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The Challenge of Poverty Reduction in IDB Member Countries in the Post-Crisis World

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Chapter I: Introduction

1.1. Poverty Implication of the Global Financial and Economic Crisis

Poverty reduction has been a major development challenge facing many developing countries, including IDB member countries. The global financial and economic crisis that originated from the US subprime mortgage crisis in the second half of 2007 and deepened in 2008 and 2009 is exacerbating the challenge of poverty reduction. For instance, it is estimated that, the crisis led to 50 million more people living below the poverty line of $1.25 a day and 64 million more people below the poverty line of $2 a day in 2009. In addition, it is projected that in 2010, 89 million more people will fall below the poverty line of $1.25 a day and 120 million more will fall below $2 a day due to the crisis[1].

The poverty implication of crisis arises mainly from the economic growth slowdown effect and its spillover to poverty-related variables such as employment and remittances. One of the immediate impacts of the crisis is the plunge in the values of financial assets, which crippled the lending capabilities of financial institutions and led to a sharp slump in consumption of goods and services, especially in advanced economies such as the US. The contagion of the crisis spread across economies worldwide through various channels of global economic and financial interconnectedness and morphed into the most severe recession since the 1930s as economic growth worldwide slowed down. As research findings indicate that economic growth is a key determinant of poverty reduction[2], the growth slowdown arising from the crisis would have implication for poverty.

Poverty reduction is central to the IDB 1440H Vision as second key strategic thrust only because reforming the IDB is the first key strategic thrust. The poverty reduction target of the IDB 1440H Vision is higher than that of the MDGs. Understanding poverty profile of member countries is important for developing appropriate intervention programs and policies to support poverty reduction in member countries. Efforts in this direction were made in 1999 (1420H) when the IDB Occasional Paper entitled *"The Challenges of Poverty Alleviation in IDB Member Countries"* examined the extent of poverty reduction challenges facing member countries.

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[1] Chen, S. and Ravallion, M. (2009). "The Impact of the Global Financial Crisis on the World's Poorest", World Bank Development Research Group.

[2] The World Bank estimates that a 1 percent decline in developing country growth rates traps an additional 20 million people in poverty. It follows therefore that the economic growth slowdown arising from the recession has adverse implication for poverty reduction. See for instance Dollar and Kraay, 2000 and Hasan et al, (2009).

In 2008[3], another IDB study presented the scorecard of member countries on goals and targets common to the MDGs and IDB 1440H Vision. The study estimated poverty rate of member countries as a group and in regional aggregates and indicated that "while extreme poverty rate has declined among member countries in MENA, ASIA and CIT[4] regions, it trended up in Sub-Saharan region from 53 percent in 1990 to 56 percent in 2004. The SSA region has the highest concentration of extreme poor (more than 50 percent), even though it is the third most populous region, behind MENA and Asia". It further noted that the "Sub-Saharan Africa region recorded the largest number of extreme poor increasing by 70 million from 130 million in 1990 to 200 million in 2004. In 2004, SSA region accounts for 61 percent of the total extreme poor people in member countries".

According to the Human Development Report of 2009 (HDR-2009) published by the UNDP, out of the 54 member countries that featured in the report, 14 are classified in the low human development category, 27 in the medium category while nine and four are in the high and very high categories respectively. Seven member countries are among the bottom 10 and the three countries with the lowest human development in the ranking of 182 countries are IDB member countries[5].

The poverty situation of member countries described above predates the global financial and economic crisis. An assessment of vulnerabilities of countries to the crisis reveals that[6] 43 developing countries are highly exposed to the poverty effects of the crisis, 19 of which are IDB member countries. Apart from the growth slowdown effect, decline in remittances, fall in global trade and rising unemployment, due to the chain effects of the crisis have direct impact on poverty in member countries.

As the world economy is manifesting signs of recovery, it is imperative to reflect on what the post-crisis world portends for poverty incidence and poverty reduction in member countries. This enhances the understanding of the enormity of post-crisis challenges, draw relevant lessons and keep abreast of best practices to form the basis for improving the quality of policy responses and intervention strategies in the IDB Group.

1.2. Scope and Objectives

The motivation for this paper is to take stock of the poverty situation in member countries before the crisis, analyze the impact of the crisis on poverty in member countries and discuss emerging challenges of poverty reduction that member countries are likely to face in a post-crisis world. The paper recognizes the multidimensional nature of poverty and the various factors that cause poverty. However, it focuses on the most prominent factors: economic growth and inequality.

[3] IDB (2008): "Achieving the targets of IDB 1440H Vision and MDGs: A Scorecard for IDB Member Countries"
[4] Countries in transition (CIT).
[5] See Current Information Note (CIN) Number 137 on Human Development Report 2009.
[6] Louise Cord et al (2009): The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens; World Bank Policy Note.

Indeed, the spillover effects of the crisis have adverse affects on some key poverty-related variables such as employment and remittances. The paper stresses this and provide a brief analytical connection and indicators but does not dwell into detail data analysis on how the impact of the crisis on these variables affected poverty in specific member countries. Nevertheless, the paper makes a passing recognition of the adverse effect of growth slowdown on the poverty-related measures in member countries based on which inferences are drawn on poverty reduction challenges that could arise.

The paper is the outcome of a study that undertook analysis of issues and available data. It affirms that poverty reduction has been a challenge worldwide even before the crisis, yet there were progress towards achieving the poverty reduction goal of halving the 1990-poverty rate by 2015.

It also confirms that, progress in poverty reduction is slowing down due to the effect of the the global financial and economic crisis, with the potential of hampering the achievement of the poverty reduction targets of the MDGs and IDB 1440H Vision.

On average, poverty incidence in member countries based on $1.25 a day reduced by nine percentage points between 1990 and 2005 but the magnitude of poverty (number of poor people) increased by 12 million within the same period, due to population increase.

Asian member countries are the most successful in reducing poverty; Sub-Saharan Africa member countries have the most severe incidence while the CIT appear to be the worst achievers in reducing poverty incidence.

Economic growth and the pattern of income distribution are the key drivers of poverty but in relative terms, growth is a much stronger factor than income. While some member countries were able to achieve poverty reduction with economic growth opportunities, some others were unable to use growth opportunities to reduce poverty.

The paper asserts that in the post-crisis period, the extent of structural relationships between participation in economic activities (employment), income and consumption will determine the extent of success in poverty reduction in member countries.

The enormity of the challenges of poverty reduction requires strong development partnerships. However, member countries need to institute prudent macroeconomic management and fiscal efficiency, especially as shrinking resources become part of the challenges facing many countries and development partners.

Poverty issues have evolved over the years as insights and new ideas emerge to shape the definition and measurement of poverty. The next section discusses the evolution followed by definition by the United Nations and measurement issues and the global poverty situation. Chapter 2 explains data sources and methodology and proceeds to discuss the poverty-related indicators of 40 IDB member countries for which data is available. Chapter 3 evaluates the likely impact of the global recession on poverty reduction challenges by making assumptions of four different scenarios and applying the estimated growth elasticity of poverty. Chapter 4 discusses appropriate policy responses for achieving effective and sustainable poverty reduction in IDB member countries.

1.3. Evolution of Poverty Issues

Poverty has been an issue for the global development community for several generations with different focus at different periods. Analytical perspective of poverty is traceable to the pioneering empirical study by Rowntree published in 1901[7], which developed poverty standard for individual families, based on estimates of nutritional and other requirements. During the same period, Dadabha Naoroji attempted to construct a poverty line for India by estimating the cost of quantities of various items of food and clothing that are "necessary for the bare wants of a human being, to keep him in ordinary good health and decency"[8]. Poverty assessment changed in the 1960s to the level of national income as reflected in GDP and other relevant indicators that give emphasis to economic growth. This gave rise to the relative deprivation notion of poverty: not just as a failure to meet minimum nutrition or subsistence levels, but rather, a failure to keep up with the prevalent societal standards.

Following the 'inverted U-hypothesis' that inequality rises during the initial phases of development and declines after some crucial level is reached (Kuznets, 1955)[9], poverty analysis was dominated by the likely trade-offs between growth and income inequality during the 1950s up to early 1970s. Hence, economic development context of poverty focusing on the relationship between growth, inequality and poverty gained prominence in the 1950s through to the 1970s and continue to shape poverty issues. The famous speech on poverty by Robert MacNamara, then President of the World Bank in 1973 to the Board of Governors of the World Bank and subsequent publications of "Redistribution with Growth" accentuated the increasing attention on the relationship between growth, inequality and poverty.

A broader definition of poverty emerged from the pioneering work of the ILO in the mid-1970s, from which poverty definition reflects not just lack of income, but also lack of access to health, education and other essential services. This gave rise to the concept of "basic needs" and inspired integrated rural development policies that continue to be relevant in policy prescriptions of poverty reduction and human development. In the 1980s, powerlessness and isolation issues inspired greater attention to participation; vulnerability issues prompted the need for coping strategies and safety nets, in addition to bringing to the fore the issue of sustainable livelihood. Amartyen Sen's theoretical analysis of poverty emphasize lack of capabilities and inability of people to function, which makes them poor; income is valuable in so far as it increases the capabilities of individuals thereby permitting them to function in society.

Gender dimensions of poverty gained increased attention in the 1980s, initially focusing on women, hence the concept of Women in Development (WID) and later wider gender relations and thus Gender and Development (GAD). The description of absence of poverty with the concept of "well being" was common in the 1990s but the

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[7] Maxwell, S. (1999), *"The Meaning and Measurement of Poverty*" ODI Poverty Briefing, Overseas Development Institute, February 1999.

[8] Key Indicators of Developing Asia and Pacific Countries

[9] This hypothesis is supported by other growth models such as the Labor Surplus Model (Lewis, 1954) and Capitalist's profit redistributive growth (Kaldor, 1967).

most prominent development in poverty lexicon in the 1990s is the idea of human development, inspired by Sen's theroretical exposition and developed by the UNDP. The human development argument is that, poverty emanates from *"the denial of opportunities and choices…..to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self-esteem and the respect of others…."*[10]

In recognition of the essence of inclusiveness in achieving human development, social exclusiveness have become part of issues for poverty analysis, focusing on not only the basic deprivations (income, housing, education and health) but also the process that could lead to those deprivations such as democratic and legal systems, markets, welfare state provisions, as well as family and community rights.

Key deductions that emerge from an analysis of poverty literature (see Appendix B) are as follows:

- ❖ Effective and sustainable poverty reduction requires a strong relationship between production and consumption anchored on significant involvement of the people in value-adding productive activities. As industrial production activities expand, more people get employment, earn income and are able to consume and save. This reduces the strain on governments thereby enhancing the efficiency of public service delivery and safety net programs.
- ❖ Inclusive growth is a necessary condition for sustainable growth and fundamental to poverty reduction as it facilitates the effective utilization of resources, creates wide-ranging opportunities for different strands of people and fosters economic, political and social cohesion.
- ❖ Robust structural productive interdependence of sectors that feeds on itself automatically is the veritable source of inclusive growth. Lack of inclusive growth breeds self-perpetuating structural weakness in production. In the process, most potential benefits that accrue from effective resource utilization such as learning-by-doing and spillover effect are frittered away, culminating into low levels of employment, low income and limited access to essential services, and hence poverty.
- ❖ Globalization presents opportunities for market expansion through international trade. Demand expansion spurred by international trade induces economies of scale that increases the opportunities for achieving inclusive growth and poverty reduction. Without appropriate policies and strategies to respond to the opportunities, the globalization process will tend to exacerbate poverty reduction challenges.
- ❖ International remittances from migration have positive impact on poverty reduction through direct consumption effect and indirectly, by creating demand expansion opportunities through consumption expenditures of recipients. However, the effective use of the demand opportunities to generate economic growth depends largely, on the response capabilities of domestic productive structures.
- ❖ Key challenge facing countries in attaining inclusive growth to form the basis of sustainable poverty reduction is that of creating an enabling atmosphere for harnessing economic resources effectively and efficiently.

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[10] Maxwell, S. (1999), *"The Meaning and Measurement of Poverty*" ODI Poverty Briefing, Overseas Development Institute, February 1999.

> This challenge is even more crucial due to increasing interdependent and competitive global economic dispensation that tends to undermine and marginalize indolent economies.

From the key deductions, the extent of structural relationships between participation in economic activities (employment), income and consumption will determine the magnitude of poverty effect of the global financial and economic crisis that turned into recession.

1.4. Definition and Measurement of Poverty

The evolution of poverty issues indicate that, even though the manifestation of poverty is obvious, its definition varies due to differences in perception of the most critical aspects and benchmark of human deprivations. Poverty is a state of deprivation of essential needs of life and in general, has five interrelated dimensions thus:

- *Personal and Physical deprivation*: lack of health, nutrition, literacy, education and by extension self-confidence,
- *Economic deprivation*: lack of opportunities or access to income,
- *Social Deprivation*: obstacles in participation in societal activities
- *Cultural Deprivation*: difficulties or inability of people to uphold and practice certain values they cherish.
- *Political Deprivation*: lack of political voice

The United Nations adopted a comprehensive definition of poverty thus;

> *"Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to, not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water and sanitation"*[11].

Furthermore, the UN distinguished between absolute and overall poverty thus:

> *"Absolute poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services".*

[11] UN Statement signed by the heads of all UN agencies, quoted from "Indicators of Poverty and Hunger" by David Gordon, University of Bristol.

> *Overall poverty takes various forms, including "lack of income and productive resources to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments and social discrimination and exclusion. It is also characterized by lack of participation in decision-making and in civil, social and cultural life. It occurs in all countries: as mass poverty in many developing countries, pockets of poverty amid wealth in developed countries, loss of livelihoods as a result of economic recession, sudden poverty as a result of disaster or conflict, the poverty of low-wage workers, and the utter destitution of people who fall outside family support systems, social institutions and safety nets"*[12].

These definitions capture virtually all dimensions of poverty and underline the deterministic effect of economic poverty in on other dimensions of poverty such as social and political. In addition, the UN statements underscore the prevalence of global poverty in all countries of the world irrespective of their levels of development.

As in definition, measuring poverty is a complex issue with varied emphasis on the criteria for determining a poor person in a given society and country. The divergences revolve on whether to focus on individuals or households; whether to use private consumption only or in addition to publicly provided goods; monetary and/or non-monetary components; snapshot or timeline; actual or potential situations; stock versus flow of resources; input versus output and whether poverty is absolute or relative.

Thus, while it is easy to perceive and identify poverty, measurement of poverty is not as simple as its perception. However, income measure of poverty has emerged as the most widely used indicator mainly due to the deterministic effect of economic poverty on other dimensions of poverty and the associated simplicity of determining a given level of income that could enable the affordability of a benchmark minimum essential needs for living. This has given rise to the concept of poverty line, the per capita income requirements for an individual to afford a basic bundle of goods and services that are critical to living.

Poverty lines vary across countries due to differences in standard of living, which depends on purchasing power and access to basic human needs. Hence, richer countries tend to adopt higher standard of living in defining poverty line and vice versa for poorer countries. Following a research by Ravallion, Datt and van de Walle, the World Bank established an International Poverty Line (IPL) at $1-a-day using the standards of the poorest countries and published in the 1990 World Development Report of the World Bank. The purpose of using the standard of living of poor countries for the IPL is to ensure that by using the lowest standard, it is possible to capture the whole spectrum of world poverty. In recognition of relativity of poverty, it was stipulated that the $1-a-day IPL was a benchmark for "extreme poverty" and a measure of poverty in developing countries whiles a $2-a-day is the IPL for basic poverty and measure of poverty in middle income and developed countries.

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[12] Declaration after the UN World Summit on Social Development in Copenhagen in 1995 by 117 countries.

The Asian Development Bank (ADB), in its flagship report, *Key Indicators 2008*, prescribes an Asian Poverty Line (APL) for extreme poverty at $1.35 a day, premised on the need for a different measure of poverty in Asia due to the high level of economic growth in the region. According to the ADB, "While the $1-a-day poverty line remains an appropriate benchmark for counting the extent of extreme poverty in Asia, and the developing world more generally, in a region that has witnessed rapid economic growth it might be time to evaluate poverty incidence using benchmark that reflects the region's dynamism".

In August 2008, a new World Bank study titled *"The developing world is poorer than we thought but no less successful in the fight against poverty"*, led to the revision of the IPL for extreme poverty from $1-a-day to $1.25-a-day. This was due to the realization that the minimum financial requirement for fulfilling the barest minimum basic human needs is $1.25 per day and not $1-a-day as previously estimated. The revisions arose from improvements in internationally comparable data in the 2005 International Comparison Program (ICP), from which more accurate estimates of cost of living in developing countries emerged.

Purchasing Power Parity (PPP) formed the yardstick for both the World Bank and ADB poverty measures. The difference, however is that, the ADB used PPPs based on comparisons of prices of goods and services purchased by the poor (ICP-PPPs), which they consider to be more appropriate than the PPPs that compares household consumption (Consumption-PPPs) across countries as used by the World Bank. Indeed, the ADB identifies three sets of PPPs, describing the third one as poverty-specific survey PPPs (PS-PPPs). Each of these alternative approaches to the PPPs leads to different estimates but do not fundamentally differ in the essential ingredients for measuring poverty. Notwithstanding the differences, there is convergence that the use of one standard IPL for measuring global poverty is more appropriate. The PPP adjusted IPL ensures meaningful cross-country comparisons.

1.5. Global Poverty Situation

According to the World Bank Study[13], despite the evidence of more widespread of poverty in the developing world than previously estimated, there has been significant, though regionally uneven, progress toward reducing overall poverty. For instance based on $1.25-a-day, the number of poor people (magnitude of poverty) has fallen by 500 million since 1981 while poverty incidence reduced from 52 percent of the developing world's population in 1981 to 26 percent in 2005.

In regional terms, the pre-crisis progress in poverty reduction shows that:

- *East Asia,* which was the poorest region in 1981, achieved significant progress in poverty reduction mainly due to the remarkable achievement of China, where the number of people living on less than $1.25 a day dropped from 835 million in 1981 to 207 million in 2005.

[13] Chen, S. and Ravallion (2008). "The developing world is poorer than we thought, but no less successful in the fight against poverty", Development Research Group, World Bank.

- *South Asia* recorded a fall in poverty rate on the basis of $1.25 a day from 60 percent to 40 percent over 1981-2005 but the number of poor people in the region in 2005, which stood at about 600 million, remains high. For instance, in India, poverty at $1.25 a day increased from 420 million people in 1981 to 455 million in 2005 while the poverty rate declined from 60 percent to 42 percent within the same period. This is due to population increase within the period.

- *Sub-Saharan Africa* did not record any significant progress in poverty reduction. In terms of $1.25 a day, the poverty rate in the region remains at 50 percent in 2005, the same as it was in 1981, even though it experienced some rise and fall during the period. The number of people who are poor in the region almost doubled from 200 million in 1981 to about 380 million in 2005. If this trend is not mitigated, Africa will be populated by a third of the world's poor by 2015.

If China is excluded, the poverty rate of the developing world at $1.25 per day has fallen from 40 percent to 29 percent during the period 1981-2005 but, given the high rate of population growth, this is not adequate for meeting the poverty reduction target of the MDGs. Measured against the poverty line for middle-income countries of $2-a-day:

- the poverty rate has declined in Latin America and the MENA regions over 1981-2005 but not enough to significantly reduce the number of poor,
- the poverty rate has risen in Eastern Europe and Central Asia but with signs of progress since the late 1990s, and
- an estimated 2.5 billion people in the world are below the poverty line in 2005, the same since 1981.

Thus, prior to the global financial and economic crisis, the world was facing poverty reduction challenges but nevertheless on track in achieving the poverty reduction goal of halving the 1990-poverty rate by 2015. Even though concerted international development attention towards poverty reduction has gained momentum in recent years, poverty reduction remains an arduous global development challenge. Achievements in poverty reduction have been mixed with poverty incidences worsening due to vulnerabilities to shocks in some countries while positive outcomes have emerged in few others.

The spillover effects of the global recession such as rising unemployment and volatility of commodity prices amid declining global trade pose new challenges. There is therefore the need to intensify collective global actions to reduce poverty among the about a billion people estimated before the crisis to have fallen below the poverty line of $1.25 a day, and also prevent those at the edge from plunging below the poverty line.

A key strategic development agenda of the IDB is to help achieve significant poverty reduction in member countries by 1440H. It is therefore important to assess the extent of poverty reduction in member countries prior to the global financial and economic crisis to form the basis of evaluating the post-crisis poverty challenges that could arise.

1.6. Data Sources and Methodology

The study sourced poverty data from the PovcalNet database of the World Bank and used them to analyze poverty trends and challenges in member countries. The PovcalNet contain various poverty indicators of several countries based on household consumption or income results generated from household surveys in those countries. The household survey datasets have been standardized from local currency values into international measure by using consumption-related purchasing power parity (PPP) exchange rates in the International Comparison Program (ICP).

The PPP and ICP provide the basis for converting the mean per capita expenditure of each country into poverty estimates that are internationally comparable based on International Poverty Line (IPL) of $1.25 a day and $2 a day. Although the PovcalNet database contains different poverty-related indicators, the head-count ratio and the magnitude of the poor are the most prominent as such the study gave emphasis on them in analyzing poverty in member countries. The head count ratio is the percentage of population that is poor while the magnitude of the poor is the number of people that are poor based on IPL threshold (either $1.25 a day or $2 a day). Multiplying the head count ratio, commonly referred to as poverty incidence, by the respective population (say, of a country) gives the magnitude of the poor.

The poverty indicators in the PovcalNet cover 110 countries, including 40 IDB member countries. The study adopted different stages of data application as follows:

First, the study analyzed data on poverty incidence and magnitude for the 40 member countries found in the PovcalNet. It examined poverty estimates using 1990 as the base year and the changes in poverty that occurred in two intermittent years: 2002 and 2005 (the latest year for which poverty estimates are available in the PovcalNet database). Both the IPLs of $1.25 a day and $2 a day were covered in the analysis. A benchmark of 50 percent poverty incidence was used to determine the number of member countries out of the 40 that experienced 50 percent incidence and above in 1990 and the changes that occurred in 2002 and 2005.

Second, the poverty estimates for the 40 member countries is projected for 2006 to 2009 using the relationship between growth and poverty. The analysis of these projected poverty estimates was undertaken for 2006 and 2007 separately to extend the coverage of poverty indicators in member countries before the global financial and economic crisis while the analysis of 2008 and 2009 reflects the immediate impact of the crisis on poverty. This is because the crisis erupted in late 2007 but its deepening effects occurred in 2008 and 2009.

Third, the study examined the influence of economic growth and inequality as drivers of poverty in member countries. The study obtained GDP per capita (for growth) and gini coefficients (the most widely used measure of inequality) of the 40 member countries from WDI and PovcalNet database respectively. By plotting changes in GDP per capita against changes in poverty incidence, the study analyzed the extent to which improvement or lack of improvement in GDP per capita contribute to poverty reduction or deterioration in poverty in the 40 member countries. In the same vein, plotting the changes in gini coefficient (inequality) against changes in poverty incidence provided the basis for analyzing the extent to which inequality drives poverty in member countries. In addition, decomposition method proposed by Datt and Ravallion (1992) is applied to analyze the relative influence of inequality and growth in driving poverty in member countries.

Fourth, the study adopted the elasticity approach to analyze post-crisis poverty outlook in member countries based on different scenarios of growth trajectory. It started with an observation of the empirical relationship between economic growth and poverty reduction in 1990 and 2005 using a simple linear regression whereby the log of the headcount ratio (poverty incidence) is regressed on a constant and GDP per capita in the form:

$$\mathbf{\ln P_{it} = \alpha + \beta^* \ln Y_{it} + \varepsilon_{it}}$$

where i denote country, t denotes year, and P and Y represent the poverty rate and GDP per capita, respectively. The data on poverty rates and GDP per capita are from World Bank's PovcalNet database and World Development Indicators, respectively. The coefficient on GDP per capita, β, is the estimate of the growth elasticity of poverty, defined as the percent change in the poverty rate that takes place when GDP per capita increases by one percent.

