

## Is the Target of Halving Extreme Poverty by 2015 Achievable? Challenges to German Policy

At the United Nations' Millennium Summit (September 2000) 150 heads of state and government reaffirmed the target of halving, by the year 2015, the proportion of the world's people living in extreme poverty and the number suffering from hunger. This is an ambitious goal, which can be achieved only if both the countries affected and the donor countries and international development agencies make considerable efforts. The German government explicitly endorses the target of halving poverty, launching its Programme of Action 2015 (Poverty Reduction – a Global Responsibility) by cabinet decision in April 2000.

What conditions must be satisfied if the target of halving poverty is to be achieved, and what contribution can Germany make?

- The international target of halving extreme poverty and the number of people suffering from hunger will be achievable by 2015 only if poverty can be reduced more quickly than in the 1990s.
- The experience of the 1990s has shown that, although market economy reforms favour economic growth, economic growth does not automatically lead to a reduction in poverty. As economic and social inequality are not only major causes of poverty but also determine how results are distributed, the question of access to productive resources should be given a high priority and the issue of agricultural reform is again on the agenda.
- The pace of poverty reduction depends primarily not on the level of economic growth, but on the distribution of resources and the quality of growth, i.e. on the growth process being made to benefit the poor.
- As the overwhelming majority of the extremely poor live in rural areas sustained by agriculture, the scale and pace of poverty reduction are determined particularly by the growth of rural incomes and productivity.
- The Programme of Action 2015 defines Germany's contribution. The German government sees poverty reduction as an important component of its entire policy. Government action and development cooperation are meant to act in this context as an effective catalyst that changes structures, makes new alliances against poverty possible and enables innovative sources of finance to be tapped.
- If the Programme of Action 2015 is to be implemented effectively, the priorities as regards sectors, regions and instruments need to be defined more accurately in an implementation plan. The promotion of African and Asian LDCs and of their agricultural and rural development should take precedence. Project aid should be reduced in favour of multilaterally coordinated programmes (PRSPs, SwAPs).

### The starting position

The pace of poverty reduction in the 1990s was disappointingly slow in many developing regions and countries, especially in rural areas. This observation is true even of such high-growth countries as China and India. The international target of halving extreme poverty and the number of people suffering from hunger throughout the world will be achievable by 2015 only if poverty can be reduced more quickly than in the 1990s.

Of the 1.2 billion people in the world having to manage on less than US\$1 of PPP (purchasing power parity) per capita and day and thus deemed to be extremely poor, 75% (or 900 million) live in rural areas. Of the world's extremely poor, 44% live in South Asia, 25% in sub-Saharan Africa, 22% in East Asia, 5% in Latin America and the Caribbean and 1.5% in Eastern Europe and Central Asia. Women are affected by extreme poverty more frequently and more profoundly than men. The scale and depth of poverty in rural areas are usually greater than in towns and cities because people in rural areas are more likely to be living in geographical isolation and social exclusion. As a rule, the health status of rural people is worse, they are less well educated, and they engage in riskier and usually less productive activities (dependence on climate, natural disasters).

Mass poverty is a feature of the least developed countries (LDCs), but it is also widespread in middle-income countries. The highest concentration of poverty is to be found in the world's most populous countries – China and India. They

alone account for some 670 million, or 56%, of the world's extremely poor.

### The target of halving poverty and the measurement of progress

The target of halving extreme poverty solemnly declared at the UN Millennium Summit forms the provisional high point of a lengthy process that began at the 1995 World Summit for Social Development in Copenhagen and has as its ultimate objective the eradication of extreme poverty from the world. In the follow-up to the Copenhagen summit the target of halving poverty was adopted by the OECD's Development Assistance Committee (DAC) in 1996 as a goal to be achieved within a set period; four years later it was adopted as a politically binding objective at the special UN General Assembly on Copenhagen+5 held in Geneva (June 2000). It is characterized by the following parameters:

- A 50% reduction in the proportion of people in developing countries living in extreme poverty by the year 2015, the aim being to reduce poverty in all affected developing countries by the same amount.
- The reference year for measuring progress is 1990, when 1.276 billion (or 29%) of the people living in developing countries, including Eastern Europe and Central Asia, were deemed to be extremely poor. This was equivalent to about 25% of the entire world population.
- Progress towards the target is to be reviewed internationally with the help of four core indicators: the number of extremely poor people (people with an income of

less than US\$ 1 of PPP per day); the poverty gap (number of extremely poor people x depth of poverty); the scale of inequality (the poorest fifth's share of aggregate consumption) and malnutrition among children (proportion of underweight children under five). The data are compiled from national statistics and evaluated by various international organizations.

