

Session 3: Realising the Potential of Poverty Reduction

Parallel Group 3A: Topic Paper 1

Asian Paths to Poverty Reduction and Inclusive Development

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Unleashing the Potential for Poverty Reduction:

Asian Paths to Poverty Reduction and Inclusive Development¹

1. Reducing Poverty in Asia: Progress and Prospects

Asia's impressive poverty reduction in recent years owes much to rapid growth. But the story is uneven: remarkable average growth rates across the region mask significant variation within and between countries, as well as over time. In terms of numbers, the greatest gains have been achieved in a few countries – notably China and Vietnam – driven largely by rapid growth. Yet experience shows that growth alone is not sufficient to ensure sustained poverty reduction, and that rapid growth may itself create threats to social stability and cohesion that can in turn undermine the sustainability of growth. Nor does growth guarantee that gains are equitably distributed or that the extreme poor or marginalised groups will benefit. In highlighting the achievements of growth and poverty reduction, we need also to understand the risks and challenges to further progress, and how to put in place institutional arrangements and mechanisms for sustaining human development under less favourable growth conditions.

An inevitable accompaniment of rapid growth is *structural transformation* – involving a shift from a predominantly agricultural rural economy to an urban-based, industrialised one,² together with a transition to lower fertility, increased life expectancy and a corresponding change in demographic structure. These transformations have both immediate and longer term implications for the trends and pattern of growth within countries, and for poverty reduction and sustainable development. The domestic challenges faced by Asian economies in managing these transformations differ from past experience due to the unprecedented speed of change and, in several countries, to the size of the populations involved. In addition, the external policy environment – particularly related to the current phase of globalisation – presents different challenges and constraints. These and other factors determine the way the benefits and risks of growth and deeper economic integration are distributed – across geographic space and among different population groups, communities, households and individuals.

This paper focuses on understanding how these structural transformations are affecting, or are likely in the future to affect, countries in the region, and how this might challenge assumptions

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² In the current phase of development, however, it is likely that a larger share of employment will move to the service rather than manufacturing sector.

about appropriate policies for poverty reduction and progress towards the MDGs, and the nature of possible partnerships for development.

1.1. Growth and Poverty Reduction – Asia’s Achievements

The *dramatic reductions in poverty* achieved in parts of Asia are well-documented: overall between 1990 and 2001 the number of people living on less than \$1 a day declined from 931 to 679 million, or from 31 per cent to 20 per cent of a growing population.³ These successes are closely associated with rapid growth, and driven in particular by high growth rates in a few countries. China’s exceptional growth of over 9 per cent for two decades makes a major contribution, as does more recent progress in Vietnam and India (with sustained growth rates of 6–7 per cent; Humphrey 2006). Other countries have experienced *less consistent growth*: several in East and South-east Asia saw previous sound economic performance severely harmed by the 1998 financial crisis, while Mongolia and other central Asian economies were severely affected by the collapse of the Soviet Union. Following these and other shocks, the recovery has on average been remarkable: in 2004 the developing economies of Asia and the Pacific achieved their highest growth since before 1998, with aggregate GDP expanding by 7.3 per cent. Despite a slight slow down in 2005, the expectation of continued growth in the region remains strong (ADB 2005).

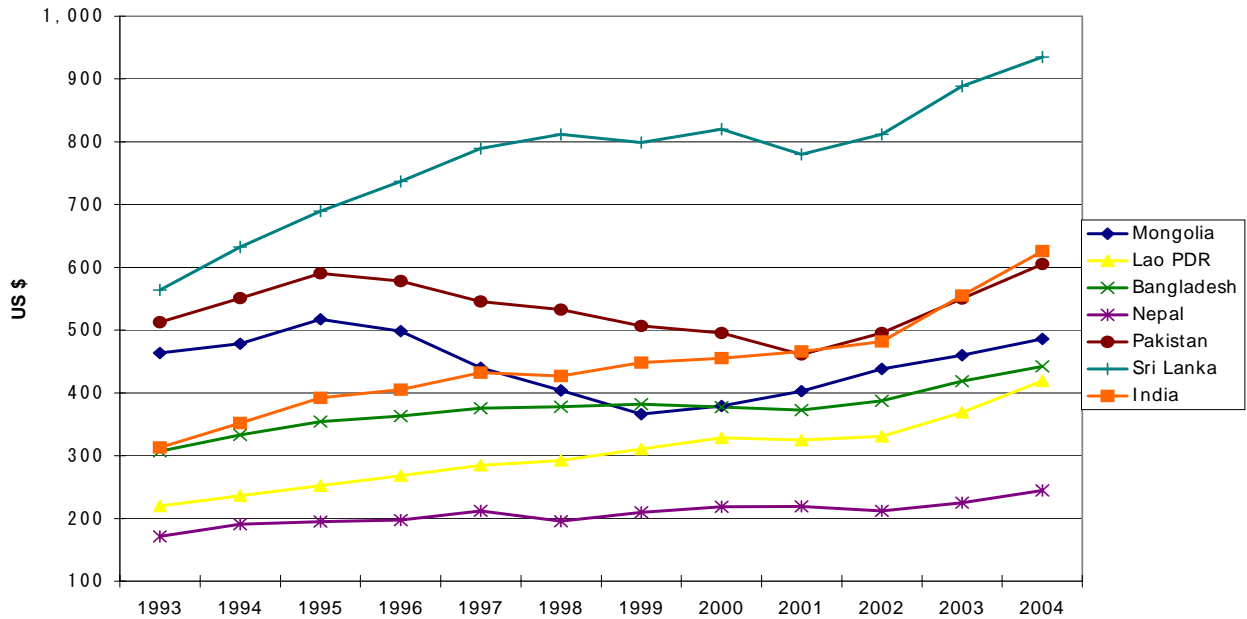
A few countries, however, are not yet sharing in this generally positive performance. Many are regularly affected by natural disasters in a region prone to drought, flood, typhoon and earthquake. Others such as Nepal, Sri Lanka and Cambodia are or have recently been disrupted by violent conflict. Such events highlight the fragility of growth, the vulnerability of people’s livelihoods, as well as the difficulty of translating growth into sustained human development.