The study recognizes that the relationship between economic growth and poverty reduction is likely to vary among countries but assumes that the disparity will be very narrow among countries of the same regional group. It therefore assumes that the coefficient of growth elasticity of poverty for each regional group applies to every country in the group. Hence, the study computed estimates of growth elasticity of poverty for IDB sub-region group of countries[14] based on the above method. It then applied the regional coefficients to estimate the poverty reduction outcome in each country in different growth scenarios.

[14] Individual country estimation will be very complex for analysis in the context of this study.

Chapter II: Pre-Crisis Poverty Incidence and Magnitude

2.1. Poverty Incidence and Magnitude in Member Countries

The analyses of pre-crisis poverty profile cover the 40 IDB member countries for which household survey data for poverty estimation is available in the PovcalNet database. A starting period of 1990 is adopted to track changes (reduction and/or increase in poverty) over three specific years at the initial stage, 2002 and 2005. While the choice of base year of 1990 is due to the MDG reference year, the choice of 2002 and 2005 for tracking changes is due to convenience of data availability in addition to the fact that 2005 is the base year for the current ICP rounds that forms the basis for the current poverty estimates. However, in order to get the full picture of the pre-crisis poverty situation, a separate estimate for 2006 and 2007 is constructed. The descriptive analysis of the poverty profile is based $1.25 and $2 per day. Subsequent sections focus on drivers and implications for achieving the poverty reduction target of the IDB 1440H Vision and MDG.

The poverty incidence and magnitude of the 40 member countries for 1990, 2002 and 2005 are presented in Table 2.1. In 1990, about 37 percent of the population of the 40 member countries was extremely poor at below the poverty line of $1.25 a day. This level of poverty incidence translates to a poverty magnitude of 348 million people. By 2002, the poverty incidence reduced to 33 percent and the magnitude increased to 388 million. On the other hand, in 2005, both the magnitude and incidence of poverty in member countries decreased to 360 million and 28 percent respectively. The increase in magnitude of poverty between 1990 and 2002 was due to population increase within the period.

In 1990, 15 out of the 40 member countries have poverty incidences of 50 percent and above while 16 have below 10 percent. Guinea had the most severe poverty incidence in 1990 at 93 percent, followed by Mali at 85 percent and Mozambique at 84 percent. Of the 16 member countries that recorded below 10 percent poverty incidence in1990, two (Albania and Kazakhstan) were at less than one percent; five (Djibouti, Gabon, Malaysia, Tajikistan and Turkey) at below 2 percent; and seven (Egypt, Iran, Jordan, Kyrgyz Republic, Morocco, Uzbekistan and Yemen) at below 5 percent. However, in 2002 and 2005, 11 member countries recorded poverty incidence of 50 percent and above as compared to 15 in 1990. Similarly, only 12 member countries recorded below 10 percent in both 2002 and 2005 as compared to 16 in 1990.

As many as 19 member countries had poverty incidence at above the group average of 37.3 in 1990, 21 member countries had more than the average of 32.5 percent in 2002 and in 2005, only 17 member had poverty incidence above the 28.5 average for the group of 40 member countries. In 1990, 15 member countries had poverty incidence of less than 5 percent, five had poverty incidence of more than percent but below 20 percent, two had more than 20 but less than 35 percent while 19 had 35 percent and above. In 2002, nine member countries had poverty incidence of less than 5 percent, eight had above 5 percent but below 20 percent, six above 20 but below 35 percent while 17 member countries had poverty incidence of 35 percent and above. For 2005, 11 member countries had poverty incidence of below 5 percent, five above 5 percent but 20 percent, eight above 20 percent but below 35 percent and 15 member countries had 35 percent and above incidence of poverty.

In cumulative terms, poverty incidence in the 40 member countries decreased from 37 percent in 1990 to 28 percent in 2005, which indicates that member countries achieved poverty reduction by 9-percentage points between 1990 and 2005. However, the number of poor people (magnitude of the poor) increased by about 12 million during the same period. The mismatch between poverty incidence and magnitude is mainly due significant increase in population without significant compensatory poverty reduction to match.

Based on IPL of $2 a day (Table 2.2), poverty incidence in the 40 member countries was 59 percent in 1990, which translates into 550 million poor people. The poverty incidence reduced to 57 percent in 2002 and further to 52 percent in 2005 with the number of poor people increasing to 684 million in 2002 and decreasing to 660 million in 2005. Thus while the incidence reduced by 2 percent between 1999 and 2002, the magnitude increased by 134 million. However, between 2002 and 2005, 5-percentage point reduction in poverty incidence translates into a reduction in the number of poor people by 25 million.

Table 2.1: Poverty Estimates in Selected IDB Member Countries Based on $1.25 Poverty Line (in 2005 PPP)

Country	Head Count Ratio (%)			Magnitude of Poor *(In Millions)*		
	1990	2002	2005	1990	2002	2005
Albania	0.9	0.6	0.9	0.0	0.0	0.0
Algeria	6.2	5.4	4.3	1.6	1.7	1.4
Azerbaijan	16.1	3.2	0.0	1.2	0.3	0.0
Bangladesh	49.9	52.9	50.5	56.4	76.6	77.4
Benin	66.0	47.3	50.0	3.4	3.6	4.2
Burkina Faso	61.9	56.5	55.0	5.5	7.2	7.7
Cameroon	45.7	32.8	27.5	5.6	5.5	4.9
Chad	55.9	61.9	58.7	3.4	5.6	6.0
Comoros	51.4	49.7	46.1	0.2	0.3	0.3
Côte d'Ivoire	17.3	23.3	20.4	2.2	4.1	3.8
Djibouti	1.8	18.8	18.6	0.0	0.1	0.1
Egypt	4.5	1.8	2.0	2.5	1.2	1.4
Gabon	1.9	2.8	4.8	0.0	0.0	0.1
Gambia	67.9	34.3	31.3	0.7	0.5	0.5
Guinea	92.6	70.1	69.8	5.6	6.0	6.3
Guinea-Bissau	41.3	48.8	42.5	0.3	0.7	0.7
Indonesia	54.3	29.3	21.4	96.7	62.1	47.3
Iran	3.9	1.8	1.5	2.1	1.2	1.0
Jordan	2.8	1.2	0.4	0.1	0.1	0.0
Kazakhstan	0.5	5.2	1.2	0.1	0.8	0.2
Kyrgyz Rep.	4.8	34.0	21.8	0.2	1.7	1.1
Malaysia	1.9	1.1	0.5	0.3	0.3	0.1
Mali	85.2	57.7	51.4	6.6	6.1	6.0
Mauritania	45.9	17.9	13.4	0.9	0.5	0.4
Morocco	2.5	6.3	3.0	0.6	1.8	0.9
Mozambique	84.0	74.7	68.2	11.3	14.3	14.0
Niger	65.0	80.0	65.9	5.1	9.5	8.7
Nigeria	49.1	62.8	62.4	46.4	82.4	88.2
Pakistan	58.5	35.9	22.6	63.1	52.0	35.2
Senegal	65.8	42.0	33.5	5.2	4.6	3.9
Sierra-Leone	63.1	53.4	49.9	2.6	2.6	2.8
Suriname	18.6	15.7	14.2	0.1	0.1	0.1
Tajikistan	1.5	36.3	21.5	0.1	2.3	1.4
Togo	33.8	33.0	38.7	1.4	1.9	2.4
Tunisia	5.9	1.9	1.0	0.5	0.2	0.1
Turkey	1.5	2.0	2.7	0.8	1.4	2.0
Turkmenistan	34.2	18.9	11.7	1.3	0.9	0.6
Uganda	68.7	57.4	51.5	12.2	15.1	14.9
Uzbekistan	4.9	42.3	38.8	1.0	10.7	10.2
Yemen, Rep.	4.9	9.7	17.5	0.6	1.9	3.7
Total	**37.3**	**32.5**	**28.5**	**347.8**	**387.7**	**359.9**

Source: World Bank, PovcalNet Database.

Regionally, Sub-Saharan African member countries (SSAMCs), which comprise 20 of the 40 member countries for which data were available, recorded the highest incidence of extreme poverty based on $1.25 a day in all the years considered. As Table 2.3 indicates, poverty incidence in SSAMCs averaged 55 percent in 1990; increased slightly to 57 percent in 2002 and decreased to 54 percent in 2005. In terms of magnitude, about 120 million people lived below the extreme poverty line in the 20 SSAMCs in 1990. This increased to 170 million in 2002 and to 176 million in 2005. The average poverty incidence in Asian member countries (five out of the 40**)** was 52 percent in 1990, decreased to 36 percent in 2002 and further decreased to 29 percent in 2005 with corresponding decrease in magnitude from 217 million in 1990 to 191 million in 2002 and to 160 million in 2005.

Table 2.2: Poverty Estimates in Selected IDB Member Countries Based on $2.00 Poverty Line (in 2005 PPP)

Country	Head Count Ratio (%)			Magnitude of Poor *(In Million)*		
	1990	2002	2005	1990	2002	2005
Albania	0.9	8.8	7.9	0.0	0.3	0.2
Algeria	6.2	20.7	18.1	1.6	6.5	5.9
Azerbaijan	16.1	18.9	0.3	1.2	1.5	0.0
Bangladesh	49.9	81.5	80.3	56.4	118.1	123.1
Benin	66.0	75.3	77.3	3.4	5.8	6.5
Burkina Faso	61.9	81.2	80.3	5.5	10.3	11.2
Cameroon	45.7	57.7	51.8	5.6	9.6	9.2
Chad	55.9	83.3	81.2	3.4	7.6	8.2
Comoros	51.4	68.2	65.0	0.2	0.4	0.4
Côte d'Ivoire	17.3	46.8	43.0	2.2	8.3	8.0
Djibouti	1.8	41.2	40.8	0.0	0.3	0.3
Egypt	4.5	18.2	18.5	2.5	12.6	13.4
Gabon	1.9	14.3	19.6	0.0	0.2	0.3
Gambia	67.9	56.7	53.3	0.7	0.9	0.9
Guinea	92.6	87.2	87.1	5.6	7.4	7.8
Guinea-Bissau	41.3	77.9	72.9	0.3	1.2	1.2
Indonesia	54.3	67.0	53.8	96.7	141.8	118.7
Iran	3.9	9.6	8.0	2.1	6.3	5.5
Jordan	2.8	11.0	3.5	0.1	0.6	0.2
Kazakhstan	0.5	21.5	10.4	0.1	3.2	1.6
Kyrgyz Rep.	4.8	66.7	51.9	0.2	3.3	2.7
Malaysia	1.9	10.0	7.8	0.3	2.4	2.0
Mali	85.2	79.9	77.1	6.6	8.5	9.0
Mauritania	45.9	38.6	32.0	0.9	1.0	0.9
Morocco	2.5	24.3	16.2	0.6	7.1	4.9
Mozambique	84.0	90.0	86.6	11.3	17.2	17.8
Niger	65.0	92.4	85.6	5.1	11.0	11.3
Nigeria	49.1	82.8	82.6	46.4	108.7	116.8
Pakistan	58.5	73.9	60.3	63.1	107.1	93.9
Senegal	65.8	69.1	60.4	5.2	7.5	7.1
Sierra-Leone	63.1	76.1	73.5	2.6	3.7	4.1
Suriname	18.6	27.5	25.3	0.1	0.1	0.1
Tajikistan	1.5	68.8	50.9	0.1	4.3	3.3
Togo	33.8	63.8	69.3	1.4	3.6	4.3
Tunisia	5.9	10.7	7.3	0.5	1.0	0.7
Turkey	1.5	9.6	9.1	0.8	6.7	6.5
Turkmenistan	34.2	41.9	31.5	1.3	1.9	1.5
Uganda	68.7	79.9	75.6	12.2	21.0	21.9
Uzbekistan	4.9	75.6	69.7	1.0	19.1	18.2
Yemen, Rep.	4.9	32.0	46.6	0.6	6.2	9.8
Total	**37.3**	**57.3**	**52.2**	**347.8**	**684.4**	**659.8**

Source: World Bank, PovcalNet Database.

In terms of $2 a day, Asian member countries had the highest poverty rate at 81 percent poverty incidence and magnitude of 340 million in 1990. The poverty incidence decreased to 70 percent in 2002 and 61 percent in 2005 while the magnitude increased to 370 million in 2002 and decreased to 337 million in 2005. The 11-percentage point reduction in poverty incidence with 30 million increase in the number of poor people between 1990 and 2002 suggests a significant rise in population within the period while between 2002 and 2005, 11-percentage points reduction in poverty incidence translates into reduction of poor people by 23 million.

In the case of SSAMCs, both the $2 poverty incidence and magnitude increased between 1990 and 2002, followed by a marginal decrease in poverty incidence (by 2 percentage points) between 2002 and 2005 but accompanied by 13 million increase in the number of poor people. In 1990, the region recorded a poverty incidence of 75 percent in 1990 corresponding to about 160 million people. The poverty incidence increased to 78 percent in 2002 (by 3 percentage points) and decreased by 3 percentage-points in 2005 to 75 percent while the number of poor people increased to 234 million (by 74 million) and increased further by 13 million to 247 million in 2005.

Table 2.3: Poverty Estimates of Regional and Developing Groups of IDB Member Countries (In 2005 PPP)

Sub-regional and Development Groups	Based on $1.25 a day						Based on $2 a day					
	Head Count Ratio (%)			Magnitude of Poor (In Million)			Head Count Ratio (%)			Magnitude of Poor (In Million)		
	1990	**2002**	**2005**	**1990**	**2002**	**2005**	**1990**	**2002**	**2005**	**1990**	**2002**	**2005**
Asia (5)	51.9	36.3	28.8	216.6	191.0	160.0	81.4	70.2	60.8	340.1	369.6	337.8
Countries in Transition (7)	6.3	24.6	19.4	3.8	16.6	13.5	14.9	50.1	39.8	9.0	33.7	27.6
Middle East and North Africa (8)	3.7	3.2	3.4	8.7	9.5	10.5	16.9	15.7	15.0	40.5	46.9	47.1
Sub-Saharan Africa (20)	55.4	56.6	53.9	118.5	170.6	175.8	74.9	77.7	75.8	160.4	234.1	247.3
Total	***37.3***	***32.5***	***28.5***	***347.8***	***387.7***	***359.9***	***59.0***	***57.3***	***52.2***	***550.0***	***684.4***	***659.8***
Least Developed Member Countries (LDMC-23)	47.7	49.7	46.6	123.8	172.1	172.7	70.2	75.1	72.9	182.3	260.3	270.4
Non Least Developed Member Countries (Non-LDMC-17)	33.3	25.4	20.9	224.0	215.6	187.2	54.7	50.0	43.6	367.8	424.1	389.3
Total	***37.3***	***32.5***	***28.5***	***347.8***	***387.7***	***359.9***	***59.0***	***57.3***	***52.2***	***550.0***	***684.4***	***659.8***

Source: Estimates Based on World Bank, PovcalNet Database

For CITMCs, the $2 a day poverty pattern is similar to that of $1.25 a day in that progress in poverty reduction of the region is the worst among the IDB regional groupings. In 1990, poverty incidence based on $2 a day in the CITMCs averaged 15 percent with 9 million people living below the poverty line. The poverty incidence increased to 51 percent in 2002 corresponding to increase in the number of poor people to 34 million. However, in 2005 both the poverty incidence and the number of poor people reduced to 40 percent and 2 million respectively. The very high increase between 1990 and 2002 (36 percentage points in poverty incidence and 25 million poor people) is indicative of serious deterioration in poverty situation among the CIT member countries even though there was relatively, moderate improvements between 2002 and 2005 with 11 percentage point reduction in poverty incidence and 6 million poor people.

The MENA region experienced moderate levels of both incidence and magnitude of $2 a day during the period. Nevertheless, poverty incidence decreased marginally while the magnitude increased between 1990 and 2005. The poverty incidence in the MENA group averaged 17 percent with about 40 million poor people in 1990. The poverty incidence decreased to 16 percent in 2002 and to 15 percent in 2005 but the number of poor people increased to 47 million in 2002 and to 48 million in 2005.

According to Table 2.4, the poverty incidence based on $1.25 a day in the member countries decreased marginally by one percentage point, i.e. from average of 28 percent in 2005 to 27 percent in 2006 and to 26 percent in 2007. Eight member countries had poverty incidence of 50 percent in both 2006 and 2007. These are Benin, Burkina Faso, Chad, Guinea, Mali, Mozambique, Niger and Nigeria. The number of poor people decreased from 360 million in 2005 to 350 million in 2006 and to 338 million in 2007. This implies that the number of extremely poor people reduced by 10 million between 2005 and 2006 and reduced further by 12 million between 2006 and 2007 making a total net reduction of extremely poor people by 22 million between 2005 and 2007.

Poverty incidence based on $2 a day, which averaged 52 percent in 2005, reduced marginally by one percentage point in 2006 and 2007. The number of poor people (magnitude of poverty) decreased from 660 million in 2005 to 655 million in 2006 and to 648 million in 2007. In both 2006 and 2007, about 20 member countries recorded 50 percent or more poverty incidence, out of which 10 had above 70 percent and eight (Chad, Guinea, Mozambique, Niger and Nigeria) with 80 percent and above.

Overall, the poverty trend in member countries signifies a general improvement between 1990 and 2002 but deterioration between 2002 and 2005. This pattern is not only for the aggregate poverty situation in the member countries but also for the regional groups as well as for many of the member countries. In aggregate terms, poverty incidence based on $1.25 a day reduced by nine percentage points between 1990 and 2005 while poverty magnitude increased by 12 million in the same period.

The progress made in reducing poverty during the period 1990-2005 vary among member countries as some experienced more significant reduction than others did. Those with significant rate of poverty reduction include Gambia (37-percentage point reduction); Indonesia (33 percentage points); Mali (34 percentage points); Mauritania (33 percentage points); Pakistan (36 percentage points) and Senegal (32 percentage points). Of the 16 member countries that experienced net increase in poverty between 1990 and 2005, two, Uzbekistan and Tajikistan experienced the highest increase in incidence of poverty over the period at 34 percent and 20 percent respectively.

Asian member countries are the most successful in reducing poverty recording 23-percentage points reduction in poverty incidence and 57 million reductions in the number of poor people living below $1.25 a day poverty line. SSAMCs recorded a above one- percentage point reduction in poverty incidence but an increase in the number of poor people by 57 million. In the MENA region, there was miniscule reduction in poverty incidence but increase in the number of poor people by about 2 million. The CITMCs recorded a 13-percentage points increase in poverty incidence and increase in the number of poor people by 10 million.

While the SSAMCs experienced the worst incidence of extreme poverty, the Countries in Transition (CIT) are lagging behind in progress of reducing poverty. From poverty incidence of 6 percent in 1990, the CITMCs recorded a poverty incidence of 25 percent in 2002, which decreased to 19 percent in 2005. The Middle East and North Africa (MENA) member countries comprising eight of the 40 countries, recorded the lowest extreme poverty incidence at 4 percent in 1990 and down to 3 percent in the remaining years.

The Least Developed Member Countries (LDMCs) as a group recorded an average poverty incidence of 48 percent, which increased to 50 percent in 2002 and reduced to 47 percent in 2005. In terms of the number poor people, the LDMCs had 124 million poor people in 1990, which increased to 172 million in 2002 and to 173 million in 2005. For the Non-LDMCs, poverty incidence decreased from 33 percent in 1990 to 25 percent in 2002 and 21 percent in 2005. Correspondingly, the number of people decreased from 224 million in 1990 to 216 million in 2002 and to 187 million in 2005.

In contrast, based on $2 a day, poverty incidence decreased, marginally, between from an average of 59 percent to 57 in 1990 to 57 percent in 2002 and decreased further to 52 percent in 2005 leading to a total reduction of 7 percentage point over the period 1990-2005. However, the number of poor people increased from 550 million people in 1990 to 684 million in 2002 and decreased to 660 million in 2005 leading to a net increase of 110 million over the period 1990-2005.

As poverty is strongly related to economic activities and the distribution pattern of the proceeds of economic activities, it is important to examine the effects of growth and inequality on poverty in member countries. Accordingly, economic growth trends and inequality indicators of member countries over the same period are discussed in the section that follows.