The target of halving poverty is based on a relatively narrow definition of poverty, that of income poverty. The social and political dimensions of poverty, i.e. the fact that the poor have no access to resources, are deprived of opportunities, lack the means of participating in the life of society and are vulnerable to risks and the loss of human dignity, are not treated as target dimensions. On the face of it, this would seem to imply that an adequate increase in per capita income would solve the problem of poverty reduction. As the target of halving poverty forms part of a system of international development objectives relating to the problems of primary education, health care, sustainable development and the improvement of women's position in society, the fear of one-dimensional action is, however, hardly justified.

### **Strategic approaches to poverty reduction**

Reducing poverty in the world has been an important goal ever since international development cooperation first began. It was left until the 1990s, however, for the fight against poverty to be declared the overriding objective of international cooperation. Other key concepts associated with the goal of poverty reduction in the international development debate of the 1990s were ecological and economic sustainability, pro-poor growth, good governance, basic social services for all, ownership of the development process, participatory development and gender.

The 1990s began with the collapse of communism and, subsequently, the global introduction of the free-market system. Seen from the angle of poverty reduction, the results have been highly equivocal. Although market-economy reforms favour economic growth, income growth does not automatically lead to poverty reduction. As economic and social inequality are major causes of poverty and determine how the benefits of growth are distributed, the question of access to productive resources should be given a high priority and the issue of agricultural reform is again on the agenda. Approaches to improving basic social services (e.g. the 20/20 initiative) have often failed to take account of the institutional, social and political realities. Globalization has accelerated the processes of financial, economic and technological integration. In a limited number of advanced developing countries these processes have made a significant contribution to poverty reduction, but they have also provided impressive evidence of the vulnerability of the poor in economic crises (as in Asia after 1997). The majority of LDCs and the poor majority of their population have, on the other hand, derived little or no benefit from globalization.

International experience of combating poverty has led the World Bank and the DAC/OECD to recommend two complementary multidimensional strategies that seek to achieve the following:

- World Development Report 2000/2001: promoting opportunities for the poor to undertake economic activities, facilitating the empowerment of the poor and enhancing their social and personal security.
- DAC/OECD Guidelines on Poverty Reduction, 2001: pro-poor growth through structural reforms; empowerment of the poor, respect for human rights and pro-poor governance; human development through the improvement of basic social services and wider access; gender mainstreaming and gender equality; promotion of sustainable livelihoods, and human security through crisis prevention and management.

### **Is the target achievable? World Bank and Overseas Development Institute (ODI) forecasts**

The latest World Bank projections (Global Economic Prospects 2001) paint a relatively gloomy picture as regards the achievement of the target of halving poverty by 2015. The forecast is based on an optimistic scenario (A) and a pessimistic scenario (B) (scenario A: average annual growth rates of 3.7% in the developing countries from 2000 to 2010, with consumption inequality continuing to increase in India and China; scenario B: annual growth rates of 2.3%). Under the conditions of scenario A the target can be achieved globally, but will be missed in some regions, and especially in sub-Saharan Africa (see Table 1). The forecast in the case of scenario B is far less favourable: the target is missed globally; only the East Asia region can achieve it. If it is assumed that the developing countries continue to achieve the same average growth rate as in the 1990s, which, at 1.8% p.a., were even lower than that assumed in scenario B, the number of extremely poor people in 2015 will be hardly lower than in 1998.