While some level of growth is obviously a necessary condition for sustained poverty reduction, and strong average growth has been accompanied by sharp reductions in poverty, the evidence is clear that it is not a sufficient condition. Variation exists both between and within countries in the way in which growth translates into improvements in human well-being, particularly for the poor. While the two variables are generally positively correlated, there are deviations – countries that have experienced higher levels of poverty reduction and human development despite slow growth (Bangladesh); and those where growth has not yet translated into significant improvements in human development (Pakistan). While only a crude proxy, changes in *per capita* GDP provide one measure of changes in aggregate well-being associated with growth.⁴

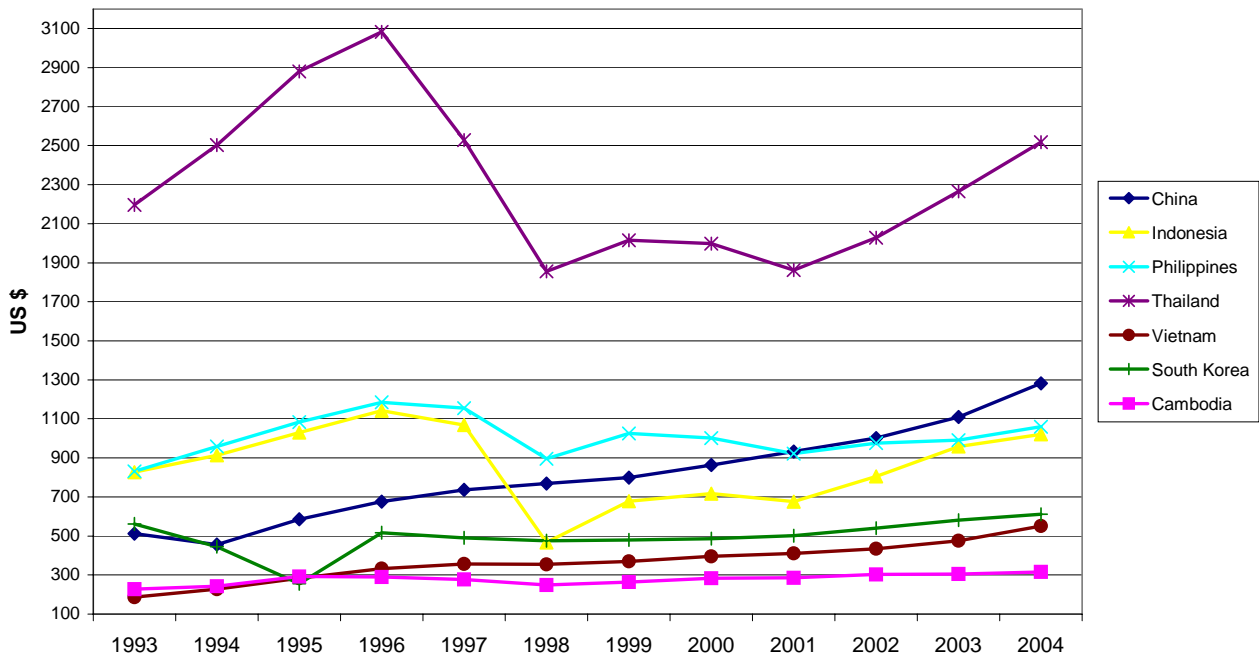
³ Based on 23 countries offering sufficient data: UNESCAP/ADB/UNDP (2005). See also Farrington (2006).

⁴ See Farrington (2006) for more detailed presentation of progress on non-income MDGs.