Table 2.4: Projected Poverty Estimates in Selected IDB Member countries 2006-2007								
	$1.25 per day				$2 per day			
	Headcount Ratio (%)		Magnitude (In Million)		Headcount Ratio (%)		Magnitude (In Million)	
Country/Sub-region	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
Bangladesh	47.2	43.9	73.4	69.3	77.9	75.4	121.2	119.1
Indonesia	20.2	18.7	45.1	42.3	52.4	50.6	116.8	114.2
Malaysia	0.5	0.5	0.1	0.1	7.6	7.4	2.0	2.0
Pakistan	21.4	20.3	34.0	33.0	58.8	57.5	93.5	93.4
Suriname	13.6	12.8	0.1	0.1	24.8	24.1	0.1	0.1
Asia	***27.1***	***25.3***	***152.8***	***144.7***	***59.1***	***57.4***	***333.7***	***328.8***
Albania	0.8	0.6	0.0	0.0	7.3	6.7	0.2	0.2
Azerbaijan	0.0	0.0	0.0	0.0	0.2	0.1	0.0	0.0
Kazakhstan	0.9	0.7	0.1	0.1	9.1	8.0	1.4	1.2
Kyrgyz Rep.	20.8	17.1	1.1	0.9	50.5	45.4	2.6	2.4
Tajikistan	18.9	15.8	1.3	1.1	47.3	43.0	3.1	2.9
Turkmenistan	9.2	6.3	0.4	0.3	27.5	23.0	1.3	1.1
Uzbekistan	33.7	26.5	8.9	7.1	64.4	56.9	17.1	15.3
Countries in Transition	***16.9***	***13.4***	***11.9***	***9.5***	***36.8***	***32.6***	***25.8***	***23.2***
Algeria	4.2	4.1	1.4	1.4	18.0	17.8	6.0	6.0
Egypt	1.9	1.7	1.4	1.3	17.7	16.8	13.1	12.7
Iran	1.4	1.2	1.0	0.9	7.7	7.2	5.4	5.1
Jordan	0.4	0.3	0.0	0.0	3.3	3.1	0.2	0.2
Morocco	2.7	2.6	0.8	0.8	15.2	15.0	4.6	4.6
Tunisia	1.0	0.9	0.1	0.1	7.0	6.6	0.7	0.7
Turkey	2.5	2.4	1.8	1.8	8.6	8.3	6.3	6.2
Yemen, Rep.	17.5	17.4	3.8	3.9	46.5	46.4	9.8	9.8
Middle East and North Africa	***3.2***	***3.1***	***10.3***	***10.2***	***14.5***	***14.0***	***46.2***	***45.3***
Benin	49.8	49.2	4.3	4.4	77.1	76.5	6.7	6.9
Burkina Faso	53.8	53.5	7.7	7.9	79.2	78.9	11.4	11.7
Cameroon	27.2	26.9	5.0	5.0	51.4	51.1	9.4	9.5
Chad	60.3	61.6	6.3	6.6	82.6	83.7	8.6	9.0
Comoros	46.5	47.3	0.3	0.3	65.3	66.0	0.4	0.4
Côte d'Ivoire	20.7	20.8	3.9	4.0	43.4	43.5	8.2	8.5
Djibouti	18.0	17.5	0.1	0.1	40.1	39.4	0.3	0.3
Gabon	4.9	4.7	0.1	0.1	19.7	19.3	0.3	0.3
Gambia	30.3	29.3	0.5	0.5	52.3	51.3	0.9	0.9
Guinea	69.6	69.8	6.4	6.6	86.9	87.1	8.0	8.2
Guinea-Bissau	43.1	43.0	0.7	0.7	73.6	73.4	1.2	1.2
Mali	50.4	49.8	6.0	6.1	76.2	75.7	9.1	9.3
Mauritania	12.3	12.5	0.4	0.4	30.5	30.8	0.9	1.0
Mozambique	64.2	60.8	13.5	13.0	83.6	81.0	17.5	17.3
Niger	64.5	64.6	8.9	9.2	84.5	84.6	11.6	12.0
Nigeria	60.2	57.5	87.2	85.1	80.9	78.8	117.1	116.5
Senegal	33.6	32.9	4.1	4.1	60.4	59.8	7.3	7.4
Sierra-Leone	49.1	47.4	2.8	2.8	72.7	71.3	4.2	4.2
Togo	38.2	38.4	2.4	2.5	68.8	69.0	4.4	4.5
Uganda	48.1	45.5	14.4	14.1	72.6	70.3	21.7	21.7
Sub-Saharan Africa	***52.3***	***50.6***	***175.0***	***173.5***	***74.5***	***73.1***	***249.3***	***250.8***
Total	**27.2**	**25.8**	**349.9**	**337.9**	**50.9**	**49.5**	**654.9**	**648.1**

Source: Estimated based on data from World Bank, PovcalNet Database

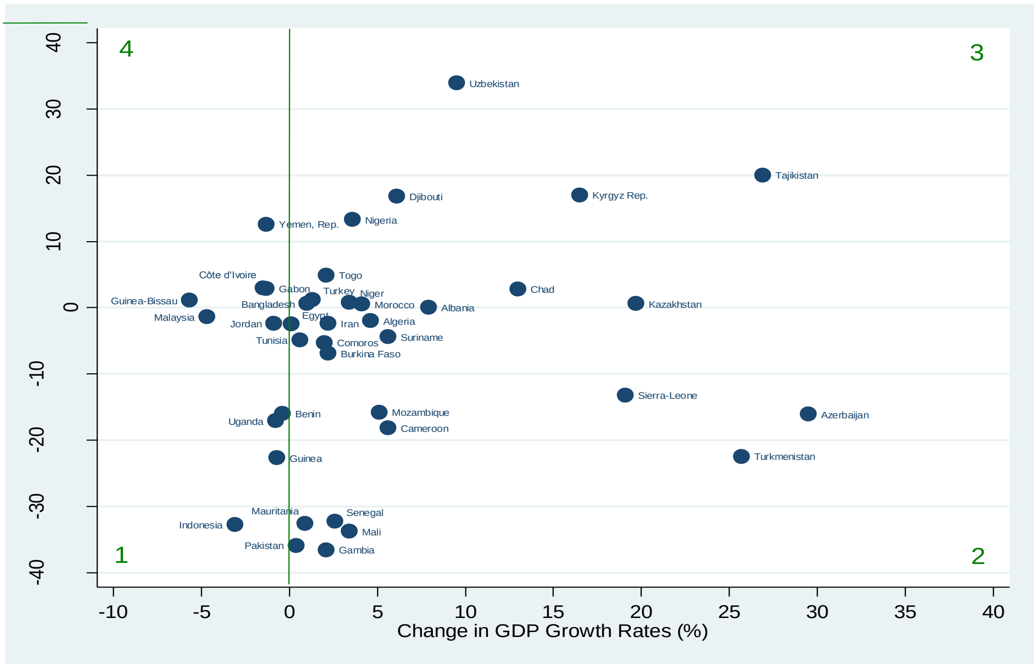
2.2. The Effect of Economic Growth and Inequality on Poverty Incidence

There is convergence by various research findings that economic growth has a positive impact on poverty reduction. This stems from the increase in income associated with economic growth. However, it is established that income inequality plays a significant role in driving poverty. If the initial condition of poverty is due to skewed income distribution, then a change in the pattern of income distribution in a country becomes a very important factor along with growth in reducing poverty. This section analyses the relationship between economic growth and inequality indicators of IDB member countries.

The growth performance of the IDB member countries has varied over the years, due to the peculiarities of domestic factors that underpin growth as well as differences in factor endowments. Some member countries have achieved sustained high economic growth performance while others have performed relatively poorly and some others even experienced negative growth in some of the years. A general pattern that emerged is that many member countries experienced a deceleration in growth between 1990 and 1995 with growth rates fluctuating before picking up strongly during 2003-2007 (see Appendix Table 7).

Chart 2.1: Change in Poverty ($1.25 per day) and GDP (in 2005 PPP), 1990s vs 2000s

.



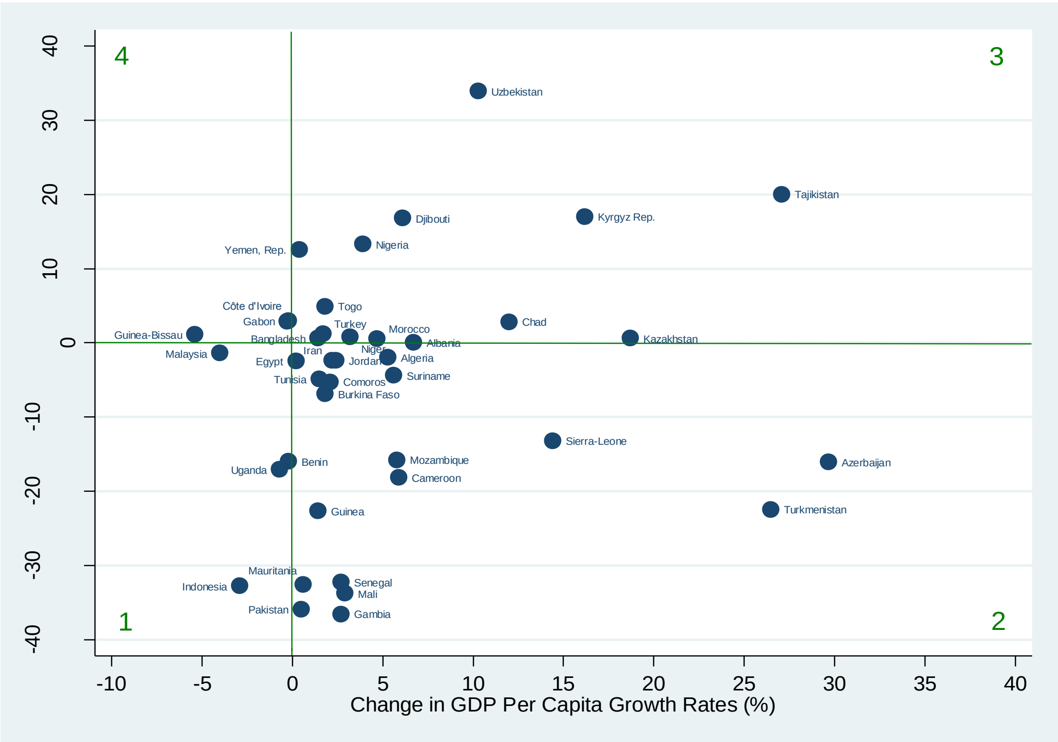
Note: Change in GDP Per Capita refers to the difference in the average annual growth rates of GDP in 1990s and 2000s (average annual growth rates of GDP between 1990 and 1995 for 1990s and average annual growth rates between 2000 and 2005 for 2000s) .

Source: World Bank, PovcalNet Database and World Development Indicators Online

Chart 2.1 illustrates the relationship between growth rates and poverty. It divides countries into clusters of four quadrants. In quadrant 1 (Q1), six countries (Malaysia, Jordan, Uganda, Indonesia, Guinea) succeeded in reducing poverty even while growth rates over the period was negative. This is remarkable and suggests that income redistribution has led to reduction in poverty even though growth has declined. This implies that income distribution is a key driver of poverty in these countries. Many member countries cluster in Q2, indicating that they translated their high growth achievements into significant poverty reduction. Given the significant number of countries in this cluster, it implies that growth have very significant effect on poverty reduction in many member countries. This is consistent with the conventional notion that growth is a key requirement for poverty reduction. However, some countries such as those in Q3 achieved relatively high growth yet experienced increase in poverty while those in Q4 (Yemen, Cote d'Ivoie and Guinea-Bissau) experienced negative growth along with increase in poverty.

The effect of growth on poverty reduction depends on the extent to which growth is able to meet the basic needs of the people (GDP per capita) and the mechanism of distribution (inequality). The most commonly used measure of inequality is the Gini coefficient, which varies between zero and one or expressed in percentage terms. A high value of the gini coefficient indicates a high level of inequality and vice versa. It follows therefore that, the relationship between growth in GDP per capita and poverty incidence as well as the relationship between changes in inequality and poverty incidence will provide additional insights into the effects of growth and inequality on poverty reduction in member countries.

Chart 2.2: Change in Poverty ($1.25 per day) and GDP Per Capita (in 2005 PPP), 1990 vs 2005



Source: World Bank, PovcalNet Database and World Development Indicators Online

By intuition, an increase in GDP per capita will lead to reduction in poverty because it implies that people are earning more and their standard of living is improving. However, if the increase in GDP per capita is not associated with a balanced income distribution pattern, the increase in income arising from the GDP growth will not reach many people as few gain additional income while the majority continues to wallow in poverty. This is even more so if the few gainers have exceeded poverty-benchmark consumption requirements such that the additional incomes will not necessary lead to additional consumption. The question is: what is the picture in member countries?

Chart 2.2 depicts the relationship between change in GDP per capita and change in poverty incidence based on $1.25 a day in the 40 member countries. It shows four quadrants, each containing a cluster of countries that reflects actual causative relationship between poverty incidence and change in GDP per capita growth rates. Member countries in Q1 (quadrant one) are those with negative growth rates of GDP per capita but achieved reduction in poverty. Those in this category include Malaysia, Uganda, and Indonesia, all of which also featured in a similar quadrant in Chart 2.1 as well as Benin. These countries demonstrate achievement of poverty reduction with declining GDP per capita growth. This remarkable success in poverty reduction can occur when countries implement measures of realigning domestic production and consumption that brought more people into the stream of income earning activities, thereby uplifting their standard of living above the poverty threshold

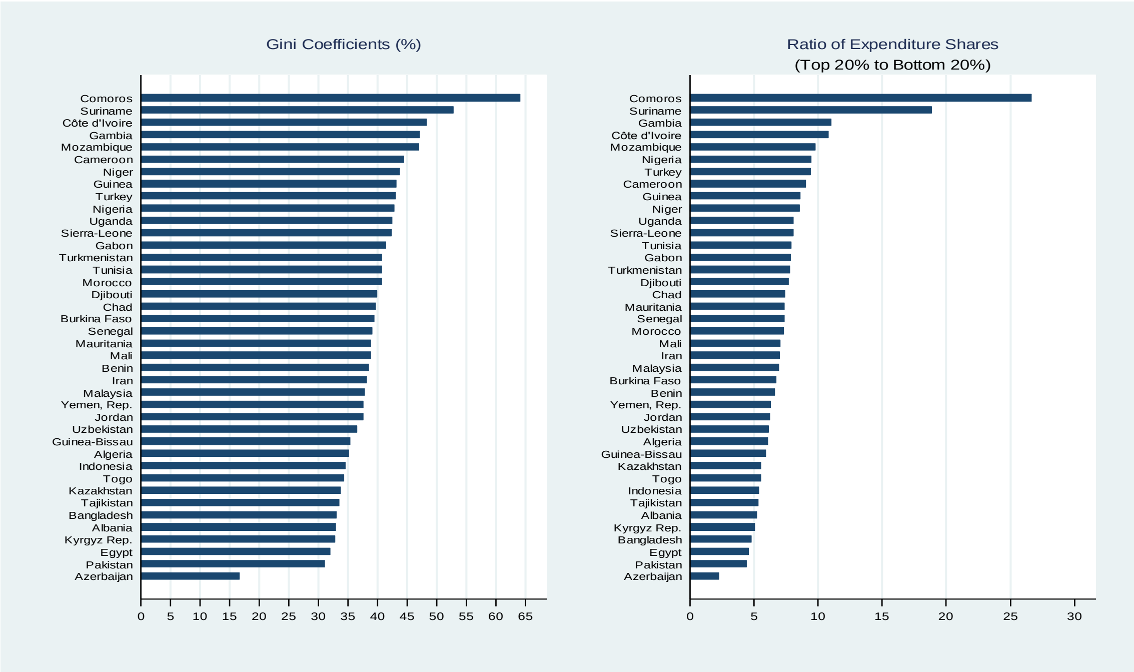
The countries in Q2 represent those that achieved poverty reduction along with increase in growth rates of GDP per capita. There are different categories in Q2. For instance countries such as Burkina Faso, Niger, Comoros, Suriname, Algeria and Jordan low level of GDP per capita growth with equally low level of change in poverty reduction. In another category that includes Gambia, Mali and Senegal, relatively low level of changes in the growth rate of GDP per capita is associated with very significant reduction in poverty. Azerbaijan and Turkmenistan have the highest growth rates of GDP per capita but with relatively moderate levels of poverty reduction while Sierra Leone, Mozambique and Cameroon have moderate levels of both poverty reduction and growth in GDP per capita

Member countries that experienced relatively high growth rates of GDP per capita yet experienced increase in poverty incidence, as depicted in Q3 include Tajikistan, Kyrgyz Republic Djibouti, Nigeria, Chad and Togo, all of which featured in a similar quadrant in Chart 2.1 on changes in GDP growth and poverty. As in the case of Q1, this inverse association between GDP per capita and poverty is not consistent with conventional intuition. However, whereas countries in Q1 reflect a positive indication of poverty reduction through sources other than growth in GDP per capita, those in Q3 reflect worsening poverty incidence even while GDP per capita is growing. Possible reasons for Q3 include high level of inequality and growth emanating from one or few high revenue earning sectors without strong linkages with other sectors of the economy, implying that growth is not inclusive.

In Q4, which includes Yemen, Cote d’lvoire and Gabon poverty increase is associated with decrease in the rate of growth of GDP per capita. Countries such as Kazakhstan, Albania, Niger and Iran demonstrate different levels of growth in GDP per capita over the period but without any change in poverty incidence. For Guinea Bissau, poverty remained unchanged even as GDP per capita decreases. Some countries did not experience any change in GDP growth but recorded significant poverty reduction. These include Pakistan, Mauritania, Benin, and at a less significant level of poverty reduction, Tunisia and Egypt.

The different clusters of countries point to poverty peculiarities in member countries with many of them falling into the category of Q2 confirming the causative relationship between GDP per capita growth and poverty reduction. Those that fall into other categories illuminate the potential role of other factors, the most notable of which is inequality. It requires a closer look at the extent of income inequality and its effect on poverty in member countries.

Chart 2.3: Gini Coefficients and Ratio of Expenditures/Incomes of the Top 20% to Bottom 20%



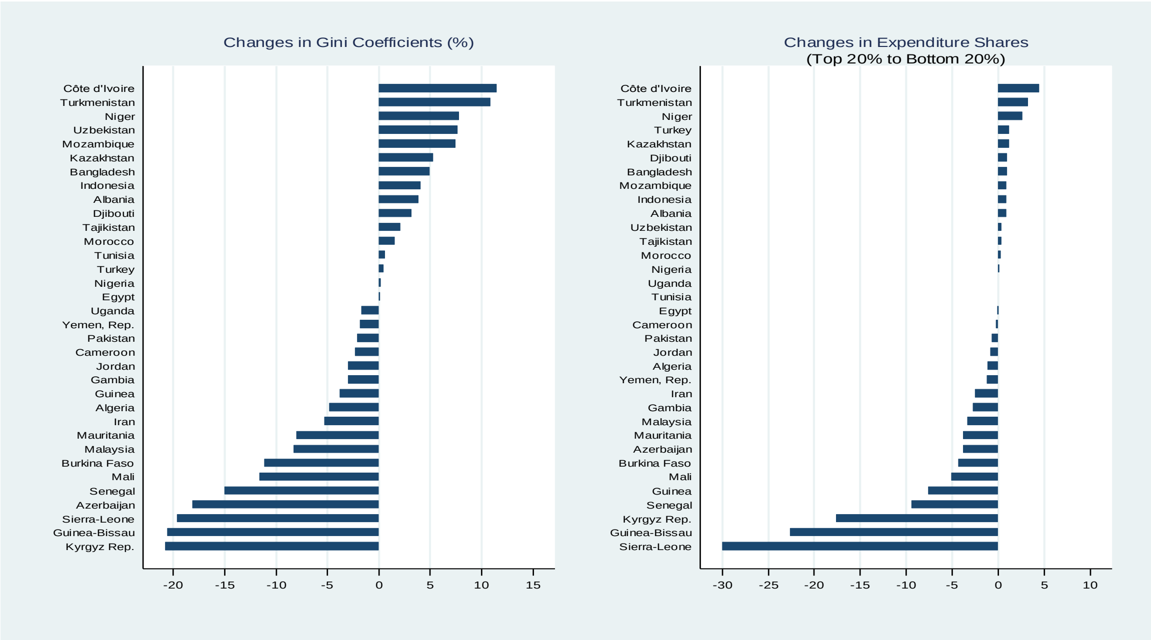
Note: Estimates are for the following years: Albania (2005), Algeria(1995), Azerbaijan(2005), Bangladesh(2005), Benin(2003), Burkina Faso(2003), Cameroon(2001), Chad(2002), Comoros(2004), Côte d'Ivoire(2002), Djibouti(2002), Egypt(2004), Gabon(2005), Gambia(2003), Guinea(2003), Guinea-Bissau(2002), Indonesia(2005), Iran(2005), Jordan(2006), Kazakhstan(2003), Kyrgyz Rep(2004)., Malaysia(2004), Mali(2006), Mauritania(2000), Morocco(2007), Mozambique(2002), Niger(2005), Nigeria(2003), Pakistan(2004), Senegal(2005), Sierra-Leone(2003), Suriname(1999), Tajikistan(2004), Togo(2006), Tunisia(2000), Turkey(2005), Turkmenistan(1998), Uganda(2005), Uzbekistan(2003), Yemen, Rep. (2005).

Source: Estimates based on data from World Bank, PovcalNet Database.

Chart 2.3 depicts the gini coefficients along and the ratio of expenditure shares of the top 20 percent to the bottom 20 percent in member countries. The ratios of expenditures for top and bottom 20 percents are commensurate with the levels of inequalities measured by the gini coefficients of the member countries. It shows that, apart from Comoros, which has the highest level of inequality with a gini coefficient of about 64 percent, all others have gini coefficient of below 50 percent. Except for Azerbaijan with about 16 percent, the gini coefficients for the remaining 39 member countries range between 30 and 45 percent. Chart 2.4 shows the changes in inequality and the ratio of expenditure shares of the top and bottom 20 percent. It indicates that for many of the member countries, as inequality decreases, the expenditures shares also decreases and vice versa.

Chart 2.4: Changes in Gini Coefficients and Ratio of Expenditures/Incomes of the Top 20% to Bottom 20%

1990s vs 2000s



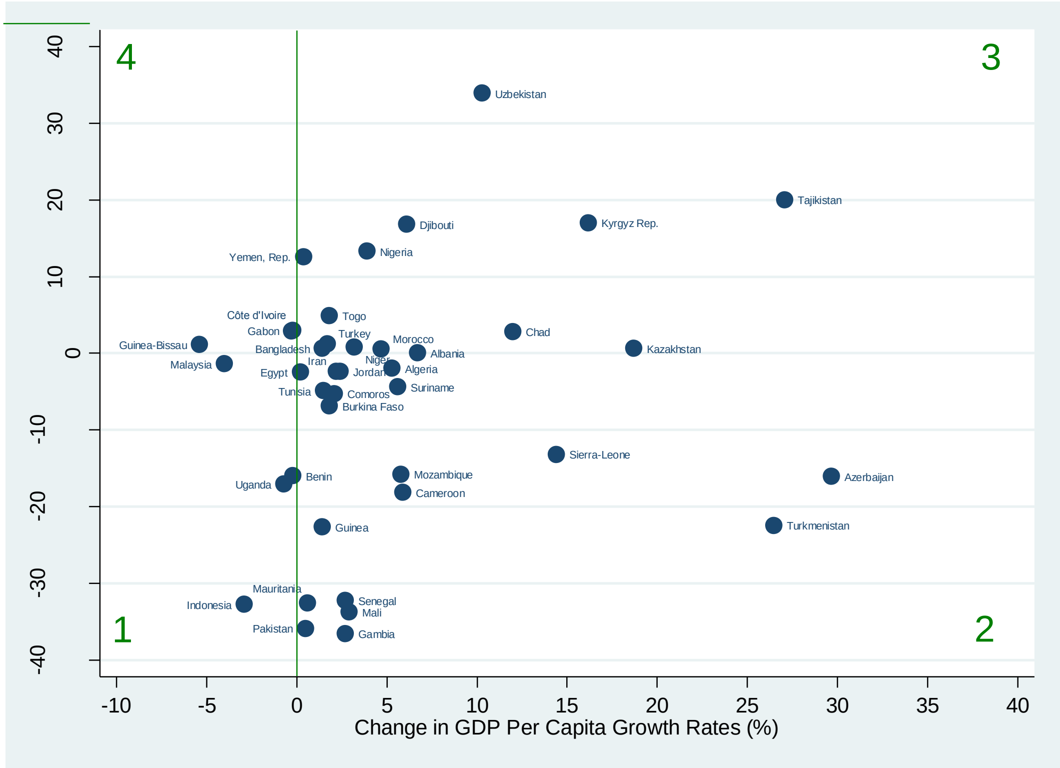
Note: Some countries were not included, i.e. Benin, Chad, Comoros, Gabon, Suriname, and Togo since distribution is available for one year only.

Source: Estimates based on data from World Bank, PovcalNet Databas

Chart 2.5 presents a more elaborate picture of the effect of changes in inequality on poverty in member countries. It group countries into four quadrants of country clusters. It shows that most of the countries are in Q1 and Q3 with relatively fewer in Q2 and Q4. In Q1, 15 countries represent those that achieved poverty reduction as inequality gap became narrower. Quadrant 3 (10 countries) represent those with increase in inequality associated with increase in poverty. Quadrant 2 represents countries that experience increase in inequality with reduction in poverty while those in Q4 experienced reduction in inequality with increase in poverty. The high concentration of countries in Q1 and Q3 therefore affirm the causative relationship between change in inequality and change in poverty incidence. Countries that show otherwise are very few comprising those in Q2 and Q4.

The decomposition method of Datt and Ravallion (1992) is employed to analyse the relative roles of growth and inequality in poverty reduction in member countries. The growth effect of poverty reduction is the reduction in poverty at a given growth rate assuming inequality remain unchanged. The inequality effect is the reduction in poverty when there is change in inequality without growth. The residual captures the poverty reduction that is not accounted for by changes in both growth and inequality. Table 2.5 presents the decomposition results based on $1.25 poverty line in selected IDB member countries. It suggests that growth is a significant driver of poverty reduction in many IDB member countries than income distribution. This is indicative of the relatively large number of countries that succeeded in reducing poverty at a given growth rate without change in distribution. However, few countries (Burkina Faso, Iran and Malaysia) were able to achieve some poverty reduction with negative growth suggesting that change in income distribution could be more significant driver of poverty reduction than growth in these countries.

Chart 2.5: Change in Poverty and Gini Coefficients



Source: Estimates based on data from World Bank, PovcalNet Database.

A key message from the analysis of pre-crisis poverty incidence in member countries is that the poverty situation as well as poverty reduction achievement is mixed among the countries and various regional groupings. The Asian member countries demonstrate the most significant success in reducing poverty. While the SSA regional group experiences the worst poverty incidence, the CIT group appears to be the worst achievers in reducing poverty incidence. While some member countries benefitted from economic growth effect on poverty reduction, some others were unable to use growth opportunities to reduce poverty incidence. In terms of the aggregate of all the 40 member countries, poverty incidence reduced during the pre-crisis period. The significance of the reduction in achieving the poverty reduction targets of the IDB 1440H Vision and MDGs is the focus of the next section.

