy discussion that is going on in the country to improve the situation. HDI of several countries such as Congo, Yemen, Gambia, Guinea Bissau and Iraq, though have been constructed by UNDP, do not convey the reality

as the values for some indicators are missing for these countries. In these countries, as in all others, the need for collecting and improving the statistical data can not be underestimated.

3. It identifies potential for growth of a country. HDI can reveal the future potential of a country's economic growth. If a country has already built up considerable human capital then by choosing the right macro-economic policies the economic growth can be accelerated in a reasonably short time period. This has been true for India, for example. But if the human capital is missing, it would take a country a considerable time to create the human infrastructure to support and sustain economic growth. Malaysia with its high GDP per capita still does not have comparable health and educational indicators. Data in table 2 below indicate that all South Asian countries, except Sri Lanka and Maldives, need to perform better in health and education of their people.

Table 2 Human Development Index in South Asian countries

Country	HDI rank Human development index (HDI) 2004		Life expectancy at birth Years 2004	Adult literacy rate (% 15 years and older) 2004	Combined gross enrolment ratio for primary, secondary and tertiary schools (%) 2004	GDP per capita (PPP US\$) 2004
	Rank	Value				
Sri Lanka	93	0.755	74.3	90.7	63	4,390
Maldives	98	0.739	67	96.3	69	-
India	126	0.611	63.6	61	62	3,139
Pakistan	134	0.539	63.4	49.4	38	2,225
Bhutan	135	0.538	63.4	47	-	1,969
Bangladesh	137	0.53	63.3	-	57	1,870
Nepal	138	0.527	62.1	48.6	57	1,490

Source: UNDP, Human Development Report 2006

4. Disaggregated HDI becomes a powerful tool for compassionate governance. HDI, disaggregated by income, class, gender, ethnicity and geographical region points out critical areas for policy interventions. Table 3 shows that GDI values, constructed on the basis of HDI disaggregated by gender, are lower for all countries underscoring the fact that all countries treat their women poorly compared to their men. Also in countries with low HDI, the gap between HDI and GDI widens.

There is pervasive gender discrimination across the world. But ever since the countries have started seeing their GDI and GEM (based on women's participation in economic and political arena), the situation at least in policies and institutional innovations has started to improve.

Table 3 Human Development Index, Gender-related Development Index and Gender Empowerment Measure for selected countries, 2004

	Human Development Index (HDI) 2004		Gender-related Development Index (GDI) 2004		Gender Empowerment Measure (GEM) 2004	
	<i>Rank (Out of 177 countries)</i>	<i>Value</i>	<i>Rank (Out of 136 countries)</i>	<i>Value</i>	<i>Rank (Out of 75 countries)</i>	<i>Value</i>
Malaysia	61	0.805	51	0.795	55	0.500
Sri Lanka	93	0.755	68	0.749	69	0.372
Kyrgyzstan	110	0.705	83	0.701	...	...
Tajikistan	122	0.652	91	0.648	...	...
South Africa	121	0.653	92	0.646	...	...
India	126	0.611	96	0.591	...	...
Botswana	131	0.570	98	0.555	54	0.501
Bangladesh	137	0.530	102	0.524	67	0.374
Congo	140	0.520	104	0.519	...	...
Pakistan	134	0.539	105	0.513	66	0.377
Swaziland	146	0.500	114	0.479	...	...
Yemen	150	0.492	117	0.462	75	0.128
Niger	177	0.311	136	0.292	...	...
Nepal	138	0.527	138	0.513	...	...
Bhutan	135	0.538	...	...	...	...
Brunei Darussalam	34	0.871	...	...	...	...
Gambia	155	0.479	...	...	...	...
Guinea Bissau	173	0.349	...	...	...	...
Maldives	98	0.739	...	...	...	...
Turkmenistan	105	0.724	...	...	...	...

Source: UNDP, Human Development Report 2006

5. HDI can be used as early warning system. Disaggregated HDI can reveal the weak points in a country – such as poverty density in a particular region of a country, lack of education or employment of a particular group etc. Left unaddressed, these can lead to violence and conflicts within a country or can spill over outside the country. By constructing disaggregated HDI, a country can address these issues in a timely and humane manner. In many countries it is now part of preparation of national development plans to prepare disaggregated HDI.

6. HDI allows countries to track its performance over time. Table 4 shows the trends in HDI of 9 countries. But it is very disappointing to note that only 4 out of 9 has shown improved HDI performance over a period of about 20 years.

Table 4 Trends in human development index in selected countries

Country	1985	1990	1995	2000	2004
Malaysia	0.696	0.723	0.761	0.791	0.805
South Africa	0.703	0.735	0.741	0.691	0.653
Tajikistan	0.700	0.697	0.631	0.627	0.652
Bostanawa	0.636	0.680	0.660	0.598	0.570
Pakistan	0.420	0.463	0.493	0.511	0.539
Congo	0.541	0.528	0.533	0.502	0.52
Swaziland	0.583	0.622	0.604	0.536	0.500
Guinea-Bissau	0.283	0.313	0.341	0.353	0.349
Niger	0.24	0.246	0.254	0.268	0.311

Source: UNDP, Human Development Report 2006

To conclude, HDI and its disaggregated versions are important tools for policy makers in developing countries to identify the areas of strengths and weaknesses and address them accordingly.

In South Asia, through the South Asia Human Development Reports we have been analyzing all economic and social policies from the point of view of people’s wellbeing and suggesting policies to link economic growth to human development and human security. In monitoring the progress of the South Asians, each annual SAHDR explores a particular policy issue in detail while consistently championing the ideals of justice, equity, and freedom for all people.

There are four ways in which human development ideas have had a practical impact on policy, actions and events: a) by changing how situations, problems and issues of policy are perceived; b) by defining agendas for action; c) by altering the ways in which governments and non-governmental groups assess their interests and thus what changes they support; and d) by becoming embodied in institutions which have responsibilities for carrying the ideas forward.

The genius of the human development framework stems, in large part, from its ability to flexibly absorb a broad, complex agenda while remaining relevant as an analytical tool and foundation for conceiving creative policy and institutional reform ideas. Extending beyond the basic needs approach's concern for the most impoverished, HD encompasses the priorities of all nations and income levels and tackles institutional and political issues. It also measures human progress within and between countries through quantitative and qualitative indicators, as well as recognizes the importance of political interests alongside public discussion in setting a development agenda.