Figure 1: Changes in *per capita* GDP in selected Asian countries. (a) South Asia: countries unaffected by crisis. (b) East Asia: countries affected by 1998 crisis



(a) Data Source: GDP Per Capita: UN Statistics Division Homepage, <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp>



(b) Data Source: GDP Per Capita: UN Statistics Division Homepage, <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp>

1.2. What Makes Growth 'Pro-poor'? The Role of Government Policy

Asian paths to development have often challenged received wisdom on development. The shift in some basic tenets of development over the past decade is once again reflected in Asian experience, as highlighted below.

Box 1: Ideas in development

- Markets are not neutral but are embedded in wider social and political contexts: public policies are essential in determining how markets work
- Equity matters in its own right as well as for growth: preferred distributional outcomes will not be delivered by the market
- Poverty is multi-dimensional reflecting economic disadvantage but also social, cultural and other aspects of exclusion which will not be addressed through growth alone
- Governance and institutions matter, whether in regulating markets, creating a sound environment for growth, or ensuring benefits accrue to the poor
- Government expenditures and investments in social and human development sectors are essential, for growth and enhanced productivity as well as poverty reduction
- Institutional arrangements such as social protection and safety nets are needed to protect the vulnerable and those negatively affected by economic change or by crisis.

These points reflect a significant shift from the dominant paradigm generally characterised as the ‘Washington Consensus’ and inform a more recent ‘pro-poor growth’ agenda, that is, where the poor are able to *participate in the process and share in the benefits* of growth. This agenda requires both political will from policy makers and the governance capacity to follow through on policy commitments to the poor; and the formulation of budgets that channel resources to the poor through appropriate allocations and targeting (SMERU 2006). Widely accepted policies are summarised below.

Table 1: Policies for pro-poor growth

	Macro	Micro
Agriculture	Improving market access (including credit) and lowering transaction costs Creating an incentive framework that benefits all farmers Helping poorer and smaller producers deal with risk	Strengthening property rights for land Expanding technologies available to smallholder producers
Non-agriculture	Improving the quality of investment climate and the incentives for labour intensive production Designing labour market regulations to create remunerative formal employment for poor workers Increasing infrastructure access for poor households	Access to secondary education, and in particular ensuring access to education for girls

Sources: The World Bank, DFID, AFD, and GTZ (2005); DFID (2004).

Given the predominantly rural populations in most Asian countries, a priority in the region remains increasing productivity in the rural sector and creating gainful employment for the rural poor – whether on or off the land. Increasingly, it also requires addressing employment and livelihoods for the urban poor.

Within this broad context of rapid but varied progress, what challenges face Asian countries in continuing to reduce poverty and improve the well-being of their populations? The remainder of this paper focuses first, on the major transformations in economic and demographic structure within which poverty and poverty reduction efforts take place; and second, on the specific challenges raised by unequal spatial distributions of growth and development, and the forms of poverty and exclusion that these give rise to. The following sections describe some of the successful experiences and policies pursued by different countries in meeting these challenges, and the paper concludes by discussing the potential role of new partnerships for development. Given the diversity

of conditions across Asia, the challenges and opportunities vary significantly by country, in their domestic, regional and global dimensions.⁵ Responses by governments, civil society actors and donors will need to reflect this variation.

2. Keeping Pace with Growth: Structural and Demographic Transformations

Countries across Asia vary widely in terms of growth, levels of poverty and human development, and in the challenges they face in creating or sustaining growth, and in meeting the MDGs.⁶ Two major structural transformations shape these challenges:

- A shift in the *type and location of economic activity* from predominantly rural, agricultural activity to urban-based, industrial – and increasingly service and knowledge based – economies. This transformation involves changes in the location and distribution of production, wealth and population
- A change in the *structure of the population* through demographic and fertility transitions. Countries move from high fertility with declining mortality, creating rapid population growth, to declining fertility and ‘ageing’ populations. Both situations create high dependency ratios but have different implications for public policy and budget expenditures with respect to education, employment and welfare.

2.1. Changing Economic Structure

One dimension for differentiating among Asian economies is their economic structure. The contribution of agriculture to GDP has declined rapidly in most countries during the final decades of the twentieth century (Table 2). This is particularly true of formerly planned economies (China and Vietnam), but Indonesia and Bangladesh also saw rapid declines. Only the poorest, slow growing economies (e.g. Laos, Cambodia, Nepal) have shares of GDP in agriculture still above 30 per cent. The share of economically active population in agriculture however, while declining, has not matched this rate of change (Table 3).

In the poorest countries, shares of employment in agriculture are 75–80 per cent; India is not far behind (at 67 per cent compared with 22 per cent of GDP from agriculture), while China and Indonesia have seen a significant fall to around 44 per cent.⁷ These percentages represent significant change in absolute numbers given the size of the populations concerned, but in the context of rapid population increase they have done little to reduce the absolute size of the rural

⁵ Factors affecting variation include, for example, the terms on which a country is integrated into the global or regional economy; its natural resource endowment, geography, and comparative advantage; the human capital or skills of its labour force; the domestic political regime, policies, institutional arrangements and governance. Some of these challenges – particularly related to domestic policies and poverty reduction – are addressed further below; others are covered in separate background papers prepared for this conference.