Table 2.5: Decomposition of $1.25 Poverty in Selected IDB Member Countries, 1990 vs 2005

Country	Headcount Ratio (%)		Change	Poverty Decompositions		
	1990	2005	(Percentage points per annum)	Growth	Distribution	Residual
Albania	0.85	0.85	0.00	-0.05	0.13	-0.08
Algeria	6.22	4.26	-0.13	-0.04	-0.06	-0.03
Azerbaijan	16.13	0.03	-1.07	-0.71	-1.06	0.69
Bangladesh	49.86	50.47	0.04	-0.53	0.44	0.12
Burkina Faso	61.92	55.04	-0.46	0.14	-0.68	0.07
Cameroon	45.67	27.51	-1.21	-1.05	-0.22	0.06
Côte d'Ivoire	17.34	20.38	0.20	-0.54	0.78	-0.04
Djibouti	1.75	18.55	1.12	1.04	0.06	0.02
Egypt	4.46	1.99	-0.16	-0.15	0.00	-0.02
Gambia	67.87	31.30	-2.44	-2.11	-0.04	-0.29
Guinea	92.55	69.83	-1.51	-1.30	-0.01	-0.21
Guinea-Bissau	41.32	42.46	0.08	1.15	-0.79	-0.29
Indonesia	54.27	21.44	-2.19	-2.63	0.23	0.22
Iran	3.85	1.45	-0.16	0.02	-0.17	-0.01
Jordan	2.78	0.38	-0.16	-0.17	-0.10	0.10
Kazakhstan	0.54	1.15	0.04	0.00	0.01	0.03
Kyrgyz Rep.	4.79	21.81	1.13	2.56	-0.32	-1.10
Malaysia	1.91	0.54	-0.09	0.09	-0.12	-0.07
Mali	85.19	51.43	-2.25	-1.57	-0.01	-0.67
Mauritania	45.92	13.37	-2.17	-1.74	-0.51	0.08
Morocco	2.45	2.96	0.03	0.00	0.03	0.00
Mozambique	84.03	68.23	-1.05	-1.24	0.08	0.11
Niger	65.04	65.88	0.06	-0.26	0.26	0.06
Nigeria	49.07	62.39	0.89	0.68	0.04	0.16
Pakistan	58.47	22.59	-2.39	-2.13	-0.06	-0.20
Senegal	65.81	33.50	-2.15	-1.11	-0.66	-0.38
Sierra-Leone	63.11	49.92	-0.88	-0.34	-0.21	-0.34
Tajikistan	1.54	21.49	1.33	1.13	0.06	0.14
Tunisia	5.87	1.01	-0.32	-0.29	0.02	-0.06
Turkey	1.51	2.72	0.08	-0.02	0.11	-0.01
Turkmenistan	34.24	11.72	-1.50	-2.28	0.72	0.06
Uganda	68.65	51.53	-1.14	-1.17	-0.08	0.10
Uzbekistan	4.90	38.81	2.26	2.28	0.16	-0.18
Yemen, Rep.	4.91	17.53	0.84	1.15	-0.18	-0.13

Note: Some countries were not included, i.e. Benin, Chad, Comoros, Gabon, Suriname, and Togo since distribution is available for one year only.
Source: Estimates based on data from World Bank, PovcalNet Database.

2.3. Achieving Poverty Reduction Targets of IDB 1440H Vision and MDGs

The IDB 1440H Vision accords very high priority to poverty reduction, which is key strategic thrust 2, second only to reforming the IDB. There are three poverty reduction targets of the IDB 1440H Vision as follows:

- Reduce the proportion of the population living on less than US1 per day by three quarters by 1440H (2020),
- Halve the poverty rate of member countries whose poverty rate is presently above 40 percent
- Reduce by three quarters or more the poverty rate of member countries whose rate is presently below 40 percent

The poverty reduction target of the Millennium Development Goal (MDG-1) is to halve the proportion of people living in extreme poverty (i.e. living on less than US$ 1 per day) between 1990 and 2015.

Poverty reduction targets of both the IDB 1440H Vision and MDG are to reduce extreme poverty, which were defined in terms of $1 a day. However, the benchmark for extreme poverty is currently at $1.25 a day due to a revision in the IPL that was recently undertaken. Given that the focus is on extreme poverty rather than specific benchmark, the analysis of the implications of the pre-crisis poverty trend in IDB member countries in achieving the poverty reduction targets the IDB 1440H and MDG targets is based on the extreme poverty benchmark of $1.25 a day.

While the target year for the IDB 1440H Vision is 2020, that of the MDG is 2015 and the IDB Vision target of reducing extreme poverty by three quarters is much higher than the reduction by half target of the MDG. The IDB Vision has additional targets of halving the poverty rate of member countries whose poverty rate is above 40 percent poverty rate, the average for all member countries and for those with below 40 percent poverty rate, reduce by three quarters, same as the main target.

Both the IDB 1440H Vision and MDG targets of poverty reduction focus on incidence of poverty (head count ratio), hence the contextual analysis of the implications of the pre-crisis poverty trend of member countries in achieving the targets is based on the incidences, rather than the magnitude. Unlike the MDG, which stipulates a base year of 1990, the IDB Vision did not stipulate a base year. There are two possible base years for analyzing the prospect of achieving the target of IDB Vision; 1990 (the base year of the MDG) and 2005 (the year of the IDB 1440H Vision).

Average Annual Reduction Rate (AARR) benchmark is used in evaluating the performances of member countries and their progress towards achieving the poverty reduction targets of the IDB 1440H Vision and the MDGs. The AARR is an average rate of poverty reduction between two specified periods. Dividing the percentage targeted rate by the stipulated number of years for achieving the target gives a required AARR (in percentage points), which can be compared with the actual AARR (poverty reduction achieved within a period divided by the number of years of the period of achievement).

The IDB 1440H Vision poverty reduction target of 75 percent (three quarters) by 2020 requires an Average Annual Reduction Rate (AARR) of poverty at 2.5 percent for base year of 1990 and at 5 percent if the base year is 2005. The MDG target of 50 percent rate of poverty reduction by 2015 requires AARR of 2 percent from 1990. The actual AARR of member countries is presented in Table 3.6.

Table 2.6: Annual Rate of Poverty Reduction

Country/Sub-region	1990-2005	2006	2007
Bangladesh	0.0	-3.3	-3.3
Indonesia	-2.2	-1.2	-1.5
Malaysia	-1.4	0.0	0.0
Pakistan	-2.4	-1.2	-1.1
Suriname	-0.3	-0.6	-0.8
Asia	**-1.5**	**-1.7**	**-1.8**
Albania	0.0	-0.1	-0.1
Azerbaijan	-1.1	0.0	0.0
Kazakhstan	0.0	-0.2	-0.2
Kyrgyz Rep.	1.1	-1.0	-3.7
Tajikistan	1.3	-2.6	-3.1
Turkmenistan	-1.5	-2.5	-2.9
Uzbekistan	2.3	-5.1	-7.2
Countries in Transition	**0.9**	**-2.5**	**-3.5**
Algeria	-0.1	0.0	-0.1
Egypt	-0.2	-0.1	-0.1
Iran	-0.2	-0.1	-0.1
Jordan	-0.2	0.0	0.0
Morocco	0.0	-0.3	-0.1
Tunisia	-0.3	-0.1	-0.1
Turkey	0.1	-0.2	-0.1
Yemen, Rep.	0.8	0.0	-0.1
Middle East and North Africa	**0.0**	**-0.1**	**-0.1**
Benin	-1.1	-0.2	-0.6
Burkina Faso	-0.5	-1.2	-0.3
Cameroon	-1.2	-0.3	-0.3
Chad	0.2	1.6	1.4
Comoros	-0.4	0.4	0.8
Côte d'Ivoire	0.2	0.3	0.1
Djibouti	1.1	-0.5	-0.6
Gabon	0.2	0.0	-0.2
Gambia	-2.4	-1.0	-1.0
Guinea	-1.5	-0.3	0.3
Guinea-Bissau	0.1	0.7	-0.2
Mali	-2.3	-1.0	-0.6
Mauritania	-2.2	-1.1	0.2
Mozambique	-1.1	-4.0	-3.4
Niger	0.1	-1.3	0.0
Nigeria	0.9	-2.2	-2.8
Senegal	-2.2	0.1	-0.6
Sierra-Leone	-0.9	-0.9	-1.7
Togo	0.3	-0.5	0.2
Uganda	-1.1	-3.5	-2.5
Sub-Saharan Africa	**0.1**	**-1.6**	**-1.7**
Total	**-0.6**	**-1.3**	**-1.4**

Source: Author's Computation

Table 2.6 shows that, countries that achieved most significant poverty reduction in 1990-2005 were Gambia, Indonesia, Mali, Mauritania, Pakistan, and Senegal. These countries recorded AARR of above 2 percent. These countries exceeded the required AARR for achieving the poverty reduction target of the MDG during the period but fell a little short of the AARR for achieving the IDB vision 440H poverty reduction target with 1990 as the base year. Indeed, the margin of difference of the required AARR for these countries range between 0.1 and 0.3 percent, which is too low to suggest any serious concern for these countries in achieving the poverty reduction target of the IDB 1440H Vision.

Some countries experienced annual average increase in poverty over the period. These include Chad, Guinea-Bissau, Niger and Nigeria. Uzbekistan presents a special case as it experienced a significant increase in poverty incidence from 4.9 percent in 1990 to 38.8 percent in 2005. Many other member countries achieved very low AARR at a relatively wide margin of difference from the required level for achieving the IDB 1440H Vision and MDG poverty reduction targets.

In regional terms, the Asian member countries, which, as analyzed in section 2.2, achieved the highest rate of poverty reduction relative to other regions, recorded an AARR of 1.5 percent between 1990 and 2005. The SSA group has AARR of 0.1 percent for the period while the MENA member countries as group achieved zero AARR with the CIT member countries as a group with 0.9 percent. The average AARR for member countries for the period was 0.6 percent. It implies that despite significant success by the member countries in Asia in reducing poverty between 1990 and 2005, the reduction rate fall short of the AARR required to achieve the poverty reduction targets of both the IDB Vision and MDGs. Other regional groupings of member countries are much below the required AARR for achieving the targets.

However, over the period 2006-2007, the CIT member countries improved significantly and achieved annual rate of reduction at 2.5 percent in 2006 and 3.5 percent in 2007. This is significant considering the deteriorating reduction rate in the previous years. In 2006 and 2007, some countries improved in their percentage point rate of poverty reduction. These include Bangladesh (3.3 in 2006 and 2007), Tajikistan (2.6 in 2006 and 3.1 in 2007), Turkmenistan (2.5 in 2006 and 2.9 in 2007), Mozambique (4 in 2006 and 3.4 in 2007), Nigeria (2.2 in 2006 and 2.8 in 2007) and Uganda (3.5 in 2006 and 2.5 in 2007).

As overall average, the percentage point reduction in poverty by member countries was 1.3 in 2006 and 1.4 in 2007. These indicate improvements from the AARR of 0.6 for the period 1990-2005. If the base year of 2005 is used, the poverty reduction target of the IDB 1440H Vision, which requires an AARR of 5 percent, will not be achieved by any of the member countries, regional groupings and even the whole of the IDB member countries.

The key message that emerged from the analysis of the poverty trends of member countries from 1990 to 2007 is that:

- Although, there are mixed success of achieving poverty reduction, the overall poverty reduction between 1990 and 2005 of 8.9 percent fall short of the average annual reduction rate required for achieving the poverty reduction targets of the IDB 1440 Vision and the MDGs.
- The poverty reduction rate between 2005 and 2007 improved but not enough to catch up with the required AARR for achieving the targets. The inadequacy of the actual AARR relative to the required AARR cut across all the regional groupings of the IDB even though the Asian regional group demonstrates the most significant level of poverty reduction among the regions.

- Many member countries, which experienced high rates of growth in per capita GDP, achieved reasonable levels of poverty reduction, which confirms the empirical relationship between economic growth and poverty reduction. However, some other member countries achieved moderate poverty reduction rates with low and even negative growth rate of GDP per capita. Accordingly, some member countries were not able to translate economic growth opportunities into reducing poverty.

The pre-crisis analysis is about reporting the situation as it was before the crisis. It reveals that the challenge of poverty reduction in member countries, especially in terms of achieving the poverty reduction targets of the IDB 1440H Vision and the MDGs is enormous and more challenges lie ahead due to the impact of the global financial and economic crisis. In a post-crisis situation, member countries would need to achieve high growth along with measures for reducing inequality to succeed in reducing poverty to a significant level if IDB Vision 1440H and MDG targets of poverty reduction are to be met. As the global economy faces new challenges that threaten its fragile recovery, growth performances of member countries are uncertain. However, in chapter four that follows, certain assumptions of economic growth are made to forecast the likely impact on poverty reduction of different growth scenarios.

Chapter III: Post-Crisis Poverty Reduction Challenges in Member Countries

3.1 Poverty Implications of the Crisis

The impact of the global financial and economic crisis of 2008-2009 on economic growth slowdown of virtually all economies is evident. Prior to the crisis, the global economy experienced high growth along with the industrial transformation of emerging economies that increased worldwide demand for goods and services through opportunities for exports. Increase in income associated with demands and income earning job opportunities arising from both industrial and primary production that support each other further boosted global demand.

Hence, pre-crisis high growth of the global economy generated wide ranging income-earning opportunities through trade and employment. In high and emerging industrialized countries, migrants that benefitted from the relatively higher employment and income-earning opportunities remitted part of their income to their relatives who live in non-industrializing developing countries with relatively less income earning opportunities (international remittances). As global economic growth is an important channel of poverty reduction, the global crises have adverse effects on poverty reduction.

Even though the global economy is showing signs of recovery, a strong rebound of these crucial channels of poverty reduction (trade, employment and remittances) is required for a significant effect of the recovery on poverty reduction. The global economy, which contracted by 0.5 percent in 2009, is projected to grow by 4.2 percent in 2010 and 4.3 percent in 2011. The projections for world economic growth in 2010 and 2011 exceeded the pre-crisis growth rate of 3.8 percent in 2007, a sign of recovery. This is beginning to reflect on world trade, the volume of which declined by 12.3 percent in 2009, the largest contraction in 70 years but projected to grow at 9.5 percent in 2010[15]. However, there is no report of significant rebound of employment and remittances, suggesting that the trickledown effect of the recovery on these two channels is likely to be slow. This implies that, the effect of the recovery on economic growth rebound and poverty reduction in developing countries, including many IDB member countries, will be sluggish.

Consequent upon the slow trickle down of global recovery on some of the channels of growth in developing countries, the recovery outlook of IDB member countries as a group is uncertain. Projections suggest that achieving pre-crisis growth rate by the economies of member countries would be difficult. After a sharp deceleration to 2.1 percent in 2009, the average growth rate of the 56 member countries is projected to pick-up in 2010 at 4.8 percent and will continue to rise marginally to 5.2 percent in 2015. (See Annex Table 7). Considering that recovery require achieving pre-crisis (2007) growth rate of 6 percent, the recovery of member countries is not certain within the projection period of 2015.

This uncertain recovery prospect for member countries is a reflection of significant dependence on the global economy. The post-crisis global economic landscape is associated with new factors, which makes it difficult to predict post-crisis growth performance of member countries. Nevertheless, the relationship between economic

[15] WTO; International Trade Statistics, 2010

growth and poverty reduction in member countries could provide insights into the emerging post-crisis poverty reduction challenges in member countries. This provides the basis for analyzing the impact of the crisis on poverty reduction both in the midst of the crisis and in post-crisis growth scenarios.

3.2. Assessing Post-Crisis Poverty Challenges in IDB Member Countries

The sensitivity of poverty to economic growth is measured by the elasticity of poverty incidence with respect to per capita growth, defined as the degree of poverty responsiveness to growth. It varies according to the macroeconomic features upon which economic growth is generated and sustained. Hence, the degree of poverty responsiveness to growth differs among economies but a group of economies with similar macroeconomic features and structural production relationships will tend to have almost the same degree of poverty responsiveness to growth. An international empirical estimate of elasticity of poverty incidence with respect to per capita growth across countries is found to be around -2, which implies that any one percent per capita growth leads to 2 percent reduction in poverty incidence[16].

Based on this motivation, the elasticity approach is applied to determine the empirical relationship between economic growth and poverty reduction in IDB member countries between 1990 and 2005[17]. The study estimated the coefficients of elasticity of poverty incidence with respect to per capita growth for each of the regional group of member countries. It then assumes that the coefficient for each regional group applies to each of the country in the regional group. This formed the basis for projecting poverty trajectory of member countries in terms of different scenarios of country-specific forecast growth in GDP per capita[18]. The estimation of poverty elasticity of growth was done separately for the \$1.25 a day and \$2 a day. This is because, it is deemed appropriate to evaluate the extent to which the poverty responsiveness to growth vary based on different poverty benchmarks.

The estimates of growth elasticity of poverty for the different regional groupings of member countries based on the two different poverty lines, as presented in Table 3.1 shows that the growth elasticity of poverty is higher in terms of the poverty line of \$1.25 a day than \$2 a day. This confirms previous research findings that growth elasticity is smaller in absolute value for higher poverty lines[19]. The results further reveal that, among the regional grouping of member countries, the CIT have the highest growth elasticity of poverty with -2.2 based on \$1.25 a day and -1.3 based on \$2 a day. This means that an increase in per capita growth rate at the same level across the regional groupings will lead to very different reduction in poverty in CIT countries than corresponding reduction in other regions. The SSA member countries have the least growth elasticity of poverty with elasticity coefficient of -0.9 based on \$1.25 a day and -0.54 based on \$2 a day.

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[16] World Bank (2001), "World Development Report: Attacking Poverty"
[17] A brief explanation of the methodology is provided in chapter one, under section 1.4.
[18] The forecast of growth of member countries is sourced from "Country-STAT Report, by the Data Resource and Statistics Department, IDB based on IMF's WEO
[19] See for instance, Hasan, Magsombol and Cain (2009) "Poverty Impact of the Economic Slowdown in Developing Asia: Some Scenarios" ADB Economics Working Paper Series

Table 3.1: Estimates of Growth Elasticity of Poverty, By Sub-region, 1990 to 2005

Sub-regions*	Estimated Growth Elasticity		Number of Countries
	HCR Based on $1.25/day (in 2005 PPP)	HCR Based on $2.00/day (in 2005 PPP)	
Total	**-1.509**	**-0.878**	**40**
Asia	-1.301	-0.606	5
Countries in Transition	-2.168	-1.262	7
Middle East and North Africa	-1.311	-0.877	8
Sub-Saharan Africa	-0.903	-0.539	20

Source: Estimates using data from World Bank, PovcalNet Database and World Development Indicators Database.

The economic growth-poverty relationships that have been established through the elasticity approach is the barometer for gauging the extent to which the global financial and economic crisis will impact on poverty in member countries. Given that economic growth possibilities in the near future depends on certain assumptions and considering the unpredictability of post-crisis global events, different scenarios have been developed to cover a wide spectrum of possibilities of post-crisis growth attainment of member countries and the poverty implications of each scenario. In this way, whenever any of the assumed scenario or its approximation occurs, it will be easy to decipher the poverty reduction challenges associated with it. It also provides insights as to the required policy responses for achieving the favorable scenario.

3.3. Scenarios of Post-Crisis Growth and Poverty Reduction

In Chapter two, the discussion covered pre-crisis poverty indicators (incidence and magnitude) in member countries from 1990 to 2007 thus taking 2007 as the pre-crisis year. This is because, although the crisis first erupted in late 2007, its whirlwind effect manifested in 2008 and reached its highest level in 2009. It follows therefore that 2008 and 2009 are the crisis period while the post-crisis period is 2010 and beyond. In tracking the changing pattern of poverty from pre-crisis through crisis and to post-crisis periods, it is appropriate to analyze poverty indicators in 2008 and 2009 to reflect the situation during the deep crisis period as a precursor for analyzing post-crisis scenarios.

Table 3.2 presents the poverty incidence and magnitude of the 40 member countries with data in 2008 and 2009. It shows that, poverty incidence decreased from 25.8 percent in 2007 to 24.5 percent in 2008 and to 23.9 percent in 2009, suggesting a 1.3-percentage point reduction between 2007 and 2008 and 0.6-percentage point between 2008 and 2009. Compared to 1.4 percentage point decline between 2006 and 2007, it implies that progress in poverty reduction has been slowed by the effects of the global financial and economic crisis, especially between 2008 and 2009, when the effects of the crisis deepened.

Table 3.2: Projected Poverty Incidence and Magnitudefor 2008-2009								
Country/Sub-region	Headcount Ratio (%)				Magnitude of Poor (In Million)			
	$1.25 a day		$2 a day		$1.25 a day		$2 a day	
	2008	2009	2008	2009	2008	2009	2008	2009
Bangladesh	41	38	73	71	65	61	117	115
Indonesia	17	16	49	48	39	38	112	110
Malaysia	0	0	7	8	0	0	2	2
Pakistan	20	20	58	58	34	35	96	98
Suriname	12	12	23	23	0	0	0	0
Asia	24	23	56	55	138	134	326	325
Albania	1	1	6	6	0	0	0	0
Azerbaijan	0	0	0	0	0	0	0	0
Kazakhstan	1	1	8	8	0	0	1	1
Kyrgyz Rep.	14	13	40	40	1	1	2	2
Tajikistan	13	12	38	38	1	1	3	3
Turkmenistan	3	3	19	17	0	0	1	1
Uzbekistan	19	13	49	43	5	4	14	12
Countries in Transition	10	8	29	26	7	6	21	19
Algeria	4	4	18	17	1	1	6	6
Egypt	2	1	16	15	1	1	12	12
Iran	1	1	7	7	1	1	5	5
Jordan	0	0	3	3	0	0	0	0
Morocco	2	2	14	14	1	1	4	4
Tunisia	1	1	6	6	0	0	1	1
Turkey	2	3	8	9	2	2	6	7
Yemen, Rep.	17	17	46	46	4	4	10	10
Middle East and North Africa	3	3	14	13	10	10	45	45
Benin	48	48	76	75	4	5	7	7
Burkina Faso	52	52	78	78	8	8	12	12
Cameroon	27	27	51	51	5	5	10	10
Chad	63	64	85	85	7	7	9	10
Comoros	48	48	66	67	0	0	0	0
Côte d'Ivoire	21	21	44	43	4	4	9	9
Djibouti	17	16	38	38	0	0	0	0
Gabon	5	5	19	20	0	0	0	0
Gambia	28	28	50	50	0	1	1	1
Guinea	68	70	86	87	7	7	8	9
Guinea-Bissau	43	43	73	73	1	1	1	1
Mali	49	48	75	74	6	6	10	10
Mauritania	13	13	31	31	0	0	1	1
Mozambique	57	56	78	77	13	12	17	17
Niger	61	63	82	83	9	10	12	13
Nigeria	55	55	77	77	84	85	116	119
Senegal	33	33	60	60	4	4	8	8
Sierra-Leone	46	45	70	70	3	3	4	4
Togo	39	39	70	70	3	3	5	5
Uganda	43	40	68	66	14	13	22	22
Sub-Saharan Africa	49	49	72	71	172	175	252	258
Total	25	24	48	48	327	324	643	647

Source: Estimated based on data from World Bank, PovcalNet Database

As uncertainties continue to cloud global economic recovery, it is difficult to predict a growth trajectory of member countries with high degree of confidence. However, it is possible to make assumptions to generate growth scenarios and analyze their likely impacts on poverty reduction. Different assumptions about economic growth achievements of member countries in the post-crisis period relative to pre-crisis growth performances have been considered and the respective coefficient of poverty elasticity of growth applied to determine the likely poverty impacts of these post-crisis scenarios.