Major statistical and methodological problems are, however, associated with these projections. The quality of statistics is still poor in many countries, especially in sub-Saharan Africa. Methodological problems are posed by the associative mechanics of income growth and poverty reduction where a relatively stable pattern of distribution – excluding India and China – over a very long forecast period is assumed. For the very reason that distribution and poverty reduction are closely linked, equally high macroeconomic growth helps to reduce poverty in very different ways. The quality of economic growth also plays an important part. Growth in relatively capital- and knowledge-intensive sectors and economically strong regions generates less additional employment for the poor than growth in sectors of the economy that call for simple labour – the most important resource of the poor – on a larger scale and growth in regions with a high concentration of poverty. Evidence of this can be found, for example, in India, where poverty has been very slow to decline at times of relatively strong economic growth in the modern sectors (1992-99), compared to periods when economic growth rates were relatively low (1975-89), but which were characterized by accelerated agricultural development.

In its projections the Overseas Development Institute (Hammer and Naschold, March 2000) assumes that the more even the distribution of incomes and the more pro-poor growth processes are, the more poverty will be reduced by economic growth, pro-poor growth meaning a growth process in which the poor play a productive part. The forecasts arrive at the conclusion that, assuming pro-poor growth, the target of halving poverty is achievable globally. Even then, however, it will be missed by sub-Saharan Africa.

If the growth path cannot be made pro-poor, the forecast growth rates suffice for the target to be achieved only in East Asia. The extent to which income distribution influences the growth rates needed if the target is to be achieved is shown in Table 2.

### **Pro-poor growth needed**

These conclusions suggest that it will be a long time before the target of halving poverty is achieved unless the growth process can be made to benefit the poor. This will occur to the necessary extent only if pro-poor growth is made possible and backed by appropriate social reform processes. In other words, the necessary change to economic, social and political structures must be geared to combating poverty.

Region	Number of poor people (millions)				Proportion of poor people (%)			
	1990	1998	2015 A	2015 B	1990	1998	2015 A	2015 B
East Asia, total	452	267	65	101	27.6	14.7	3.2	4.8
Excluding China	92	54	9	20	18.5	9.4	1.3	2.8
Eastern Europe and Central Asia	7	18	6	9	1.6	3.7	1.3	1.9
Latin America and Caribbean	74	61	43	58	16.8	12.1	6.9	9.4
Middle East and North Africa	6	6	5	6	2.4	2.1	1.3	1.6
South Asia	495	522	297	411	44.0	40.0	17.7	24.5
Sub-Saharan Africa	242	302	361	426	47.7	48.1	39.5	46.7
Total	1276	1.175	776	1.011	29.9	23.4	12.6	16.4
Excluding China	916	961	721	931	28.1	25.6	15.0	19.4

**Source:** World Bank, Global Economic Prospects and the Developing Countries 2000/2001

	Growth forecast 2000-2001 <sup>1</sup>	Required growth	
		Pro-poor growth path	Unchanged growth path
<b>Sub-Saharan Africa</b>	<b>1.3</b>	<b>2.4</b>	<b>5.9</b>
Countries with high inequality		3.5	10.4
Countries with low inequality		2.1	4.6
<b>Latin America and Caribbean</b>	<b>3.0</b>	<b>0.6</b>	<b>7.0</b>
Countries with high inequality		0.5	7.0
Countries with low inequality		2.1	4.5

<sup>1</sup> World Bank, Global Economic Prospects and the Developing Countries 2001

**Source:** L. Hanmer and F. Naschold, Attaining IDTs: Will Growth Be Enough?, in: Development Review, Vol. 18, No 1, March 2000

The donor community today largely agrees on the main direction that socio-economic structural change should take in countries with a high concentration of poverty: a successful and lasting reduction in poverty will require a nationally and internationally conducive environment, in which conflicts are resolved peacefully, responsible governance is strengthened, human rights are respected, economic dynamism is encouraged, pro-poor financial systems are developed, agricultural reforms are implemented rapidly and sustainable resource use is ensured. The donor community must contribute by creating fair trade opportunities, by granting debt relief and by widening and consolidating development financing.

#### **Germany's contribution: Action Programme 2015**

On 4 April 2001 the German government launched "Action Programme 2015. The Federal Government's Contribution to the Global Halving of Extreme Poverty". In this programme poverty reduction is seen as a joint, international task that calls for the political will to take action and for numerous actors to cooperate as partners. It is, however, the governments of the developing countries who bear the main responsibility for a lasting reduction of poverty: they must make the necessary structural changes and sustained economic dynamism possible by undertaking economic, social and political reforms.