⁶ Farrington (2006) provides detailed analysis of progress towards MDGs in different countries.

⁷ Many agricultural workers also undertake part-time or seasonal non-farm employment which may not be fully captured in the data, so the non-agricultural share may be underestimated.

population. Conversely the industrial and service sectors contribute an increasing amount to national GDP – more than half in most Asian countries. These sectors are generally located in urban areas, due to the concentration of inputs (materials, labour and services) and consumers; greater opportunities for networking and rapid knowledge sharing; and proximity to administrative institutions which regulate commercial activity. Urban areas account for as much as 70 per cent of GDP growth in East Asia (Humphrey 2006; Jack 2006). They also account for a rapidly increasing share of population.

Table 2: GDP Share by economic activity (%)

	1970			2003		
	Agriculture	Industry	Services	Agriculture	Industry	Services
Bangladesh	55	9	37	20	26	51
Cambodia	40	10	46	34	26	19
China	35	41	22	15	52	33
India	42	19	32	22	26	52
Indonesia	49	18	34	17	44	39
Lao PDR	55	17	34	48	25	25
Nepal	69	11	19	38	20	38
Pakistan	36	18	37	22	22	50
Sri Lanka	36	21	37	14	28	47
Thailand	26	23	51	10	38	42
Vietnam	43	23	36	22	40	39

Data source: UN Statistic Division Database: <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp>

Note: Agriculture includes agriculture, hunting, forestry, fishing; Industry includes mining, manufacturing, utilities, and construction; Services include wholesale, retail trade, restaurants and hotels, transport, storage and communication and other activities (services).

Table 3: Share of economically active population in economic activity (%)

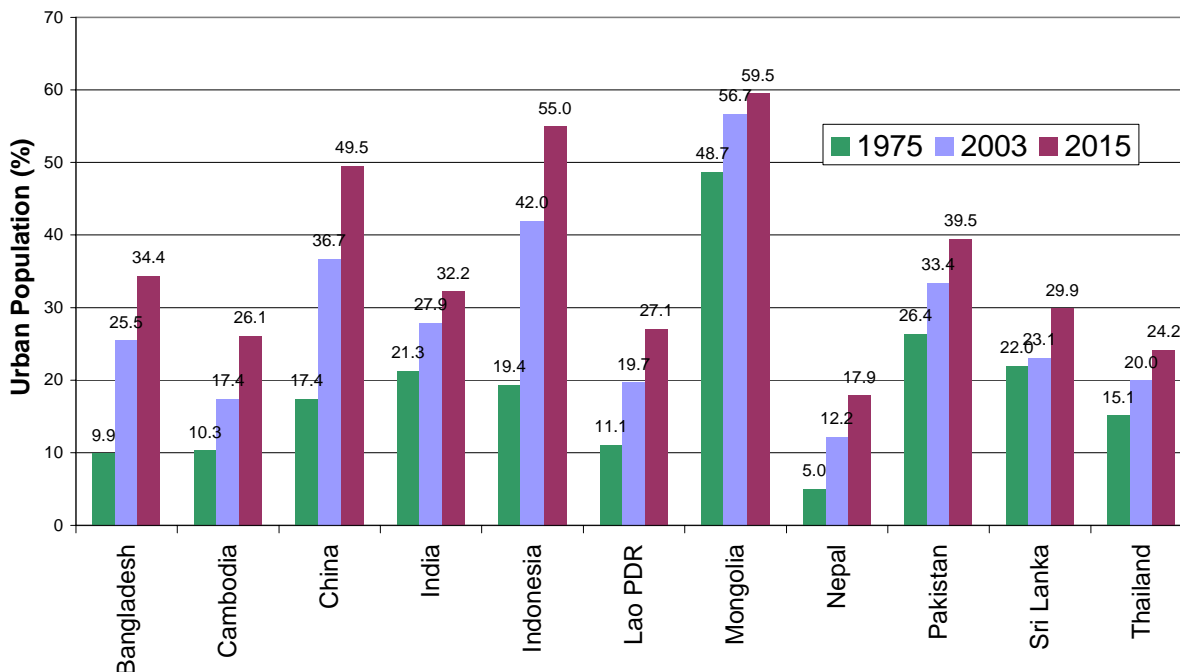
	1975			2003		
	Agriculture	Industry	Services	Agriculture	Industry	Services
Bangladesh	83.5	6.9	9.6	52.0	14.0	35.0
Cambodia	79.1	4.0	16.9	75.0	4.5	20.5
China	78.3	10.1	11.5	44.0	18.0	38.0
India	72.6	11.8	15.5	66.7	12.9	20.3
Indonesia	66.3	10.3	23.4	44.0	19.0	37.0
Lao PDR	81.0	4.7	14.3	78.1	6.3	15.6
Mongolia	47.8	21.0	31.2	40.0	16.0	44.0
Nepal	94.4	1.3	4.3	78.5	5.5	21.0
Pakistan	64.6	16.1	19.3	42.0	21.0	37.0
Sri Lanka	55.3	14.4	30.3	34.0	23.0	39.0
Thailand	79.8	6.0	14.2	44.0	21.0	35.0

Data source: ILO Bureau of Statistics (1970) 'Economically Active Population 1950–2010' and ILO 2003 Key Indicators of the Labour Market, 3rd Edition.