Scenario one: Baseline growth: Assumes that, from 2010 up to 2015, economies of member countries will grow at the same rate as in 2007. This presupposes a recovery since 2007 is the pre-crisis base year.

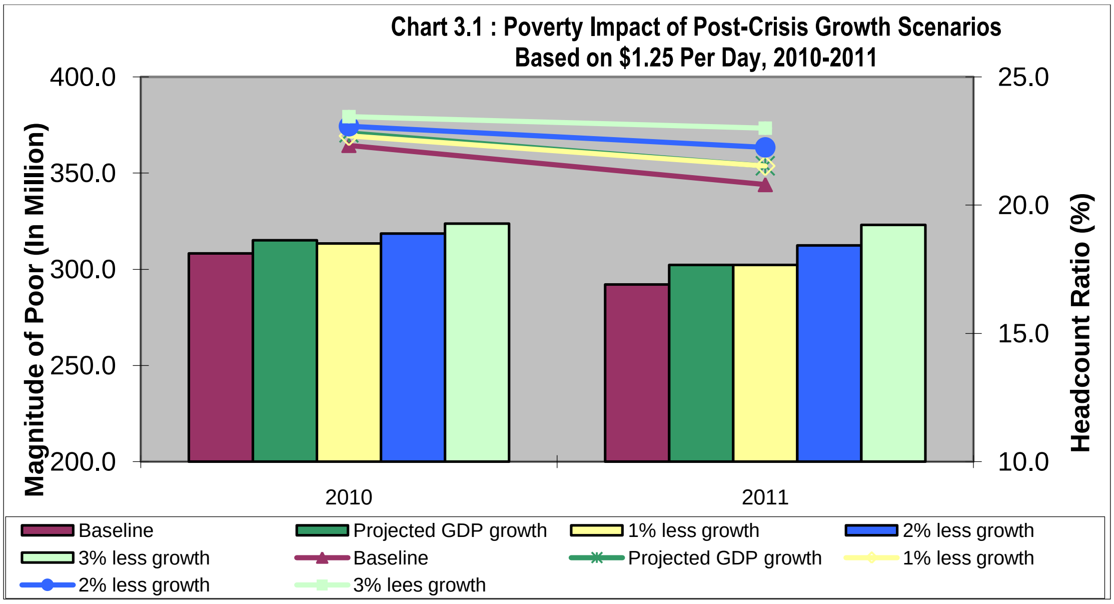
Scenario two: Growth decelerates by 1, 2 or 3 percentage points in 2010 and 2011: This assumes that GDP growth of member countries will decelerate by either 1, 2 or 3 percentage point lower than 2007 growth rates for 2010 and 2011 after which, growth will pick –up. It presupposes that the slowdown effect of the crisis continue for two more years before a turnaround in 2012 and afterwards. The assumption of the turnaround is scenario three.

Scenario three: Growth accelerates by 1 or 2 percentage points relative to 2007 from 2012: This assumes that, from 2012, member countries achieve growth of 1 or 2 percentage point higher than pre-crisis (2007) growth rate. It is an extension of the time horizon of scenario two but with a contrasting assumption of growth acceleration as from 2012 after decelerating in 2010 and 2011.

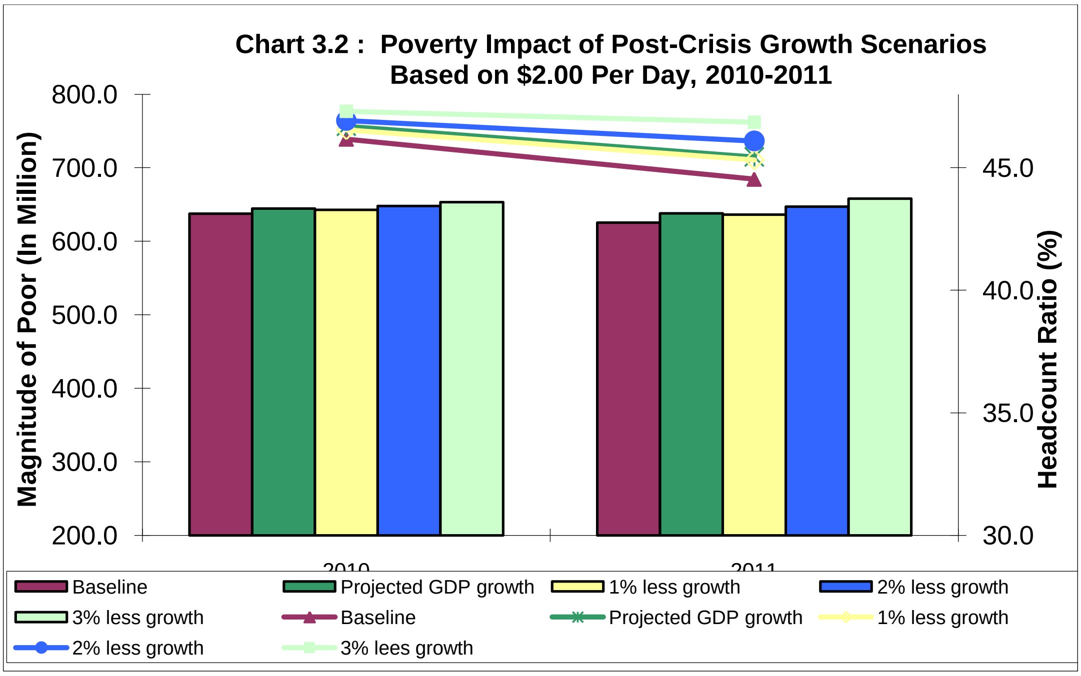
Scenario Four: Projected growth rates: This scenario adopts the projected growth trends of member countries as published in the World Economic Outlook (WEO) of the International Monetary Fund (IMF), September 2009.

Chart 3.1 depicts the impacts of these scenarios on poverty reduction using on $1.25 a day poverty line for 2010 and 2011 to allow for equal period comparison given that scenario two ends in 2011. The lines above represent the head count ratio (poverty incidence) trend while the bars represent the magnitude (the number of poor people) trends. These line and bars show that, for all the scenarios, poverty incidence is reducing but at different rates as illustrated by the different slopes of the curves. It is important to stress that, even in the lower growth scenarios, poverty reduction occurs but at a lower rate.

Growth rate of the 56 IDB member countries as a group in 2007 was 6.1 percent, which implies that in the worst-case scenario of 3-percentage point lower growth; about 3.1 percent growth will occur. As long as growth occurs, poverty incidence is likely to reduce but it will reduce at a slower rate when growth rate is lower.



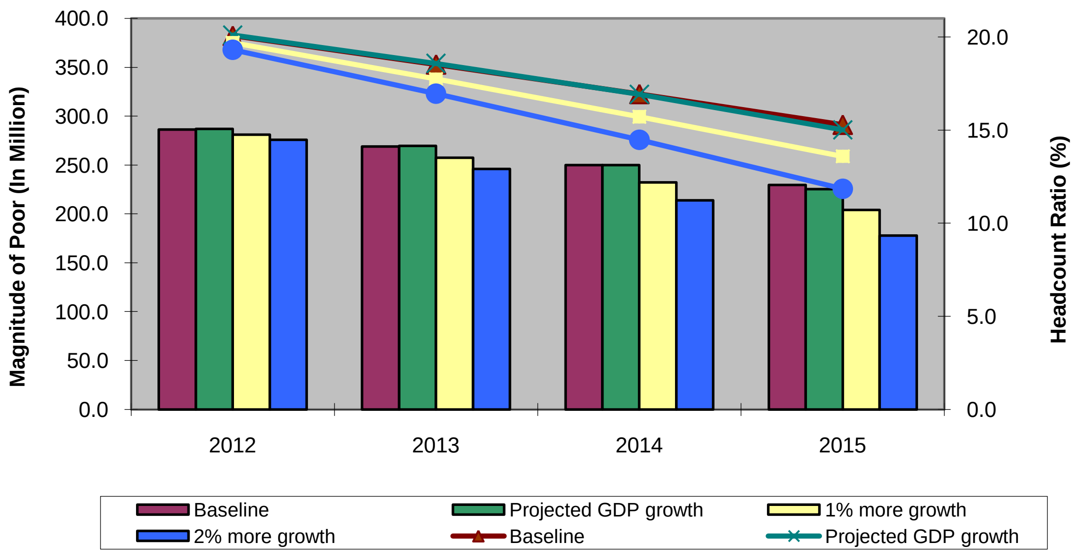
In scenario one, based on $1.25 a day, poverty incidence in member countries as a whole will reduce from 23.9 percent in 2009 to 22.3 percent in 2010 and will continue to reduce as the growth rate continues to rise, to 15.3 percent 2015. The magnitude of the poor will reduce from 324.4 million in 2009 to 229.5 million in 2015.On average, poverty incidence will reduce by 8.6 percentage points between 2009 and 2015 while the magnitude of poverty will reduce by about 94.9 million (people escaping from the extreme poverty trap of $1.25 a day). Based on $2 a day, the reduction in poverty incidence will be 8.9 percentage points between 2009 and 2015, which is similar to the case of $1.25 a day, except the magnitude, which will be about 6.5 million people, far less than the case of $1.25 a day (Chart 3.2).



Scenario two makes assumption of growth in 2010 and 2011 only. This scenario assumes that growth occurs at a lower rate than 2007. Poverty incidence will reduce at relatively slower rate than in the baseline scenario one. For instance, if growth decelerates by one-percentage point relative to 2007 growth rate, poverty incidence based on $1.25 a day will reduce marginally from 23.9 percent in 2009 to 22.7 percent in 2010 and to 21.5 percent in 2011, representing a 2.4 percentage point reduction between 2009 and 2011. If growth rate decelerates by two-percentage point relative to 2007, poverty incidence will reduce by a lower margin of 1.6-percentage point and if growth decelerates by three-percentage point, poverty incidence will reduce by 0.9 percent. This trend of decreasing rate of poverty reduction as growth rate decelerates at increasing rate is consistent with the earlier assertion that poverty incidence will reduce even at lower rate of growth but at decreasing rate as growth rate becomes lower.

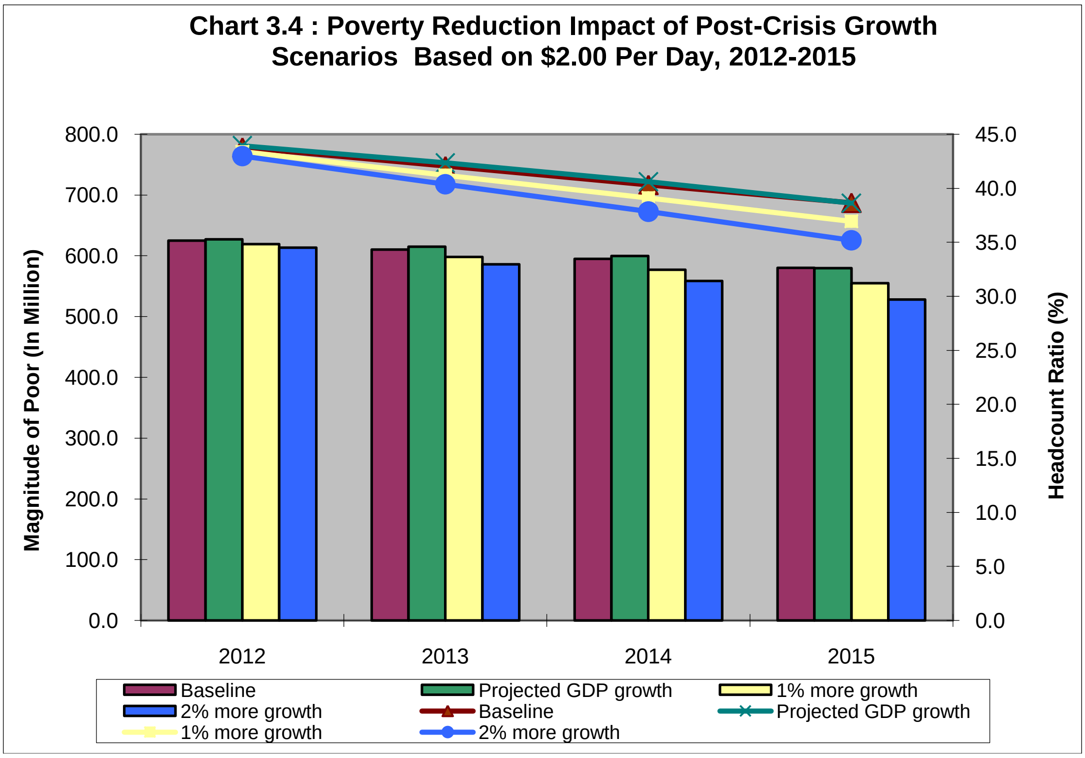
As expected, the impact of lower growth rates on the magnitude of poverty follows the same pattern as the reduction in poverty incidence. For instance, based on $1.25 poverty threshold, 22.1 million people will escape from the poverty trap if growth decelerates by one-percentage point relative to 2007 between 2009 and 2011. If growth decelerates by two-percentage point less, 12.1 million people will escape from the poverty trap and only 1.5 million people will escape from the poverty trap if growth decelerates by three-percentage point for the same period. The pattern is similar for the poverty threshold of $2 a day, except that, while the magnitude of the poor will decrease by 10.6 million for one-percentage point less growth, it will increase by 0.3 million at two-percentage point less growth and increase further by 11 million at three-percentage point less growth, between 2009 and 2011.

Chart 3.3 : Poverty Reduction Impact of Post-Crisis Growth Scenarios Based on $1.25 Per Day, 2012-2015



Scenario three is an extension of time horizon of scenario two but in contrast, assumes that, growth rate will increase by one or two percentage point higher than 2007 growth rate during the period 2012-2015. This scenario is expected to lead to relatively more significant poverty reduction. However, the key question is by what margin and how would the poverty reduction impact compared with that of the baseline scenario.

Chart 3.3 presents the likely impacts of scenarios one, three and four for the period 2012-2015 on poverty reduction based on $1.25 a day. It indicates that, at growth rate of one-percentage point higher than 2007 growth rate, poverty incidence based on $1.25 a day will reduce by two-percentage point annually between 2012 and 2015, while the number of extremely poor ($1.25 a day) will reduce by 133.8 million in 2007-2015 and by 120.3 million in 2009-2015. If the growth rate happens to be two-percentage point higher than 2007 rate, poverty incidence of $1.25 a day will reduce from 25.8 percent in 2007 to 19.3 percent in 2012 and to 11.8 percent in 2015. This represents a reduction in poverty incidence by 14 percent between 2007 and 2015 and by 11.1 percent between 2009 and 2015. The number of people that are likely to escape from extreme poverty based on $1.25 a day will be 160 million between 2007 and 2015 and 146.5 million between 2009 and 2015.



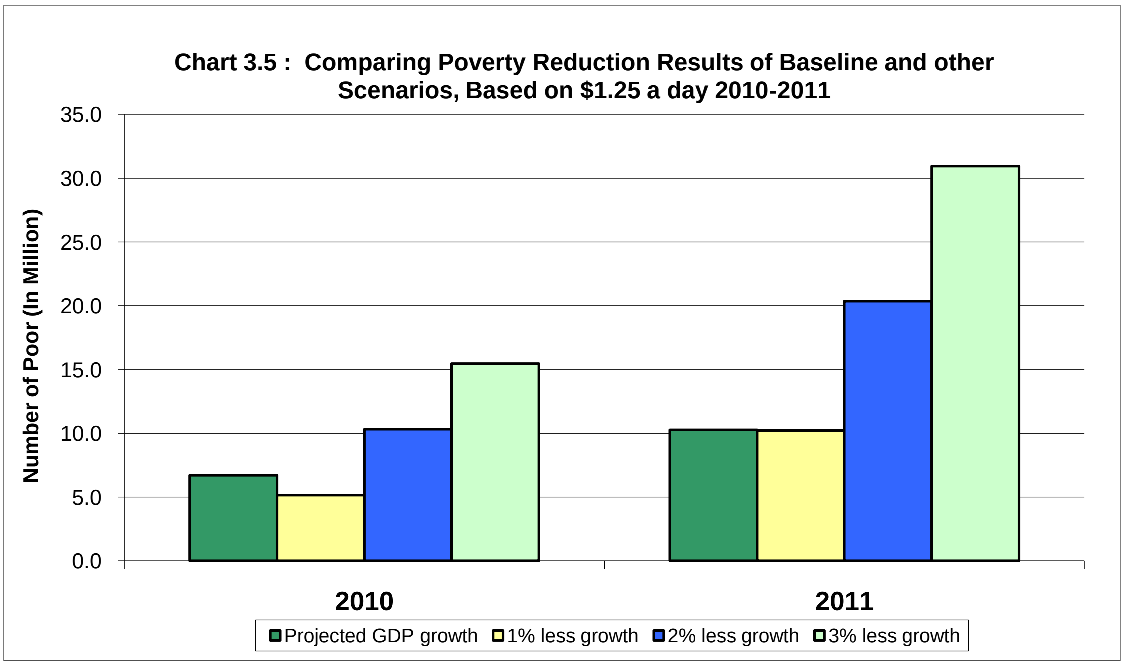
With respect to $2 a day (Chart 3.4), poverty incidence will reduce by 12.6 percent between in 2007-2015 and by 10.7 percent in 2009-2015. At two-percentage point higher growth rate than 2007, poverty incidence will reduce by 14.3 percentage point between 2007 and 2015 and by 12.4 percentage point between 2009 and 2015. About 119.8 million people will escape from the $2 a day poverty threshold between 2007 and 2015 and 118.6 million between 2009 and 2015.

Scenario four is based on GDP growth projections sourced from IMF's WEO (September 2009). In this scenario, poverty incidence based on $1.25 a day in member countries will reduce from 23.9 percent in 2009 to 22.8 percent in 2010 and to 15 percent in 2015. This represents a reduction in poverty incidence by 10.8 percent between 2007 and 2015 and by 8.9 percentage point between 2009 and 2015. The impact of poverty reduction of this scenario in terms of incidence is very close to that of the baseline scenario as the differences in the changes between the two scenarios are very marginal at less than one percentage point throughout the period 2010-2015. For the poverty threshold of $2 a day, scenario four will lead to a reduction in poverty incidence from 49.5 percent in 2007 to 38.6 percent in 2015, a 10.9 percentage point reduction and from 47.6 percent in 2009 to 38.6 percent in 2015, a nine-percentage point reduction.

From the ex post analysis of the scenarios, it is clear that as growth rate decelerates, poverty incidence reduces at a slower rate and growth acceleration leads to faster rates of reduction in poverty incidence. It turns out that, the number of people that will escape from poverty tends to be more in the scenarios that assume growth acceleration than deceleration. The superiority of one scenario over another depends on growth rate assumptions in terms of magnitude of acceleration or deceleration. However, some scenarios, especially scenario four hinge on non-linear pattern of growth assumptions. It is therefore not enough to stress that high growth rate leads to faster reduction of poverty incidence-but identify the extent of poverty reduction advantage of one scenario over the other, which is undertaken in the next section.

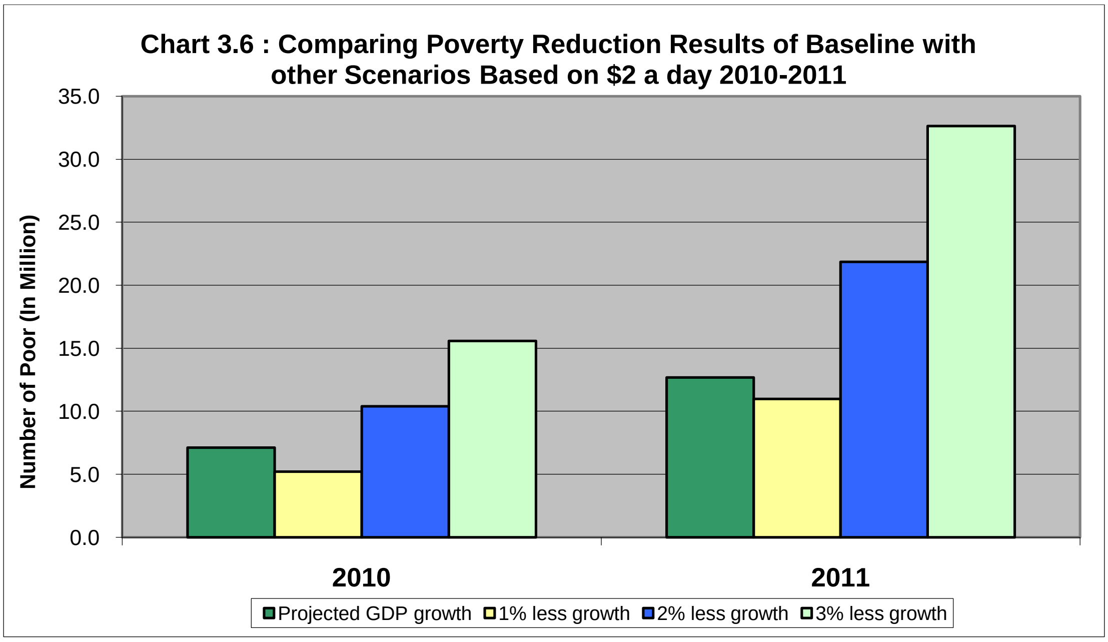
3.4. Comparing Poverty Reduction Results of the Scenarios

In order to determine the extent of poverty reduction advantage of one scenario over the other, the baseline (scenario one) is compared with the remaining three scenarios. This is done by determining the differences in the number of people that will escape from poverty trap between the two scenarios. For instance, in the baseline scenario, the magnitude of the poor based on $1.25 a day will reduce from 337.9 million in 2007 to 229.5, implying that 108.4 people will escape from poverty. Similarly, scenario four will lead to 112.4 million people escaping from poverty threshold of $1.25 a day during the same period. It follows that scenario four leads to 4 million more people escaping from poverty threshold of $1.25 a day than scenario one, therefore, scenario four will lead to a more favorable poverty reduction outcome than scenario one because of additional poverty reduction of 4 million people (advantage over scenario one). This approach of additional poverty reduction advantage (or disadvantage) of the scenarios relative to the baseline scenario is applied for comparison.