The German government sees poverty reduction as an important component of its entire policy. However, government action can make no more than a limited contribution. It is primarily meant to act as a catalyst that changes structures, makes new alliances against poverty possible and enables innovative sources of finance to be tapped. The German

government focuses its Action Programme on ten priority approaches to poverty reduction:

- increasing the economic dynamism and active participation of the poor,
- securing respect for the right to food and implementing agricultural reforms,
- creating fair trade opportunities for the developing countries,
- granting debt relief, increasing official development aid and developing financial systems,
- guaranteeing basic social services and strengthening social security systems,
- ensuring access to vital resources and promoting an intact environment,
- ensuring respect for human rights and compliance with the core labour standards,
- promoting gender equality,
- ensuring the participation of the poor in society and strengthening responsible governance,
- ensuring peaceful conflict management and promoting disarmament and human security.

Specific operations are assigned to each of these approaches. In all, the Action Programme refers to 75 operations, only a few of which are genuine innovations or additions to the set of development cooperation instruments; while many already form an integral part of German bilateral development cooperation, they are to play a more important role than in the past.

To oversee and implement the plan, there is to be a Dialogue Forum 2015, in which the German Länder, the business community and civil society (including the trade unions and the academic world) will also be represented.

### Challenges to German policy

The Action Programme that has been put forward has its strengths and its weaknesses. The approaches chosen largely correspond to those of the DAC/OECD Guidelines on Poverty Reduction. The guiding principle of the Action Programme is that action should be taken at three levels so as to have a significant impact: at international level with its sets of rules, at partner country level and at German and European level. This will also be a satisfactory response to the criticism voiced for many years by partner countries and NGOs in North and South that structural reforms cannot be expected of the countries concerned, and in some cases forced on them by means of conditionality, unless the international structures and rules and the industrialized countries' national policies become more coherent. The German government's commitment to the coherence of all policies, including its agricultural and trade policies, as regards the poverty target is an important step in removing or preventing practices that are detrimental to development. The litmus test here will be what is done in practice.

With so many intentions referred to in the Action Programme, priorities are no longer discernible and feasibility is being questioned. It has not yet proved possible to set convincing sectoral, regional and instrumental priorities. From long experience of combating poverty it might have seemed wise to focus on operations which have shown they have a leverage effect and in which bilateral development cooperation has comparative advantages. But this can still be done in the implementation plan that has yet to be adopted. Bilateral and international experience indicate the need to observe three guidelines in this context:

- Sectorally, considerable importance should be attached to agricultural and rural development and to SME-oriented business development in the cooperation with poor partner countries, since rural poverty and employment problems in the majority of LDCs can be addressed with any prospect of success only through agriculturally supported growth that takes full advantage of existing intersectoral linkage potential. The aim must be to optimize productivity gains and to achieve a greater degree of technological and institutional competence.
- Regionally, German development cooperation should concentrate on combating poverty especially in the African and Asian LDCs, since their economic and social starting position is particularly precarious. They need additional support, especially in overcoming or eliminating their weaknesses and constraints in manpower, institutional and financial terms. Largely because of its limited institutional and manpower capacities German development cooperation should reduce its project-related aid in favour of multilaterally coordinated programmes (e.g. Poverty Reduction Strategy Papers – PRSPs – and Sector-wide Approaches – SwAPs) and quickly meet the consequent instrumental requirements.

- The middle-income countries with a high concentration of poverty should be helped especially in their efforts to gear their macro and sectoral policies to combating poverty. In view of the trends in the budget of the German Ministry for Economic Cooperation and Development and the better opportunities these countries have for mobilizing not only development aid but also foreign direct investment and commercial loans to finance development, bilateral funds should be switched to benefit the poorest countries.

One important approach set out in the Action Programme is stepped-up official development aid; the Programme again stresses the 0.7 %-target (ODA quota), but following the development of BMZ's budget Germany is not coming closer to meeting this target. While this fact does not necessarily mean that the Action Programme will lack the funds required for implementation, it certainly is detrimental to credibility. It is easy enough to say that important measures like reforms of the international financial and trade systems are not wholly dependent on ODA, but this argument is not at all convincing.

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#### Literature for further reading:

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