The structural shift – ultimately to more intensive industrial production – will be necessary if Asian economies are to raise productivity sufficiently to provide employment and raise incomes for the majority of their growing populations. The danger is that this shift may be insufficiently labour intensive to create the jobs needed to raise the incomes of the poor, who will also require new skills and training. While in theory an increase in agricultural trade (through a shift to higher value cash crops) could potentially raise productivity and incomes in the rural sector, such trade is not generally increasing at the rate of manufacturing (Devas 2005; Williams et al. 2005) thus necessitating an increasing transfer of labour out of agriculture. The process may bring with it serious social dislocations, with some groups excluded – whether due to location or sector, or to

individual characteristics and skills. *Governments and donors need to play an active role in smoothing the transition, addressing short term dislocations, and ensuring the poor have the capacities to participate and share in its benefits.*⁸

Figure 2: Share of population that is urban (%)



Data source: Human Development Report 2003.

2.2. Changing Demographic Structure⁹

A second key transformation is the demographic transition taking place, again at unprecedented speed, in parts of Asia. Fertility transitions have for some decades been under way in most of Asia but experiences are diverse, as illustrated by total fertility rates (TFR) in the region.¹⁰

Table 4: Total fertility rates (TFR) in Asia

Sub-region	TFR
East and North-east Asia	1.7
South-east Asia	2.4
South and South-west Asia	3.1

East Asia has essentially completed the transition to below replacement fertility, as have several countries in South-east Asia (Singapore, Thailand and Vietnam), while Indonesia is close at 2.3. Countries with high population growth include Cambodia and Laos with TFR of 4.6, and most of South Asia (with the notable exception of Sri Lanka). Three countries in the sub-region stand out

⁸ An important aspect of this process for poor rural populations relates to terms of trade for agricultural products: issues that are beyond the scope of this paper, but are largely the responsibility of developed nations to address.

⁹ This discussion draws on Hussain et al. (2006).

¹⁰ TFR refers to the number of children a woman would be expected to have over her lifespan; the replacement fertility rate (that is the rate required to replace the population of a region) is 2.1 births per woman.

for continued rapid growth: Afghanistan (6.7), Pakistan (4.9) and Nepal (3.7). Others have seen a downward trend with India, Bangladesh and Sri Lanka expected to reach replacement fertility within the next two decades. Bangladesh stands out as a very poor country with a predominantly rural population that has undergone rapid fertility decline.

Fertility and growth: It is notable that countries with high fertility are among the poorest, with low growth rates, and in most cases have experienced or are currently experiencing conflict. Conversely almost all countries with a below replacement TFR have had high growth rates and relatively high *per capita* incomes. Notwithstanding low or declining fertility, all countries in the region are expected to grow in population size over the next 20 years. South Asia will have the highest growth rate: its total population will increase by almost one-third, with India projected to overtake China in total population by mid-century.

Demographic structure and poverty: The most significant ramification of fertility decline is a *change in the age structure* of the population with first, a falling ratio of children; second, an older labour force, and third, a rising ratio of the elderly. The declining ratio of school age (5–14) children is often viewed as a demographic ‘bonus’ which lowers the cost of achieving a given level of education. However, given population growth and the distance still remaining to achieving quality universal education, this ‘bonus’ will not be realised in many of the poorest countries in the near future: 40 per cent of Asia’s population is currently under 19, and in some countries (Cambodia, Afghanistan) this percentage is under 15. These ‘young’ countries (but also some regions within countries, such as India¹¹) tend to be the poorest, slowest growing, with furthest to go in terms of achieving basic education – and thus risk falling further behind.

The rising ratio of the *elderly* is reinforced by reduced mortality and improved life expectancy, raising the issue of old-age support. Most of the cost of elderly support falls on the family, which also largely bears the costs of educating children. This burden on smaller families may prove unsustainable in the context of high unemployment or under-employment, if job creation fails to keep up with labour force increases, or where incomes are low and uncertain. A trend towards nuclear households with the elderly living separately from their offspring may also undermine the family support system, as may out-migration of younger workers from rural areas, leaving behind the elderly and infirm (as is increasingly seen in China).

Gender: The demographic and fertility transitions take on particular significance for women in a region marked by gender imbalances arising from deeply entrenched forms of discrimination, particularly in parts of South Asia and China. These conditions directly affect the achievement of *MDG Goals* 3 (Promotion of gender equality) and 5 (Improve maternal health).