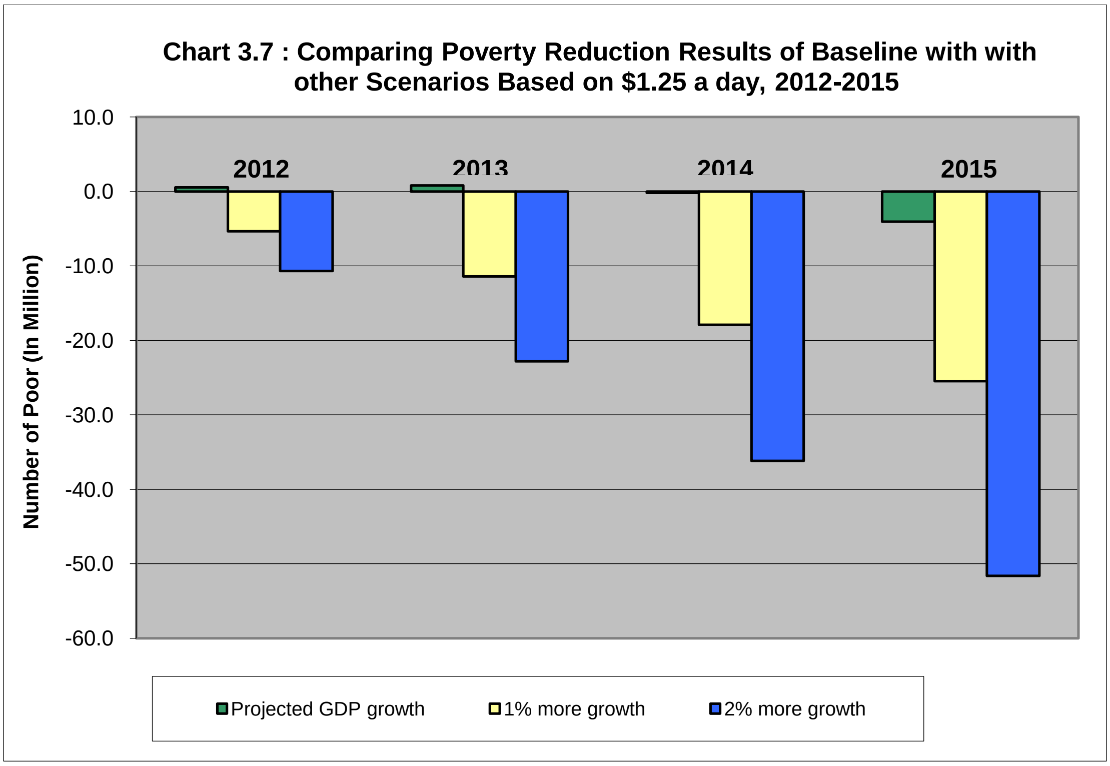


The first comparison is between scenario one (baseline) and scenario two (one, two and three-percentage point lower growth than 2007) over the period 2010-2011. As Chart 3.5shows, scenario one will lead to 5.2 million and 10.3 million more people (in 2010 and 2011 respectively) escaping from poverty threshold of $1.25 a day than if growth is one-percentage point lower than 2007-growth rate. At two-percentage point lower growth than 2007 growth rates, the additional poverty reduction advantage of scenario one over scenario two will be 10.3 million in 2010 and 20.4 million people in 2011. Furthermore, if the growth rate is three-percentage point lower than 2007 growth rate, the additional poverty reduction advantage will be 15.5 million additional people in 2010 and 30.9 million in 2011.

For $2 a day poverty threshold, the baseline scenario will lead to more people escaping from poverty trap than all the growth permutations of scenario two (one, two and three-percentage point lower growth) as Chart 3.6 depicts. However, the margins of additional poverty reduction are very close to those of $1.25 a day. For instance, the additional poverty reduction advantage of the baseline scenario over the three-percentage point scenario will be 15.6 million in 2010 and 32.6 million in 2011, which are comparable to 15.5 million and 30.9 million of the $1.25 poverty threshold.

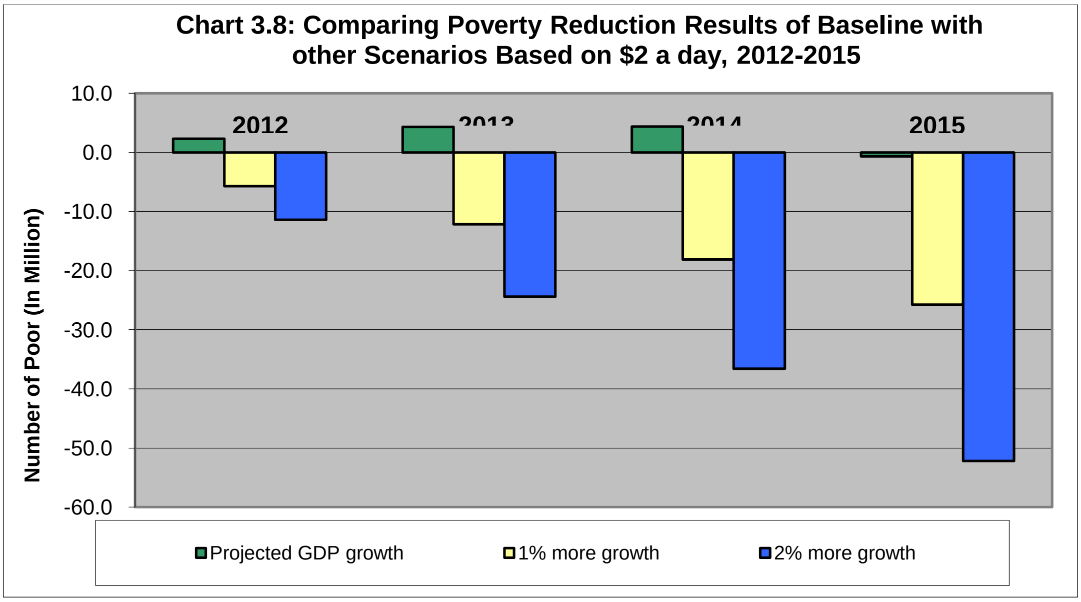


If scenario three is compared with scenario one (the baseline) for the poverty threshold of $1.25 a day (Chart 3.7), a one-percentage point above 2007 growth rates will lead to 5.3 million more people escaping from poverty than the baseline scenario in 2012. The additional poverty reduction will be 11.4 million people in 2013, 17.9 million people in 2014 and 25.5 million in 2015. If growth is two-percentage point higher than 2007, the additional poverty reduction advantage will be much higher as expected. It will be 10.7 million people in 2012, 22.8 million people in 2013, 36.2 million people in 2014 and 51.6 million people in 2015.



Based on poverty threshold of $2 a day (Chart 3.8), the additional poverty reduction advantage of scenario three over scenario one will be 5.7 million people in 2012 if the growth rate happens to be one-percentage point higher relative to 2007. The additional advantage in the same situation will be 12.2 million people in 2013, 18.1 million people in 2014 and 25.7 million people in 2015. If the growth rate is two-percentage point higher than 2007 rate, scenario three will lead to 11.4 million more people escaping from $2 a day poverty threshold than baseline scenario in 2012, 24.4 million in 2013, 36.6 million in 2014 and 52.2 million in 2015.

Comparing scenarios one and four, scenario one will lead to 6.7 million more people escaping from extreme poverty of $1.25 a day threshold than scenario four in 2010. In 2011, the additional reduction of the baseline scenario over scenario four will be 10.3 million in 2011. The margin of additional poverty reduction advantage reduces to 0.6 million in 2012; it will be 0.8 million in 2013 afterwards, the poverty reduction advantage reverses and scenario four will lead to 0.2 million and 0.8 million more people in 2014 and 2015 escaping from extreme poverty of $1.25 a day threshold than baseline scenario. Based on poverty threshold of $2 a day (Chart 3.8), scenario one will lead to 7.1 million more people out of poverty than scenario four in 2010. The additional reduction in of scenario one over scenario four will be 12.7 million in 2011, 2.3 million in 2012 and 4.4 million in 2014. In 2015 however, scenario four will lead to 0.7 million more people escaping from $2 poverty threshold than the baseline scenario.



From the evaluation of the four scenarios, the post-crisis growth assumptions confirm the significance of economic growth in achieving poverty reduction. The comparison analysis reveals that, scenario three, which assumes one and/or two-percentage point higher growth than 2007 growth rate is the best-case scenario because it compares more favorably with the baseline scenario while scenarios two and four compare less favorably to the baseline scenario. Intuitively, scenario two is the worst-case scenario, which is confirmed by the evaluation and comparison analysis. Even though the scenarios are based on assumptions, they provide insights on poverty reduction challenges that is emerging in post crisis context. In order to come to terms with the enormity of the poverty reduction challenges ahead, prospects of achieving the poverty reduction targets of IDB 1440H Vision and the MDGs are analyzed in section 4.4 that follows.

3.5. Prospects Achieving IDB Poverty Reduction Targets of the 1440H Vision and MDGs

In the previous section, scenario three emerged as the best-case scenario; all the four scenarios are reviewed further. Table 3.3 presents cumulative changes in poverty incidence between 1990 and 2015 for the four scenarios in terms of percentage point change in poverty incidence and percentage change in the magnitude of poverty between 1990 and 2015. The indicators confirm scenario three as the best-case scenario. Therefore, scenario three is used as the benchmark for analyzing the prospects of achieving the targets of poverty reduction targets of the IDB 1440H Vision and MDGs, which were stipulated based on extreme poverty threshold of $1 a day.

Considering that he threshold of extreme poverty has changed to $1.25 a day, the analysis of the prospects is focused on extreme poverty as currently measured, i.e. $1.25 a day. Furthermore, given that the MDG target of 50 percent reduction of extreme poverty based on $1.25 a day threshold is relatively, lower than the 75 percent target of the IDB 1440H, the analysis focus mainly on the MDG target and draws inferences on the implication for achieving the Vision target. Percentage point changes (ppc) and percentage changes in poverty incidence are computed for each scenario using the rate of poverty in 1990 and in 2015 based on the assumptions of the scenarios. Scenario has time horizon of 2011 so the computation of the indicators is restricted to 2011 for scenario two.

The indicators presented in Table 3.3 reveal that, in aggregate terms, none of the scenarios lead to reduction in the number of extremely poor people (based on $1.25 a day) by up to 50 percent between 1990 and 2015, the target of the MDGs. However, changes in percentage point in the incidence of poverty is very significant for all the scenarios, ranging from 38.4 percentage point of the worst scenario (less than 3 percentage growth relative to 2007 growth rate) to 68.3 percentage point for the best case scenario of two percentage point more growth above 2007 growth rate.

By regional groupings, the CIT member countries appear to be likely to achieve 100 percent poverty reduction by 2015 in the best-case scenario with substantially very high reduction in other scenarios. This could be attributable to the very high poverty elasticity of growth in the region. The indicators for countries in this region are clearly outliers, especially given that while most of the countries appear to have achieved 100 percent reduction in some scenarios, some others recorded between 300 to above 600 percent increase in poverty. The region is in transition after emerging from the Soviet Union, therefore the evolving institutional structures for data collection and processing may not be strong enough to significantly minimize discrepancies.

The Asian regional groups of member countries have the brightest prospects of achieving the MDG target of 50 percent reduction. The indicators suggest that the Asian regional group will fall short of the MDG poverty reduction target only in scenario two due to deceleration in growth rate with the shortfall higher when the assumed decline in growth rate is higher. In other scenarios, the region exceeds the MDG poverty reduction target with the two-percentage point higher than 2007 growth rate (best-case scenario) leading to the most significant reduction in the number of extremely poor by 83 percent and reduction in poverty incidence by 88.9 percentage points between 1990 and 2015. Even though this bright prospect reflects in all countries in the region, Indonesia and Bangladesh emerged as the most significant achievers relative to other countries in the regional group.

In the MENA region, the lower growth scenarios will yield not only a slow rate of poverty reduction but increase in the number of people that are extremely poor. The increase will be about 16.9 percent if growth rate reduces by one-percentage point relative to 2007 rate of growth, by 20.8 percentage at two percentage point less and by 24.6 percent at three-percentage point less. In the best-case scenario, the region could reduce the number of extremely poor people by only 20.2 percent between 1990 and 2015, a significant shortfall from the 50 percent target of the MDG. The very high net increase in poverty incidence in countries like Yemen and Turkey, which recorded very low initial poverty conditions in 1990 but became seriously afflicted in later years, coupled with the relatively high poverty-growth sensitivity of the region, accounts largely for the high shortfall in achieving the MDG target. It is worth noting that countries such as Egypt, Iran, Jordan and Tunisia will achieve close to 100 percent reduction in extreme poverty in the best-case scenario.

For the SSA member countries, even in the best-case scenario the number of extremely poor people in the region will increase by 13.1 percent. This is consistent with the universal consensus that the sub-Saharan African region is the most poverty-afflicted region in the world. Besides, the SSA member countries have the lowest average growth elasticity of poverty among the regional groupings, which possibly explains why a higher growth rate scenario may not lead to a significant reduction in poverty. The prospect of achieving the poverty reduction target of the MDGs by the region is not very encouraging. Only one member country in the region, Mauritania, is likely to achieve the 50 percent reduction target between 1990 and 2015 in the best-case scenario. Five member countries in the region (Chad, Gabon, Guinea-Bissau, Niger and Sierra Leone) indicate more than 100 percent increase in the number of poor between 1990 and 2015 even in the best-case scenario.

In all, 14 member countries are likely to experience increase in poverty even in the best-case scenario, 12 from the SSA regional group and two in the MENA region. Out of the 40 member countries, 10 have high prospect of achieving the 50 percent or more reduction target of the MDGs under the best-case scenario. They include all the five member countries in Asia, four in MENA and one in SSA, in addition to the extraordinary results of the CIT. Indeed, Indonesia and Malaysia are likely to exceed the 50 percent poverty reduction target even in the worst-case scenario of three-percentage point less than 2007 rate of growth.

The key findings affirm the significance of economic growth in reducing poverty as all the scenarios that assume growth acceleration will most likely lead to measurable levels of poverty reduction. The Asian member countries have good prospect of significant poverty reduction in the best-case scenario and possibly achieve the poverty reduction target of the MDGs, the prospects of the CIT region is difficult to ascertain due to institutional issues surrounding data accuracy. In the MENA region, few countries have good prospects of significant poverty reduction in the best-case scenario while only one member country in the SSA region demonstrate some prospects of achieving significant poverty reduction towards achieving the target of the MDGs. However, even with the best-case scenario of economic growth, many member countries and all member countries as a whole will face daunting challenge of achieving the MDG target of poverty reduction in the emerging post-crisis global economic realities. By extension, as the poverty reduction target of IDB 1440H is higher than the MDG’s, achieving the Vision target by member countries in the emerging post-crisis global economic landscape is even more daunting.

The key message from the findings of this paper is that current trends of growth achievements and distribution gaps in member countries are not good enough for achieving significant poverty reduction. The global financial and economic crisis has further weakened the prospects for achieving the poverty reduction targets of the MDGs and IDB 1440H Vision in member countries. Member countries need to adopt macroeconomic reform measures to achieve higher growth that translates into poverty reduction to cope with emerging post-crisis global economic landscape and enhance the success of achieving the poverty reduction targets of the MDGs and IDB 1440H Vision.

Table 3.3: Cumulative Change in $1.25 Poverty Incidence between 1990 and 2015 based on the various scenarios

Country/Region	Baseline		Less 1%		Less 2%		Less 3%		1% more		2% more		Projected	
	ppc	% change	ppc	% change	ppc	% change	ppc	% change	ppc	% change	ppc	% change	ppc	%change
Bangladesh	74.8	60.9	37.1	7.3	33.9	2.5	30.6	-2.3	82.8	73.4	91.1	86.2	78.2	66.1
Indonesia	89.2	85.2	75.0	67.0	73.8	65.3	72.5	63.7	92.3	89.4	95.5	93.8	89.4	85.4
Malaysia	83.1	72.1	76.7	63.6	75.9	62.4	75.1	61.1	85.0	75.2	86.9	78.4	83.6	72.8
Pakistan	74.5	54.5	67.7	47.0	66.6	45.2	65.5	43.4	77.0	59.0	79.6	63.5	73.9	53.4
Suriname	67.3	59.7	45.2	34.8	42.9	32.0	40.6	29.2	72.9	66.6	78.6	73.6	72.6	66.2
Asia	80.5	69.9	62.6	45.6	60.9	43.1	59.2	40.6	84.6	76.3	88.9	83.0	81.2	71.0
Albania	100.0	100.0	66.9	67.6	61.5	62.3	56.2	57.1	100.0	100.0	100.0	100.0	100.0	100.0
Azerbaijan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Kazakhstan	100.0	100.0	41.9	42.9	30.4	31.6	19.0	20.4	100.0	100.0	100.0	100.0	100.0	100.0
Kyrgyz Rep.	100.0	100.0	-19.9	-48.8	-44.6	-79.5	-69.0	-109.8	100.0	100.0	100.0	100.0	93.8	91.9
Tajikistan	100.0	100.0	-304.0	-450.5	-379.9	-554.0	-455.1	-656.6	100.0	100.0	100.0	100.0	100.0	100.0
Turkmenistan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Uzbekistan	100.0	100.0	100.0	100.0	100.0	100.0	60.1	45.0	100.0	100.0	100.0	100.0	100.0	100.0
Countries in Transition	100.0	100.0	82.5	78.6	79.1	74.4	64.0	55.9	100.0	100.0	100.0	100.0	99.7	99.6
Algeria	45.7	18.3	36.2	9.4	34.3	6.7	32.4	4.1	49.9	24.6	54.1	31.0	51.1	26.5
Egypt	88.1	81.3	73.0	60.2	71.5	58.1	70.1	56.0	91.6	86.9	95.3	92.5	85.0	76.5
Iran	86.9	81.2	75.0	65.7	73.8	64.1	72.6	62.6	89.7	85.2	92.6	89.4	75.5	64.9
Jordan	95.9	91.6	91.3	83.0	90.9	82.1	90.4	81.3	97.0	93.7	98.1	96.0	94.3	88.2
Morocco	28.7	0.1	8.4	-22.5	4.7	-27.4	1.0	-32.4	37.0	11.8	45.6	23.8	49.4	29.2
Tunisia	94.9	93.1	88.8	85.5	88.3	84.8	87.7	84.1	96.2	94.9	97.6	96.8	94.4	92.5
Turkey	-30.2	-87.5	-67.7	-131.2	-72.5	-137.8	-77.3	-144.4	-19.0	-71.4	-7.4	-54.7	-41.4	-103.5
Yemen, Rep.	-211.5	-608.3	-251.8	-616.8	-261.2	-636.1	-270.6	-655.3	-190.7	-561.0	-169.3	-512.3	-184.1	-546.0
Middle East and North A	35.0	1.2	18.6	-16.9	15.9	-20.8	13.3	-24.6	41.1	10.6	47.5	20.2	35.5	2.0
Benin	33.3	-46.2	27.7	-41.2	26.3	-44.0	24.9	-46.8	36.5	-39.4	39.6	-32.4	39.3	-33.2
Burkina Faso	20.5	-69.7	14.9	-60.5	13.2	-63.7	11.6	-66.8	24.1	-62.0	27.9	-54.0	29.1	-51.5
Cameroon	45.6	2.4	41.5	3.6	40.4	1.8	39.3	0.0	48.0	6.8	50.4	11.2	49.4	9.3
Chad	-20.6	-163.1	-20.1	-135.9	-21.8	-139.1	-23.4	-142.3	-17.3	-155.9	-13.9	-148.4	-13.9	-148.4
Comoros	0.1	-86.3	1.5	-68.9	0.0	-71.4	-1.4	-73.9	3.0	-80.9	6.0	-75.3	12.2	-63.7
Côte d'Ivoire	-17.3	-114.2	-22.0	-103.0	-24.0	-106.5	-26.0	-109.9	-13.0	-106.3	-8.5	-98.1	1.9	-79.2
Djibouti	-569.0	-954.5	-771.0	-1186.9	-793.3	-1219.8	-815.4	-1252.4	-516.1	-871.0	-461.6	-785.1	-460.1	-782.8
Gabon	-105.7	-253.0	-138.6	-281.7	-143.3	-289.2	-147.9	-296.6	-95.0	-234.6	-84.0	-215.7	-132.3	-298.6
Gambia	67.6	31.8	61.1	25.8	60.1	24.0	59.2	22.2	69.8	36.3	72.0	41.0	65.5	27.4
Guinea	24.2	-46.3	22.9	-33.3	21.5	-35.6	20.2	-37.9	26.9	-41.0	29.8	-35.5	29.3	-36.3
Guinea-Bissau	-0.9	-147.3	-4.3	-133.2	-6.2	-137.3	-8.0	-141.4	2.9	-137.9	6.9	-128.2	3.8	-135.7
Mali	49.4	1.5	43.9	0.6	42.7	-1.5	41.6	-3.5	52.0	6.5	54.7	11.7	53.4	9.2
Mauritania	72.6	46.6	71.2	48.3	70.7	47.4	70.2	46.4	73.8	48.9	75.0	51.2	82.5	65.9
Mozambique	60.3	25.8	40.7	-2.1	38.8	-5.3	37.0	-8.4	64.7	34.1	69.3	42.6	57.3	20.2
Niger	5.5	-130.9	1.6	-106.9	-0.3	-110.9	-2.1	-114.9	9.4	-121.2	13.6	-111.1	20.9	-93.3
Nigeria	24.0	-41.4	-1.9	-74.2	-4.6	-78.8	-7.2	-83.4	30.4	-29.4	37.1	-17.1	20.6	-47.8
Senegal	54.7	13.2	50.3	13.7	49.4	12.0	48.5	10.4	56.8	17.1	58.9	21.2	55.7	15.1
Sierra-Leone	44.4	2.5	32.2	-8.2	30.6	-10.8	29.0	-13.3	48.1	9.0	51.9	15.8	43.2	0.4
Togo	-15.8	-129.2	-18.6	-114.1	-20.6	-117.7	-22.6	-121.3	-11.6	-120.9	-7.3	-112.4	-6.0	-109.7
Uganda	65.9	23.2	48.0	-2.7	46.3	-6.2	44.6	-9.6	70.1	32.6	74.4	42.3	60.6	11.3
Sub-Saharan Africa	32.6	-31.3	17.2	-46.3	15.2	-49.8	13.2	-53.3	37.2	-22.3	42.0	-13.1	33.3	-30.0
Total	59.1	34.0	42.3	13.1	40.4	10.2	38.4	7.1	63.6	41.3	68.3	48.9	59.8	35.2
Source: Computed by the Author														

Chapter IV: Post-Crisis Responsive Measures for Poverty Reduction

4.1 Summary of Key Findings and Messages

From the analysis of issues and available data, the paper affirms that poverty reduction has been a challenge worldwide even before the crisis, yet there were progress towards achieving the poverty reduction goal of halving the 1990-poverty rate by 2015. However, due to the effects of global financial and economic crisis, progress in poverty reduction is slowing down, thereby hampering the achievement of the poverty reduction target of the MDGs. Many IDB member countries manifest signs of vulnerabilities based on their macroeconomic and social indicators and thus facing more serious poverty reduction challenges due to the crisis. It follows that, many member countries face even more daunting challenge of achieving the poverty reduction target of the IDV 1440H Vision, which is higher than that of the MDGs.

The global financial and economic crisis, which led to slowdown in economic growth worldwide, has put additional strain on the challenges of achieving the poverty reduction targets of the MDGs and IDB Vision 1440H, especially given the important relationship between economic growth and poverty. The computed poverty elasticity of growth of member countries further underlines the significance of attaining high growth as a requisite condition for achieving poverty reduction. However, it also emerged that high economic growth without a more equitable income distribution will not lead to substantial progress in poverty reduction. Hence, growth is a necessary condition but not a sufficient condition for achieving poverty reduction.

Prior to the crisis, the high growth of the global economy was hinged on a three chain relationships: high consumption in advanced economies, increasing outputs of emerging industrializing countries and increasing raw materials demand from relatively less developing countries. Countries benefitted from the proceeds of global growth relative to their strength in the chain relationship with those involved in high value-adding production benefitting more. The global financial and economic crisis weakened this chain relationship and the benefits associated with it. As consumption in the advanced economies slumped, global demand whittled and the less developing countries suffer significant fall in demand for their largely primary commodities through decline in global trade. This gave rise to employment crisis in both the advanced and developing countries with adverse consequences on earning capabilities of the people and thus leading to additional poverty challenges.

Many IDB member countries are at the receiving end of the chain relationship of global economic growth due to heavy reliance on global trade to achieve economic growth. In the wake of the global financial crisis, the emerging industrializing economies relied on domestic and regional incentives to make up for the weakened global demand opportunities. This proved to be crucial in the resilience demonstrated by these economies. IDB member countries, however, lack domestic and regional wherewithal to respond adequately in this direction. The key findings that emerged from the paper and key messages arising there from are:

Although the success in reducing poverty among member countries is mixed, the average overall reduction rate fall short of the required rate for achieving the poverty reduction targets of the MDGs and IDB 1440 Vision.

Poverty reduction in many IDB member countries improved between 1990 and 2002 but deteriorated between 2002 and 2005, however, witnessed a net reduction between 1990 and 2005. Poverty incidence based on $1.25 a reduced by nine percentage points between 1990 and 2005 but the magnitude of poverty (number of poor people) increased by 12 million within the same period, due to population increase.