¹¹ The large, poor northern states of India, for example, have only modest budgets for education, the quality of public education is often dismally low, and their school-age populations have been growing rapidly. The school-age population of these states will still be growing twenty years from now; by contrast, in states such as Kerala and Tamil Nadu, where educational performance is currently better, the school-age population is already declining. See Cassen and Dyson (2005).

Box 2: Gender implications of structural and demographic change

- Unbalanced sex ratios arising from son-preference in parts of East and South Asia
- The challenge of ensuring balanced access to education for girls, particularly in young populations
- Providing access to gainful employment for women as child bearing/rearing years are reduced
- Additional burdens on women of care particularly for the elderly and sick, including those with HIV-AIDS
- Status and care of widows as life expectancy increases, and as the elderly may bear growing responsibility for the care of AIDS orphans.

These structural transformations have wide ranging implications for the pattern and sustainability of growth, and how the benefits and costs of growth are distributed – across geographic space and among different population groups, communities, households and individuals; they also structure and constrain the available policy responses. While it is beyond the scope of this paper to examine many of the implications in detail, these multiple challenges (listed below) need to form part of the analysis of poverty and development strategies within each country. As noted, many are directly related to the achievement of MDGs.

Box 3: Challenges arising from structural and demographic change

- Growing populations require higher investment in *education* (Goal 2), while a growing working age population requires remunerative *employment* to generate secure livelihoods for themselves and their dependents (Goal 1)
- High fertility countries are predominantly rural with poor infrastructure: maternal, infant and child mortality, as well as access to basic services, remain particular challenges (Goals 4,5)
- A still predominantly rural population requires *increased agricultural productivity* or opportunities for moving out of agriculture to sustain livelihoods, while the changing economic structure means that the labour force needs to become increasingly mobile and more skilled to take advantage of new economic opportunities – often in urban areas (Goal 1)
- A growing *urban population*, giving rise to new forms of poverty and exclusion in overcrowded cities: concentrations of populations in urbanising societies increases the risks of new pandemics spreading, while changing lifestyles, population mobility as well as poverty, are contributing to the spread of HIV-AIDS, still an under-reported and stigmatised issue in much of Asia (Goals 6,7)
- Rising incomes leading to *changing consumption patterns* (dietary, car use) has impacts on health and the environment (Goal 7)
- The impact on health occurs through *changing disease patterns*: the epidemiological transition to ‘diseases of the rich’ – diabetes, obesity, heart disease – co-exist with disease patterns of the poor, including malnutrition and micro-nutrient deficiencies, TB, Hepatitis and public health threats
- New diseases change patterns of *demand for health care*, with a rise in demand more costly curative treatments, and potentially a shift in resources away from preventive, public and basic health for the poor (Goal 6).

The issues discussed above – growth, poverty, economic structure and demographic transition – combined with other characteristics (including political stability and regime type, the strength of institutions and the role of civil society, or the commitment to human development) are key variables for distinguishing among Asian countries in relation to current development challenges and priorities. Thus countries can range from:

- low income, slow growing economies, predominantly rural, with young and rapidly growing populations, in some cases indebted or engaged (currently or recently) in conflict (Afghanistan, Cambodia, Nepal)

- countries with low to medium growth, but with varied political conditions and commitments to poverty reduction leading to very different outcomes in terms of fertility and human development indicators (Bangladesh and Pakistan provide contrasting examples).
- rapidly growing countries, moving towards lower fertility and increasing urbanisation, but with remaining pockets of severe rural poverty in regions that are similar to slow growing economies above (China, India, Vietnam).

Such variation is critical in relation to the challenges of achieving the MDGs, and needs to be born in mind in the subsequent discussion where it is not always possible to provide detailed disaggregation of issues across countries.

3. Challenges: Poverty, Places, People

The challenges facing Asian countries can be examined in more depth along two dimensions: *place* – the spatial dimension; and *people* – particularly focusing on the poor and excluded, whether as individuals, in households or communities. The most problematic and intractable forms of poverty and exclusion, however, arise at the *intersections* – where poverty is found in:

- remote, inaccessible or resource-poor regions where conditions make it physically difficult for inhabitants to participate in broader socioeconomic processes
- deprived, overcrowded urban environments with in some cases ‘sub-cultures’ of violence, criminality, drug dependence and squalor which often characterise the territorially excluded.

This *spatial dimension to poverty* may best be examined through the lens of *exclusion*.