Asian member countries are the most successful in reducing poverty; Sub-Saharan Africa member countries have the most severe rate of poverty while the CIT appear to be the worst achievers in reducing poverty incidence.

Many member countries, which experienced high rates of growth in per capita GDP, achieved reasonable levels of poverty reduction, which confirms the empirical relationship between economic growth and poverty reduction. However, some other member countries achieved moderate poverty reduction rates with low and even negative growth rate of GDP per capita. Some member countries were not able to translate economic growth opportunities into reducing poverty.

The post-crisis growth scenario analysis underlines the need for achieving strong growth along with measures to reduce inequality for member countries to make significant progress in poverty reduction. However, the global recovery, to which the economic growth of many IDB member countries largely depends, is fragile, as the probability that it will return to pre-crisis level of buoyancy is uncertain. It implies that, member countries need to evolve policies and strategies for attaining sustainable growth that relies more on domestic and regional demand for achieving inclusive and sustainable high growth as the fountain of achieving significant poverty reduction. This requires the expansionary involvement of household in the process of value-adding production activities that ensures inbuilt mechanism for equitable income-earning opportunities for households.

4.2 Essentials of Effective and Sustainable Poverty Reduction

Effective and sustainable poverty reduction requires a balanced relationship between production and consumption in a mutually reinforcing process of value-adding production. The extent (size and value) of involvement of the people (households) in income-earning production activities is crucial for addressing inequality as it leads to improvements in human capabilities and create opportunities with equal access of the people. Both historical and contemporary global development experience indicate that industrialization is the most effective route of generating wide-ranging economic activities to achieve inclusive growth that expands opportunities for the people.

It follows therefore that, as an essential precondition for effective and sustainable poverty reduction, IDB member countries need to pursue industrialization as a long-term strategy for achieving inclusive growth. This require the transformation of largely primary productive activities that have rendered the economies of member countries susceptible to global economic shocks into a range of value-adding productive activities that provide increasing employment opportunities and avenues for enhancing the capabilities of factors of production (technological progress) through learning-by-doing.

As industrial production activities expand, more people get employment, earn income and are able to save, leading to surpluses (accumulation). This reduces the strain on governments by enhancing fiscal space and creating opportunities for fiscal effectiveness in public service delivery. In addition, it will be relatively easier for governments to initiate and implement safety net programs to cater for those that face difficulties in benefiting from available opportunities.

The required industrial transformation depends on a vibrant private sector as driving force. However, while the central role of the private sector is critical, the role of governments in creating appropriate incentives for investments is a pre-requisite for the emergence of a vibrant private sector. Inter-sectoral linkage stimuli provide demand incentives for self-perpetuation of the growth process. With appropriate policy measures, a competitive private sector will bolster productivity growth through innovation and bring about pro-poor market for goods and services.

For low-level industrial production countries like many IDB member countries, development of robust Small and Medium Enterprises (SMEs) could provide a viable route towards industrialization. In many developing countries, SMEs have contributed significantly to productivity enhancement and poverty reduction. The poverty reduction effectiveness of SMEs stems from the fact that they use more of local raw materials and responds to local consumption needs of a largely rural population.

It is therefore crucial for member to initiate SME development strategies as the cornerstone of value-adding production activities while providing incentives for the SMEs to evolve into bigger enterprises. This will create opportunities for employment and contribute significantly towards poverty reduction as well as engender inclusive growth. To sustain the growth momentum and reduce vulnerabilities to shocks, it is important for member countries to diversify their economic activities. This require forward-looking diversification policies that links the SMEs to the growth of manufacturing sectors to emerge as a formidable pillar of inclusive growth that leads to significant poverty reduction.

In recent years, microfinance has emerged as effective instrument in poverty reduction, especially with the significant success achieved by Grameen bank in Bangladesh. As a mark of wide acceptance of microcredit as effective poverty reduction instrument, the United Nations declared 2005 as the international year of microcredit[20]. The poverty reduction effect of microfinance is because most poor people that are not employed in mainstream public and private sectors experience difficulties accessing credit from formal financial institutions. Microfinance provides the poor opportunities to access small amounts of capital at affordable costs to start small business. This enables the poor people establish asset base that enhances their income-earning capabilities as well as their consumption levels thereby improving their quality of life. However, the impact of microfinance and poverty is not straightforward as in some instances, the effect and severity of poverty tends to constraint to effective use of microfinance opportunities by the poor. Therefore, it is

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[20] Bakhtiari, Sadegh (2006) "Microcredit and Poverty Reduction: Some International Evidence", International Business and Economics Research Journal, Vol. 5, No. 12.

not enough to provide microfinance but in addition provide complementary support such as training, market incentives, risk mitigation and counseling.

Both the IDB and member countries have recognized the essence of SMEs and microfinance in poverty reduction and have initiated measures to apply them in their poverty reduction efforts. The catalytic efforts of the IDB in supporting poverty reduction in member countries have evolved since its inception as highlighted below.

4.3. Efforts of the IDB Group in Poverty Reduction

Poverty reduction is at the centre of the fundamental goal of the IDB, which is fostering social and economic development of its member countries. From inception in 1975 to date, the IDB has provided poverty reduction development assistance through concessional financing to its member countries to the tune of more than US$ 4.2 billion. In recognition of the need to match development financing with appropriate strategies to enhance effectiveness in poverty reduction, the IDB Group has constantly reviewed its approaches. The most remarkable aspect of these efforts is the development of the IDB 1440H Vision, which repositioned the Bank "*to be a leader in fostering socio-economic development"* in its member countries. The essential goal of the Vision is to improve the standard of living of the people by achieving stipulated targets in nine key strategic thrusts, the most prominent of which is poverty reduction.

To reinvigorate its poverty reduction efforts and by the Makkah Declaration of the Third Extraordinary OIC Summit of 2005, the Bank established the Islamic Solidarity Fund for Development (ISFD). The ISFD is a special program initiated and launched in May 2007 to mobilize $10 billion for concessionary funding of poverty reduction related projects in member countries. The ISFD is operating on the basis of two thematic programmes for poverty reduction; Vocational Literacy Programme for Poverty (VOLIP) and Microfinance Programme for African Member Countries. The ISFD targets the Least Developed Member Countries (LDMCs) in its financing and undertakes a Country Poverty Assessments (CPAs) to evaluate the critical needs of the LDMC to determine the appropriate intervention.

In addition, the IDB, in response to the crucial developmental needs of African member countries, initiated a Special Programme for the Development of Africa (SPDA) to build on the achievements of the Ouagadougou Declaration that preceded it. The main objective of the SPDA is to partner African member countries in stimulating sustainable growth for achieving development and effective poverty reduction. In this context, the IDB plays a catalytic role in mobilizing additional resources from other development partners to raise up to $12 billion to help bridge the development financing gap to enhance poverty reduction strategies.

Project and programme financing strategy of the IDB's for poverty reduction is focusing on:

- Creating additional jobs and employment targeting the most vulnerable groups; and

- Promoting human capital development by emphasizing education, training and health support in project/programme financing.

Indeed, the overall medium-term intervention agenda of the IDB Group is based four thematic strategy thrusts that are critical achieving effective and sustainable poverty reduction in member countries. These are:

- Comprehensive human development and poverty reduction;
- Prospering the people through sustainable growth;
- Mainstreaming of Islamic Finance; and
- Economic Integration of member countries

These four thematic strategies are interlinked in achieving poverty reduction in line with the “capabilities”, “opportunities” and “enhancement” requirements of effective and sustainable poverty reduction (see Appendix B). Human development is about fostering capabilities through knowledge acquisition and skill development that empowers a person to participate in value-adding economic activities. This leads to effective utilization of resources that generate sustainable growth and with higher skills leading to high returns, people become prosperous. The remaining two pillars provide opportunities that perpetuate the capabilities and prosperity through sustainable growth. Islamic finance stimulates economic growth through financial intermediation that propels investments to expand opportunities for more people to unleash their capabilities to contribute to growth and improve their welfare. Furthermore, economic integration creates opportunities for market expansion, more investments to achieve higher growth and more employment opportunities. In addition, two crosscutting thematic strategies, capacity building and private sector development, will tend to facilitate the four main thematic strategies.

4.4. Post-Crisis Responses for Effective and Sustainable Poverty Reduction

The efforts of the IDB and other development partners are complementary and not substitutes to the essential requirements for achieving poverty reduction. Emerging post-crisis global economic landscape require member countries to adopt policies and measures that would improve their business and investment climates to stimulate both domestic and foreign investments that lead to improved firm level competitiveness. This is crucial for broadening the inclusiveness and sustainability of the growth process in member countries.

Many IDB member countries with high poverty incidence tend to have weak productive structures associated with primary commodity dependence, high infrastructure deficits and low levels of investments. It implies that achieving inclusive and sustainable growth by member countries, a key precondition for poverty reduction; require policy reforms that remove constraints to investments and structural transformation that increases the relative contribution of manufacturing activities with strong interdependence among domestic sectors and regional economies.

In the context of relative low levels of industrial production but with imperatives of creating opportunities for income earning opportunities, member countries need to initiate and implement robust strategies of Small and Medium Enterprises (SMEs). The poverty reduction advantages of the SMEs stems from the fact that they use more local raw materials and are responsive to local consumption needs of a largely rural population. Moreover, they are easy to operate, as they require simple baseline technology. In addition, SMEs are the most virile and viable route for transformation from rudimentary to high value-adding activities. However, the competitive economic climate of globalization could undermine the survival of SMEs hence appropriate complementary measures are required to bolster the activities of SMEs.

Microfinance provisions need to be accorded priority by member countries to minimize the poverty impact of the crisis. As opportunities for mainstream employment in private and public sectors are shrinking, the role of microfinance in poverty reduction is becoming more important as a strategy of addressing post-crisis poverty reduction challenges.

Many IDB member countries have recognized the essence of SMEs and microfinance in poverty reduction has adopted various measures. There is the need to expand the frontiers SMEs and microfinance to encourage complementarily between them to reinforce each other. Both SMEs and microfinance are key components of IDB's poverty reduction strategy in member countries through the ISFD.

Social safety net programmes are important in reducing poverty among the very weak, especially as the impact of the crisis would have aggravated their poverty situation. Safety nets are required not only for emergency but also during economic boost periods because; some people may be unable to benefit from available opportunities due to circumstances beyond them. It is important to initiate and implement safety net programmes to cater for this category of people. Various studies have identified the high potential of Islamic safety net instruments such as *Zaqat* and *Awqaf* in achieving poverty reduction in member countries[21]. In addition, an IDB study has revealed that large philanthropic opportunities exist in member countries that could be harnessed for poverty reduction safety net programmes[22].

It follows therefore that, in the context of emerging post-crisis economic growth challenges, member countries need to initiate and implement measures for cushioning poverty impact of the crisis as well as adopt forward-looking measures to achieve high inclusive and sustainable growth by strengthening domestic production structures and addressing sources of vulnerabilities.

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[21] See for instance, Ahmed, Habib, 2004; *"Role of Zakah and Awqaf in Poverty Alleviation"* Occasional Paper No.8 and Iqbal Munawawar, (2002) *"Islamic Economic Institutions and the Elimination of Poverty",*

[22] IDB (2008) "Philanthropic Development Finance in IDB Member Countries" EPSD Study

At the country level:

In the short-run, member countries need to expand social safety nets programmes and ensure their effectiveness in targeting those that require social support to meet their basic needs. These include:

- Increasing microfinance provision to the poor with required support programmes to enhance effectiveness in reducing poverty

- Expanding social safety net programmes especially harnessing of *Zakat* and *Awqaf* resources.

In the medium-term, member countries need to identify and address constraints to SMEs. These include:

- Improving access to capital,
- Providing market incentives
- Providing technology application support
- Risk mitigation of SME operations

In the long-term, member countries need to undertake far-reaching reforms that lead to healthy inter-dependence among sectors and different levels of the production chain in their domestic economies. This will ensure that outputs of some sectors are inputs to others both at horizontal (big industries using each other's outputs) and vertical (big and smaller firms using each other's products) chains. The increasing interdependence among sectors of the economy leads to expansion in production due to increasing demand.

Implementation of industrial diversification policies will further strengthen this self-perpetuation process of inclusive growth towards effective and sustainable poverty reduction. This requires member countries to implement prudent macroeconomic policies to attract FDI and creative incentives for private sector development. In addition, it is imperative for member countries to improve their infrastructures and human capital development, which are crucial for attracting FDI and creating opportunities for innovation to propel the process of structural transformation.

As global demand for achieving growth is becoming unreliable, member countries need to intensify economic integration within each of the different regional groups (MEANA, Asia, SSA and CIT) as vehicle for achieving mutually reinforcing process of inclusive growth towards effective and sustainable reduction. This requires:

- Coordinated intra-investment and intra-trade agenda that distribute production of goods and services among countries in the region based on comparative advantage.

- Joint investments that props up manufacturing production activities through intra and inter regional corporations.

- Intra and inter regional coordination of macroeconomic policies to enhance best practices in prudent macroeconomic management and improving fiscal efficiency.

- Establishing mechanisms for policy coordination, monitoring and evaluation.

At the level of development partners

- Focus on high employment and high impact industries and sectors in diagnosing operational constraints and prioritizing project interventions based on these constraints.
- Facilitate coordination platform among SME agencies of member countries and encourage the adoption of best practices.
- Emphasize the prioritization of human development in resource allocation in the process of policy dialogue and partnership agreements with member countries.

In particular, the IDB could:

- Extend the Bilingual Education Programmed (BEP) to more member countries and seek to combine with its Vocational Literacy Programme (VOLIP) to ensure the optimization of the advantages derivable from the two programmes.
- Establish a model safety net scheme based on *Zaqat* and *Awqaf* and encouraging member countries to replicate.
- Encourage sub-regional economic meetings of member countries to discuss economic corporation issues of mutual interest,

In conclusion, it needs to be stressed that, poverty reduction is a serious challenge to member countries and that its achievement requires strong development partnership. However, member countries need to be committed to a bond of social compact for creating opportunities and ensuring equal access to opportunities. A demonstrated commitment by member countries is fundamental to the motivation and effectiveness of development assistance by the IDB and other development partners. As it emerged from the analysis and major conclusions of the study, it is most likely that achieving poverty reduction and by extension, other income-related MDGs in member countries will be delayed due to the global financial and economic crisis that morphed into the most severe recession since the 1930s. In a world of shrinking physical and financial resources, it is very crucial for member countries to realize the imperatives of doing better with less by improving allocation of resources and fiscal efficiency. This is essential for enhancing public and private sector productivity that creates the requisite conditions for achieving inclusive growth for effective and sustainable poverty reduction. In turn, this requires improved governance and stronger institutions.

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Appendix A: Appendix Tables

Appendix Table 1: Population (in Million) in Selected IDB Member Countries

Country	1990	2002	2005
Albania	3.3	3.1	3.2
Algeria	25.3	31.4	32.9
Azerbaijan	7.2	8.2	8.4
Bangladesh	113.1	144.9	153.3
Benin	5.2	7.7	8.4
Burkina Faso	8.9	12.7	13.9
Cameroon	12.2	16.6	17.8
Chad	6.1	9.1	10.2
Comoros	0.4	0.6	0.6
Côte d'Ivoire	12.8	17.7	18.6
Djibouti	0.6	0.8	0.8
Egypt	55.1	69.0	72.9
Gabon	0.9	1.2	1.3
Gambia	1.0	1.5	1.6
Guinea	6.0	8.5	9.0
Guinea-Bissau	0.8	1.5	1.6
Indonesia	178.2	211.8	220.6
Indonesia-Rural	123.7	117.7	114.5
Indonesia-Urban	54.5	94.1	106.1
Iran	54.4	66.0	69.1
Jordan	3.2	5.0	5.4
Kazakhstan	16.3	14.9	15.2
Kyrgyz Rep.	4.4	5.0	5.1
Malaysia	18.1	24.3	25.7
Mali	7.7	10.6	11.6
Mauritania	1.9	2.7	3.0
Morocco	24.2	29.2	30.1
Mozambique	13.5	19.1	20.5
Niger	7.8	11.9	13.3
Nigeria	94.5	131.3	141.4
Pakistan	108	144.9	155.8
Senegal	7.9	10.9	11.8
Sierra-Leone	4.1	4.9	5.6
Suriname	0.4	0.4	0.5
Tajikistan	5.3	6.3	6.6
Togo	4	5.7	6.2
Tunisia	8.2	9.8	10.0
Turkey	56.2	69.6	72.1
Turkmenistan	3.7	4.6	4.8
Uganda	17.8	26.3	29.0
Uzbekistan	20.5	25.3	26.2
Yemen, Rep.	12.3	19.3	21.1
Total	**931.5**	**1194.3**	**1264.7**

Source: World Bank, PovcalNet Databa*se and World Development Indicators O*

Appendix Table 2: Mean Per Capita Expenditures (in 2005 PPP) in Selected IDB Member Countries

Country	1990	2002	2005
Albania	127.2	135.9	162.2
Algeria	128.5	127.9	136.1
Azerbaijan	85.9	130.5	135.1
Bangladesh	44.5	46.8	48.3
Benin	39.3	52.8	50.6
Burkina Faso	50.7	46.9	48.0
Cameroon	64.3	77.3	86.3
Chad	45.9	41.2	43.7
Comoros	82.9	86.5	94.4
Côte d'Ivoire	89.2	101.1	108.5
Djibouti	228.3	93.5	94.2
Egypt	100.9	113.7	112.5
Gabon	185.2	171.5	150.2
Gambia	39.6	80.6	86.4
Guinea	14.9	37.0	37.2
Guinea-Bissau	81.6	48.4	53.4
Indonesia-Rural	40.5	52.5	62.8
Indonesia-Urban	49.9	71.1	89.1
Iran	202.4	218.8	197.7
Jordan	161.1	175.6	210.1
Kazakhstan	247.4	124.1	159.6
Kyrgyz Rep.	221.3	57.8	73.1
Malaysia	228.0	222.9	204.3
Mali	24.8	44.4	49.1
Mauritania	61.8	97.7	111.1
Morocco	155.4	133.7	155.5
Mozambique	27.1	36.6	42.0
Niger	39.1	30.0	41.5
Nigeria	52.3	41.7	41.1
Pakistan	41.7	54.7	65.8
Senegal	44.9	60.0	66.9
Sierra-Leone	44.2	51.2	54.5
Suriname	161.8	184.3	198.9
Tajikistan	161.4	56.0	73.7
Togo	60.8	61.6	56.2
Tunisia	151.3	195.4	222.3
Turkey	218.2	212.1	234.6
Turkmenistan	56.2	95.8	116.6
Uganda	36.8	50.2	52.7
Uzbekistan	155.3	52.9	57.5
Yemen, Rep.	153.3	101.4	84.0

Source: World Bank, PovcalNet Database.

Appendix Table 3: Gini Coefficients in Selected IDB Member Countries, 1990s vs 2000s

Country	**Period Covered**		**Gini Coefficients**		**Change in Gini Coefficients**
			1990s	**2000s**	
Albania	1996	2005	29.1	33.0	3.9
Algeria	1988	1995	40.1	35.3	-4.8
Azerbaijan	1995	2005	35.0	16.8	-18.1
Bangladesh	1991	2005	28.2	33.2	5.0
Benin	-	2003	-	38.6	-
Burkina Faso	1994	2003	50.7	39.6	-11.1
Cameroon	1996	2001	46.8	44.6	-2.3
Chad	-	2002	-	39.8	-
Comoros	-	2004	-	64.3	-
Côte d'Ivoire	1993	2002	36.9	48.4	11.5
Djibouti	1996	2002	36.8	40.0	3.2
Egypt	1990	2004	32.0	32.1	0.1
Gabon	-	2005	-	41.5	-
Gambia	1998	2003	50.2	47.3	-3.0
Guinea	1991	2003	47.2	43.3	-3.8
Guinea-Bissau	1991	2002	56.2	35.5	-20.6
Indonesia	1990	2005	30.6	34.7	4.1
Iran	1990	2005	43.6	38.3	-5.3
Jordan*	1990	2006	40.7	37.7	-3.0
Kazakhstan*	1990	2003	28.5	33.9	5.3
Kyrgyz Rep.	1993	2004	53.7	32.9	-20.8
Malaysia	1989	2004	46.2	37.9	-8.3
Mali	1994	2006	50.6	39.0	-11.6
Mauritania*	1990	2000	47.0	39.0	-8.0
Morocco	1990	2007	39.2	40.8	1.6
Mozambique	1996	2002	39.6	47.1	7.5
Niger	1992	2005	36.1	43.9	7.8
Nigeria*	1990	2003	42.7	42.9	0.2
Pakistan	1990	2004	33.2	31.2	-2.1
Senegal	1991	2005	54.1	39.2	-15.0
Sierra-Leone	1989	2003	62.1	42.5	-19.6
Suriname	-	1999	-	52.9	-
Tajikistan	1999	2004	31.5	33.6	2.1
Togo	-	2006	-	34.4	-
Tunisia	1990	2000	40.2	40.8	0.6
Turkey	1994	2005	42.7	43.2	0.5
Turkmenistan*	1990	1998	29.9	40.8	10.9
Uganda	1992	2005	44.4	42.6	-1.7
Uzbekistan*	1990	2003	29.0	36.7	7.7
Yemen, Rep.	1992	2005	39.5	37.7	-1.8

*Note: * The figures for 1990s are averages of two years: Jordan (1986 and 1992); Kazakhstan (1988 and 1993); Mauritania (1987 and 1993); Nigeria (1985 and 1992); Turkmenistan(1988 and 1993); Uzbekistan(1988 and 1998).*

Source: World Bank, PovcalNet Database.