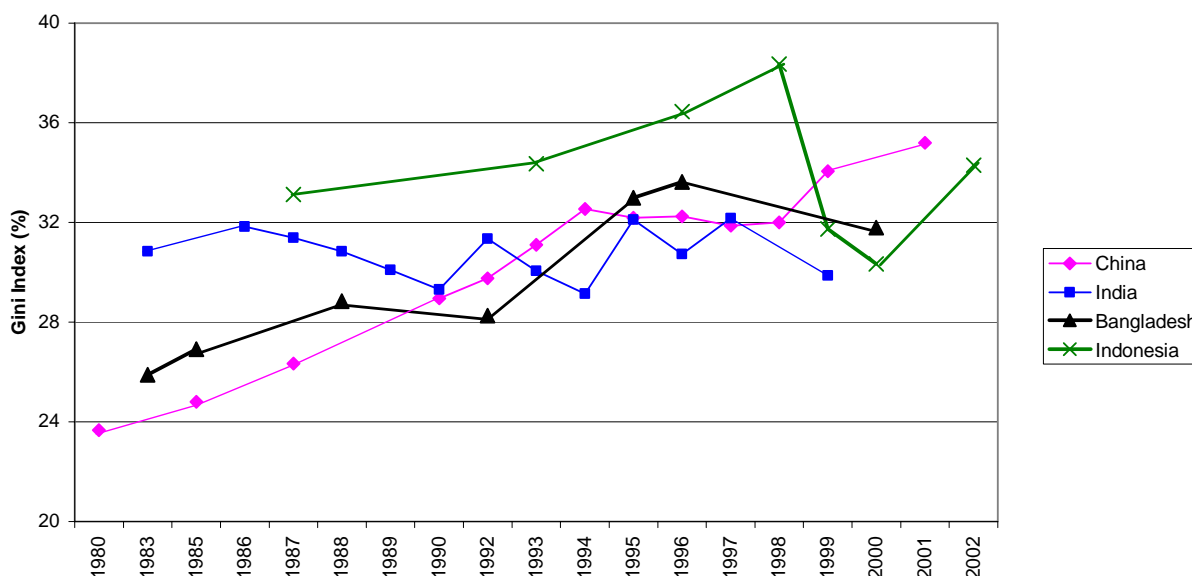
Social exclusion (Kabeer 2006) focuses on the multiple and overlapping aspects of disadvantage not captured by conventional approaches to poverty with their concentration on economic disadvantage and shortfalls in the satisfaction of basic needs. In particular it highlights social identity and the cultural devaluation of sections of society on the basis of their identity: disadvantage or discrimination may be based, for example, on caste, ethnicity or religion; on gender, disability or illness (AIDS, leprosy), or on place of origin (migrants). The *spatial dimension of poverty* thus reflects not only economic or resource deprivation but also identity-based discrimination: *it is usually culturally devalued and economically impoverished groups that inhabit physically deprived or marginalised spaces*. Bearing in mind this intersectionality, this section first examines the challenges associated with spatial aspects of growth and development, and then goes on to examine poverty and exclusion across these spaces.

3.1. Spatial Dimensions of Growth and Development

The story of Asia's recent growth is one of increasing imbalances – within as well as between countries, as illustrated by varying rates of growth (described above) and rising Gini coefficients.

Many countries in the region recognise severe regional inequalities as a major challenge to poverty reduction and development.¹² In the context of structural transformation, some areas benefit from the agglomeration of production and high value economic activity while others 'lag' behind. At one end of a spectrum of development are places (now often described as 'lagging regions') by-passed by growth, excluded from markets and losing out on the associated human development benefits. At the other are urban agglomerations – including Asia's 'mega' cities – with their concentration of new industry, population and wealth alongside urban poverty and deprivation. Both these 'extremes' demand attention from policy makers. Avoiding the worst problems that either case potentially gives rise to, however, also involves attention to the spaces 'in-between' (other rural areas, towns and small cities), and to the mechanisms through which economic activity, population, wealth and the benefits of growth are distributed and move between them – for example, through the development of markets, particularly for labour, and through the migration process.

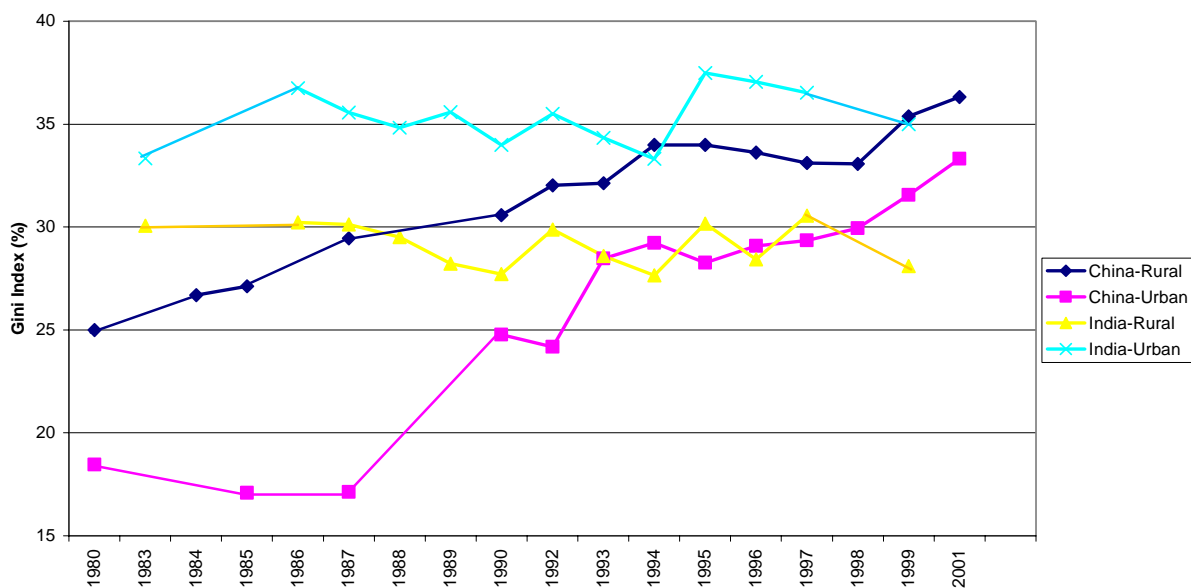
Figure 3: Income inequality in selected Asian countries