Appendix Table 4: Ratio of Expenditure Shares of Bottom 20% to Top 20% in Selected IDB Member Countries, 1990s vs 2000s

Country	Year	Share of Bottom 20%	Share of Top 20%	Ratio of Bottom 20% to Top 20%	Year	Share of Bottom 20%	Share of Top 20%	Ratio of Bottom 20% to Top 20%	Change in the Ratio Bottom 20% to Top 20%
Albania	1996	8.7	37.8	4.3	2005	7.8	40.9	5.3	0.9
Algeria	1988	6.5	47.2	7.2	1995	6.9	42.4	6.1	-1.1
Azerbaijan	1995	6.9	42.0	6.1	2005	13.3	30.2	2.3	-3.8
Bangladesh	1991	9.6	37.3	3.9	2005	8.8	42.5	4.8	1.0
Benin	-	-	-	-	2003	6.9	45.9	6.6	-
Burkina Faso	1994	5.1	56.7	11.1	2003	7.0	47.1	6.8	-4.3
Cameroon	1996	5.7	53.3	9.3	2001	5.6	50.9	9.0	-0.2
Chad	-	-	-	-	2002	6.3	46.6	7.4	-
Comoros	-	-	-	-	2004	2.6	68.0	26.7	-
Côte d'Ivoire	1993	7.0	44.2	6.3	2002	5.0	54.1	10.8	4.5
Djibouti	1996	6.4	43.3	6.8	2002	6.0	46.3	7.7	1.0
Egypt	1990	8.6	40.8	4.7	2004	9.0	41.5	4.6	-0.1
Gabon	-	-	-	-	2005	6.1	47.9	7.9	-
Gambia	1998	4.0	55.3	13.7	2003	4.8	52.8	11.0	-2.7
Guinea	1991	3.1	50.1	16.2	2003	5.8	49.7	8.6	-7.6
Guinea-Bissau	1991	2.1	58.9	28.6	2002	7.2	43.0	5.9	-22.6
Indonesia	1990	9.0	39.9	4.5	2005	8.0	43.0	5.4	0.9
Iran	1990	5.2	49.2	9.6	2005	6.4	45.0	7.0	-2.5
Jordan*	1990	6.6	46.7	7.1	2006	7.2	45.4	6.3	-0.8
Kazakhstan*	1990	8.5	37.8	4.4	2003	7.4	41.3	5.6	1.2
Kyrgyz Rep.	1993	2.5	57.0	22.7	2004	8.1	41.4	5.1	-17.6
Malaysia	1989	5.0	51.8	10.3	2004	6.4	44.4	7.0	-3.3
Mali	1994	4.6	56.1	12.1	2006	6.5	46.0	7.1	-5.1
Mauritania*	1990	4.7	52.4	11.2	2000	6.2	45.7	7.4	-3.8
Morocco	1990	6.6	46.4	7.1	2007	6.5	47.9	7.3	0.3
Mozambique	1996	5.7	50.8	8.9	2002	5.4	53.3	9.8	0.9
Niger	1992	7.5	43.9	5.9	2005	5.9	50.3	8.6	2.7
Nigeria*	1990	5.0	47.2	9.4	2003	5.1	48.6	9.5	0.1
Pakistan	1990	8.1	41.7	5.2	2004	9.1	40.5	4.5	-0.7
Senegal	1991	3.5	58.6	16.7	2005	6.2	45.9	7.4	-9.4
Sierra-Leone	1989	1.1	63.8	57.0	2003	6.1	49.3	8.1	-48.9
Suriname	-	-	-	-	1999	3.0	56.4	18.9	-
Tajikistan	1999	8.1	39.7	4.9	2004	7.7	41.4	5.4	0.4
Togo	-	-	-	-	2006	7.6	42.4	5.6	-
Tunisia	1990	5.9	46.3	7.9	2000	5.9	47.2	8.0	0.0
Turkey	1994	5.8	47.7	8.2	2005	5.2	48.8	9.4	1.2
Turkmenistan*	1990	8.7	39.4	4.5	1998	6.0	47.2	7.8	3.3
Uganda	1992	6.0	49.1	8.1	2005	6.1	49.3	8.1	0.0
Uzbekistan*	1990	7.4	42.6	5.8	2003	7.1	44.2	6.2	0.4
Yemen,Rep.	1992	6.1	45.9	7.5	2005	7.2	45.3	6.3	-1.2

Note: * The figures for 1990s are averages of two years: Jordan (1986 and 1992); Kazakhstan (1988 and 1993); Mauritania (1987 and 1993); Nigeria (1985 and 1992); Turkmenistan(1988 and 1993); Uzbekistan(1988 and 1998).

Source: Estimates based on data from World Bank, PovcalNet Database.

Appendix Table 5: Projected Headcount Ratio (%) and Magnitude of Poor (In Million) Based on $1.25 and $2.00 Per Day, 2010-2015

	Based on $1.25 Per Day																		
Scenario		Headcount Ratio (%)						Magnitude of Poor (In Million)						Addition/Reduction in Number of Poor (In Million)					
		2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
One	Baseline	22.3	20.8	20.1	18.5	16.9	15.3	308.3	292.1	286.4	268.9	250	229.5	-	-	-	-	-	-
	1% less growth	22.7	21.5	-	-	-	-	313.5	302.3	-	-	-	-	5.2	10.2	-	-	-	-
	2% less growth	23.1	22.3	-	-	-	-	318.6	312.4	-	-	-	-	10.3	20.4	-	-	-	-
Two	3% less growth	23.4	23	-	-	-	-	323.8	323	-	-	-	-	15.5	30.9	-	-	-	-
	1% more growth	-	-	19.7	17.7	15.7	13.6	-	-	281.1	257.5	232.1	204.1	-	-	-5.3	-11.4	-17.9	-25.5
Three	2% more growth	-	-	19.3	17	14.5	11.8	-	-	275.7	246.1	213.8	177.9	-	-	-10.7	-22.8	-36.2	-51.6
Four	Projected	22.8	21.5	20.1	18.6	16.9	15	315	302.3	287	269.7	249.8	225.5	6.7	10.3	0.6	0.8	-0.2	-4
	Based on $2.00 Per Day																		
Scenario		Headcount Ratio (%)						Magnitude of Poor (In Million)						Addition/Reduction in Number of Poor (In Million)					
		2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
One	Baseline	46.2	44.5	43.8	42.1	40.3	38.7	637.6	625.3	625	610.5	595.2	580.4	-	-	-	-	-	-
	1% less growth	46.5	45.3	-	-	-	-	642.8	636.3	-	-	-	-	5.2	11	-	-	-	-
	2% less growth	46.9	46.1	-	-	-	-	648	647.2	-	-	-	-	10.4	21.9	-	-	-	-
Two	3% less growth	47.3	46.9	-	-	-	-	653.1	657.9	-	-	-	-	15.6	32.6	-	-	-	-
	1% more growth	-	-	43.4	41.2	39.1	36.9	-	-	619.3	598.3	577.1	554.7	-	-	-5.7	-12.2	-18.1	-25.7
Three	2% more growth	-	-	43	40.4	37.8	35.2	-	-	613.6	586.1	558.6	528.3	-	-	-11.4	-24.4	-36.6	-52.2
Four	Projected	46.7	45.4	43.9	42.3	40.6	38.6	644.7	638	627.3	614.8	599.6	579.7	7.1	12.7	2.3	4.3	4.4	-0.7

Source: Estimates based on data from World Bank PovcalNet.

Appendix Table 7: Growth of Real GDP of IDB Member Countries

Country	Annual Real GDP Growth Rate (%) 1990	2000	2003	2004	2005	2006	2007		10-Year Period Real GDP Growth Rate (%) 1988-1997	1998-2007
Afghanistan	..	..	15.1	8.8	16.1	8.2	11.5	..	..	..
Albania	-9.6	7.3	5.8	5.7	5.8	5.4	5.7		-1.6	6.0
Algeria	0.8	2.2	6.9	5.2	5.1	2.0	3.8		0.9	4.3
Azerbaijan	-11.7	11.1	10.5	10.4	24.3	30.6	23.9		..	13.7
Bahrain	4.4	5.3	7.2	5.6	7.9	6.5	6.0		5.7	6.0
Bangladesh	5.9	5.9	5.8	6.1	6.3	6.5	6.4		4.5	5.7
Benin	3.2	5.8	3.9	3.1	2.9	3.8	4.5		4.0	4.3
Brunei	1.1	2.8	2.9	0.5	0.4	4.4	0.6		3.9	-0.9
Burkina Fasc	-0.6	1.8	7.3	4.6	7.1	5.5	3.5		3.3	5.5
Cameroon	-6.1	4.2	4.0	3.7	2.3	3.2	3.3		-1.4	3.7
Chad	-4.2	-0.9	14.7	33.6	7.9	0.2	0.3		1.5	10.3
Comoros	5.1	0.9	2.5	-0.2	4.2	1.2	1.0		1.0	2.3
Cote d'Ivoire	-1.1	-3.7	-1.7	1.6	1.9	0.7	1.4		2.0	-0.1
Djibouti	..	0.4	3.2	3.0	3.2	4.8	5.3		..	2.9
Egypt	5.7	5.4	3.2	4.1	4.5	6.8	7.1		4.0	4.5
Gabon	5.2	-1.9	2.4	1.1	3.0	1.2	5.3		3.7	0.8
Gambia	3.6	5.5	6.9	7.0	5.1	6.5	6.2		2.6	4.8
Guinea	4.3	1.9	1.2	2.3	3.0	2.4	1.6		4.1	2.7
Guinea-Biss	6.1	7.5	-0.6	2.2	3.2	1.8	2.5		4.5	1.0
Indonesia	9.0	4.9	4.8	5.0	5.7	5.5	6.3		7.8	4.7
Iran	13.7	5.1	7.2	5.1	4.7	5.8	7.1		4.7	5.5
Iraq	..	-4.3	..	..			..		..	..
Jordan	1.0	4.2	4.2	8.6	7.1	6.3	6.0		4.7	5.8
Kazakhstan	..	9.8	9.3	9.6	9.7	10.7	8.4		..	9.8
Kuwait	..	4.7	17.3	10.7	11.4	6.3	4.6		..	7.2
Kyrgyz Repu	5.7	5.4	7.0	7.0	-0.2	3.1	7.9		-7.6	4.1
Lebanon	26.5	1.5	4.1	7.5	1.1	0.0	3.0		8.0	3.1
Libya	..	1.1	13.0	4.4	10.3	6.7	6.8		..	..
Malaysia	9.0	8.9	5.8	6.8	5.3	5.8	6.2		9.3	5.5
Maldives	..	4.4	8.5	9.5	-4.6	18.0	7.6		..	5.5
Mali	-1.9	3.2	7.2	2.4	6.1	5.3	3.0		3.1	5.7
Mauritania	-1.8	1.9	5.6	5.2	5.4	11.4	0.8		2.5	4.5
Morocco	4.0	1.8	6.3	4.8	3.0	7.8	2.7		2.7	3.5
Mozambique	1.0	1.1	6.5	7.9	8.4	8.7	6.9		4.2	6.6
Niger	-1.3	-1.4	7.7	-0.8	7.4	5.2	3.1		0.9	4.1
Nigeria	8.2	5.4	10.3	10.6	5.4	6.2	6.3		3.4	9.3
Oman	-0.1	5.4	2.0	5.3	6.0	6.8	6.4		5.3	4.7
Pakistan	4.5	4.3	4.8	7.4	7.7	6.9	6.1		4.5	5.0
Palestine	..	-5.6	..	..			..		..	..
Qatar	..	..	6.3	17.7	9.2	15.0	15.9	..	..	..
Saudi Arabia	8.3	4.9	7.7	5.3	5.6	3.0	3.5		3.2	3.6
Senegal	-0.7	3.2	6.7	5.9	5.6	2.3	4.6		2.2	3.7
Sierra-Leone	3.4	3.8	9.5	7.4	7.3	7.4	6.5		-4.0	10.4
Somalia	..	..	..	..			..	..	..	..
Sudan	-5.5	8.4	7.1	5.1	6.3	11.3	10.0		4.5	6.8
Suriname	-0.5	-0.1	6.0	8.2	4.5	4.8	5.5		0.8	4.6
Syria	7.6	2.7	1.1	2.8	3.3	4.4	5.2		6.3	3.1
Tajikistan	-0.6	8.3	10.2	10.6	6.7	7.0	7.8		-14.7	8.7
Togo	-0.2	-0.8	5.2	2.4	1.3	4.1	2.1		1.6	1.5
Tunisia	7.9	4.7	5.6	6.0	4.0	5.5	6.3		4.6	4.8
Turkey	9.3	6.8	5.3	9.4	8.4	6.9	4.6		5.9	1.7
Turkmenistar	0.7	18.6	17.1	14.7	13.0	11.4	11.6		-7.9	15.7
Uganda	6.5	5.6	6.6	6.8	6.3	10.8	8.3		7.0	7.2
United Arab	17.5	5.0	11.9	9.7	8.2	9.4	7.4		5.6	6.8
Uzbekistan	1.6	3.8	4.2	7.7	7.0	7.3	9.2		-2.2	5.6
Yemen Repu	..	4.4	3.7	4.0	5.6	3.2	3.0		..	4.0
IDB-56	**7.4**	**5.2**	**6.4**	**6.7**	**6.3**	**6.3**	**6.1**		**5.1**	**4.9**
Of which:										
SSA-22	2.9	3.9	7.4	7.7	5.2	6.0	5.8	5.7	2.9	6.5
MENA-1	8.9	5.0	6.6	6.6	6.2	5.8	5.5	5.5	4.9	3.8
ASIA-8*	7.5	5.6	5.1	6.0	6.1	6.0	6.2	6.1	7.0	5.0
CIT-7*	-3.3	8.7	8.7	9.4	10.8	12.7	11.5	10.7	0.7	9.1
LDMC-28	0.1	5.3	6.2	6.7	7.4	8.6	8.1	7.2	3.2	5.6
NON-LDM	8.2	5.2	6.4	6.7	6.2	6.0	5.9	5.7	5.2	4.4
OIC-57	**7.4**	**5.2**	**6.4**	**6.7**	**6.3**	**6.3**	**6.1**		**5.1**	**4.9**
Memo:										
LDCs	1.4	4.5	4.8	6.8	7.1	7.1	7.8		2.3	5.8
Developing C	1.9	5.3	5.5	7.5	6.8	7.7	7.8		3.4	5.6
High Income	3.1	3.8	2.0	3.3	2.6	2.9	2.6		2.5	2.4
World	2.9	4.1	2.7	4.2	3.5	3.9	3.8		2.7	3.1

Appendix B: Growth, Globalization, Remittances and Poverty Reduction

1. Inclusive Growth as the Pivot of Poverty Reduction

From the evolution, definition and measurement of poverty, the most striking point of convergence is that poverty exists within the context of the economic, social and political functions of a society or country. Hence, poverty of the people depends largely on the effectiveness of policies and structures for economic, social and political systems of a country. While the poverty of the people does not necessary mean poverty of a country, poverty of a country translates into poverty of the people. Using the "capabilities", "opportunities" and "functionality" doctrine advanced by Amartya Sen, a country with vast human and material resources has potential capabilities and opportunities. However, without effective use of these resources, the functioning condition will be absent resulting into poverty of the country and by extension of the people even though the country is potentially, not poor.

The link between economic growth and poverty reduction stems from the fact that economic growth is a process that is driven and sustained by effective use of resources, which creates the avenues for enhancing "capabilities", "opportunities" and "functioning" of the system and the people. As they participate in economic-growth generating activities, people tend to fulfill their consumption needs using the incomes they earn from their involvement in the production chain. This reflects the assertion by Kuznets (1971)[23] that economic growth is "a long term rise in capacity to supply increasingly diverse economic goods to its population; this growing capacity is based on advancing technology and the institutional and ideological adjustments that it demands".

High economic growth does not necessarily translate into absence of poverty or its reduction. Economic growth can lead to poverty reduction if the pattern and structures of production that constitute the pillars of economic growth hinges on the income-earning productive activities of a large segment of the people. Hence, "inclusive growth", which has been defined as growth with equal opportunities where all members of a society are able to participate and contribute to the growth process regardless of their circumstances (Ali and Zhuang, 2007), is the veritable means by which economic growth reduces inequality for achieving poverty reduction.

The extent to which economic growth reduces poverty depends on, among other factors, on the magnitude and ramifications of initial conditions of inequality. For instance, in a very high and deeply entrenched inequality condition, the participation of the poor in higher-income earning activities will be limited by weak capabilities and will therefore derive relatively very small benefits from the proceeds of growth. The possible reasons for weak capabilities are numerous but the most important ones are limited access to education, land, credit, and infrastructure such as irrigation, roads and electricity[24].

According to Ali and Zhuang (ibid), equal opportunities have both intrinsic and instrumental values that propel effective poverty reduction, in addition to driving growth. The intrinsic value stems from natural right to equal opportunities while the instrumental value hinges on the fact that equal access to opportunities increases the potential for growth. By implication, lack of equal opportunities diminishes growth potential and undermines sustainability of growth due to inefficient utilization of human and physical resources. Furthermore, inequalities in opportunities tend to lower the quality of institutions and policies, erode social cohesion and increases social conflict. This conforms to the argument canvassed by Ravallion (2004) that there is feedback effect of economic growth whereby high inequality impedes future growth.

Cross-country economic growth empirics points to the fact that, structural change that leads to shift in capital and labor from low productivity to high productivity sectors, which propels the total factor productivity (TFP), is the key driving force of economic growth. The existence of industrial production on one hand, and demand for the products of the industries on the other hand, creates opportunities for

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[23] Kuznets, (1971) Modern Economic Growth: Findings and Reflections, Nobel Lecture delivered in Stockholm, Sweden and Published in the American Economic Review, 63, September, 1973. quoted in Todaro (1994)

[24] Extensive analysis of this analogy is provided in "Key Indicators 2004: Poverty in Asia: Measurement, Estimates and Prospects", Asian Development Bank.

market expansion, competition and specialization. Through a favorable "forward linkage" effects, an endogenous self-perpetuating process of growth emerges and feeds on it almost automatically.

Further incentives from internal and external economies of scale provide impetus for the process of industrial production to evolve into higher and more sophisticated levels of production, which further amplifies the process of economic growth. That is, while industrialization is imperative for achieving high growth and development, structural change, the process of transformation from primary to secondary (manufacturing) productive activities, is in turn, the veritable route for the process of industrialization that creates opportunities for poverty reduction. For instance, in developing Asia, industrialization has proven not only as a source of high growth in recent years, but also, especially in China, it has been an important contributor to poverty reduction as vast numbers of people have left agriculture to work in factories earning higher income and becoming more sophisticated in production[25].

Even in a steady state of well being (absence of poverty), vulnerabilities to shocks tends to push more people into poverty when a major event such as the global financial crisis or non-economic (political, natural disaster, conflicts, etc.) occurs. To mitigate the adverse impact of shocks, it requires intensive investments in human capital to create sophisticated labor force to constitute into formidable pillars of inclusive growth and springboard for technological progress. In turn, technological progress ensures dynamic application of acquired technological knowledge to changing circumstances of economic growth challenges to stave off vulnerabilities to shocks. In addition, it is crucial to institute safety net schemes for addressing deep-rooted lack of capabilities as a measure of broadening inclusiveness and mitigating vulnerabilities.

2. The Effect of Globalization on Poverty

From the analysis of the essence of inclusive growth in poverty reduction above, the existence of wide-ranging value-addition productive activities create opportunities for large number of people to work, earn income and consume. Adaptation to growing market, through international trade, further stimulates industrial production thereby increasing the range of opportunities and reinforcing the process of inclusive growth and poverty reduction. The attraction of international markets has led to increased integration of national economies that evolves into a coherent global economy anchored on free markets, investment flows, trade and information, hence globalization.

As a manifestation of the interdependence of human co-existence, globalization is not a new phenomenon. However, its metamorphosis into a sophisticated international system with various dimensions (economic, political and social) has generated development concerns, especially its impact on poverty least developing countries. It is potentially a source of generating inclusive economic growth for poverty reduction but associated with risks of undermining growth and aggravating poverty. This "double-edge" effect highlights the fact that the benefits and/or lack of benefits depends on how countries and economic groups organize to participate in the process of globalization.

Bhagwati and Srinivasan (2002) provide insights into the poverty effect of freer international trade based on static and dynamic arguments drawing analytical inspirations from Harrod-Domer, Solow, Adam Smith, Stolper-Samuelson, David Dollar, Rodriguez and Rodrick, Art Kray, among others. In the static argument, poor countries that use their comparative advantage to export labor-intensive goods reaps the poverty reduction benefits of free trade and helps through real wage increase of unskilled workers that are endowed with labor but not human or financial capital. In the dynamic argument, trade spurs growth and growth leads to poverty reduction. However, these outcomes depend on policy and strategic responses to international trade incentives.

The most illustrative indication of globalization-growth-poverty reduction chain is China and India, two countries where the vast majority of the world's poor lives and where economic growth has been most rapid in the last two decades, associated with significant poverty reduction. According the World Economic Outlook (WEO, October 2009), China's economy grew by 10.4 percent during 1991-2000

[25] United Nations, Department of Economic and Social Affairs

and 10.2 percent within the period 2001-2008. The World Bank (2008) estimates that the number of people in China living on less than $1.25 a day (extreme poverty) dropped from 835 million in 1981 to 207 million in 2005. Similarly, India's average economic growth was 5.6 percent during 1991-2000 and 7.4 percent during 2001-2008, even though Datt and Ravallion (2002) found that the corresponding drop in incidence of poverty is not as significant as that of China. Other remarkable globalization-inspired growth achievements include the Republic of Korea, Singapore and Brazil.

Recent transformation in the global economy is due to the changing global industrial landscape as emerging countries; especially China and India become industrial production powerhouses of the global economy. Hence, "The past several decades have witnessed a major restructuring of the global economy, one in which more and more industrial output and employment is now located in emerging developing countries, while the developed countries have become ever more service-oriented economies. Globalization through increased trade and investment flows is driving this restructuring, along with technological and associated organizational change"[26].

However, empirical evidence suggests that the economic growth benefits of globalization have been disproportionate, mainly due to the lack of capacity by some developing economies to withstand its competitive terrain. For instance, the share of Sub-Saharan Africa (SSA) in world trade has declined continuously since the late 1960s, and the share of major oil exporters fell sharply with the drop in oil prices in the early 1980s[27]. The share of SSA in world trade (exports and imports) has fallen from 4 percent in the 1970s to 2 percent in 2005.

The trade-growth-poverty reduction notion stems from the role of accumulation and innovation in the use and productivity of resources. However, growth effect on poverty reduction depends on labor elasticity, that is, if a pool of unemployed are brought into work stream as growth increases. The growth disparities among countries of the world and the poverty impact of slow growth countries have given rise to another dimension of poverty reduction-remittances from international migration.

3. Remittances and Poverty Reduction

Globalization encourages international mobility of factors of production and in particular, international labor mobility has attracted significant attention in development and poverty reduction analysis. As job opportunities tend to be limited in slow growth countries, people move to high growth economies to obtain jobs to earn income as means for escaping poverty. A part of the incomes earned by expatriates is sent to dependants and relatives in their home countries. The use of such resources for consumption and other essential needs such as education and health have developmental and poverty reduction significance. In some instances, remittances provide a source of capital for recipient households for small micro-businesses.

The UNDP, in its HDR-2009, estimates international migrants at 200 million, majority of which moved from one developing country to another while only 30 percent moved from developing to developed countries. The UNDP argued that, apart from gains from remittances, additional gains by migrants and their country of origin include acquisition of new ideas and skills, increasing investments and employment while the host countries benefit through social diversity, innovation and increase in labor supply to provide opportunities for expanding production to bolster economic growth and development.

Beside entrepreneurial development, remittances increase the consumption levels of households to enable them meet basic needs, leading to direct poverty reduction effect. Indirect poverty reduction arises from the fact that consumption expenditure by households from remittances increases the level of effective demand that could stimulate further production but the capability of domestic productive structures to respond to demand incentives determines the extent of economic growth stimulus effect. According to the World Bank (2006), countries that face persistent crisis such as conflicts and natural disasters, as well as those in transition from war to peace, depends heavily on remittances.

[26] United Nations, Department of Economic and Social Affairs (2007), cited in "Industrial Development Report 2009: Breaking In and Moving Up-New Industrial Challenges for the Bottom Billion and the Middle-Income Countries", UNIDO (2009).
[27] World Bank, "Beyond Economic Growth: Meeting the Challenges of Global Development", Chapter [12]http://www.worlbank.org/depweb/global/chapter 12_2.html

In many developing countries, international remittances constitute the largest source of foreign exchange earnings, even exceeding export revenues, FDI, aid and other capital flows[28]. The World Bank estimates that remittance inflows to developing countries increased from US$31.2 billion in 1990 to US$160 billion in 2004 and reached US$265 billion in 2007. In percentage terms, remittance inflows to developing countries grew by 406 percent between 1990 and 2004, 66 percent between 2004 and 2007.

Despite the global economic slowdown due to the global recession, remittances to developing countries are estimated to reach US$ 283 billion in 2008, representing 7 percent growth from 2007. However, indications suggest that, the regional pattern of remittance flows is changing. Remittance flows from the US to Latin America and the Caribbean, as well as those from Western Europe to other parts of Europe and Central Asia are slowing. In contrast, remittance flows from the GCC countries to East Asia and South Asia rose sharply. While flows to the Middle East and North Africa have remained strong, flows to Sub-Saharan Africa have decelerated from a high growth rate of 42 in 2007 percent to 6 percent in 2008.

[28] Jongwanich, J. (2007) "Workers' Remittances, Economic Growth and Poverty in Developing Asia and the Pacific Countries" UNESCAP Working Paper WP/07/01