Note: Data and sources on which the figure is based are provided in Annex 2. The absence of a symbol on any line indicates missing data, and missing points are smoothed over by a straight line.

¹² See background papers on India and Indonesia prepared for this conference.

Figure 4: Rural urban inequalities in China and India



Note: Data and sources on which the figure is based are provided in Annex 2. The absence of a symbol on any line indicates missing data, and missing points are smoothed over by a straight line

Spatial inequality and poverty are of concern for similar reasons as interpersonal income distribution and individual poverty, but the regional dimension is of significance in its own right: with national income distribution and poverty headcount held constant, policy makers would generally prefer a more equal to a less equal distribution, for two main reasons:

1. A concern with the maintenance and promotion of national cohesion and social and political stability
2. The impact of a regional concentration of poverty and low income, including a limited market for locally produced goods and services and deficient infrastructure, in turn limit the possibility of economic growth.

When a regional concentration of poverty coincides with ethnic or religious divisions, the two reinforce each other, generating intractable forms of exclusion, potentially becoming a source of social instability or, in some circumstances, fuelling regional insurrections (Hussain et al. 2006).

3.1.1. Why Some Areas Remain Poor

The *geography of development* in much of Asia provides apparent reasons – of location, resource endowment, and access to markets – as to why growth has occurred in certain areas and poverty is concentrated in others. Coastal regions with easy access to global markets have developed export processing industries or high value commercial crops for export; remote interior regions of mountain and desert remain largely insulated from markets and growth. Geography is not however deterministic, and other factors must also be examined.

*Globalisation*¹³ contributes to regional differentiation: regions of an economy vary widely in their engagement with the international economy because of differences in location, economic structure, human capital, infrastructure and the size of the local market. Notable examples of regional economic contrast heightened by recent episodes of globalisation are seen in: *China's* coastal and the interior provinces, Bangkok and the rural hinterland in *Thailand* and *Vietnam's* south and north. Similarly short-term up and downturns in international trade, foreign investment and international crises may have differential regional impacts – though often on regions and sectors that have benefited from global integration. The Asian financial crisis similarly had uneven impacts across regions of the affected countries.

Neo-classical growth theory predicts a rise in inequality at a certain stage of development – with the shift from low to high intensive growth as is now beginning in parts of Asia – followed by equalisation as marginal returns to factors of production decline in more developed regions, and capital seeks higher returns in less developed areas. More recent literature within a variety of disciplines (endogenous growth theory, economic geography and various institutional analyses) has started to question these theoretical predictions of regional convergence.¹⁴ Instead arguments, supported by empirical evidence, point to continued processes of agglomeration and widening regional disparities.¹⁵

Effective interventions to create more balanced growth have proved elusive and expensive, and in some cases environmentally damaging. Conventional regional development policies channel high levels of investment, particularly in infrastructure, with the aim of stimulating private investment and market integration (for example China's Western Development Plan). Other strategies have involved wider rural development strategies, through investments in higher productivity agriculture or agricultural related industries (processing).¹⁶ Whether these can reduce regional disparities depends in part on the natural resource base and market accessibility, while the benefits from such strategies will be widely shared only where land or other assets are relatively equitably distributed. Alternatively efforts have been made to create new growth poles, or to stimulate development in chosen geographical locations. Creating the institutional environment and incentives for growth has had limited success. New institutional analyses emphasise the density of networks and 'complex institutional and government arrangements [that] create conditions for economic activity to thrive'.¹⁷ Unfortunately, such institutional arrangements are hard to replicate.

3.1.2. Poverty in 'Lagging Regions'

Most countries across Asia have regions with a complex set of geographic, ecological, environmental and socioeconomic factors which pose specific challenges for development and

¹³ Defined in the economic sense of a network of interdependencies engendered by a substantial volume of international trade and capital flow relative to national GDPs (Hussain et al. 2006).

¹⁴ See review of these literatures by Rodrigues-Pose (n.d.).

¹⁵ While some caution is urged concerning the application of these new growth and economic geography theories (based largely on evidence from developed economies) to the developing world, nonetheless the empirical evidence appears to support the arguments (Devas 2005).

¹⁶ For example, China's dramatic rural growth in the decade from the mid-1980s was stimulated largely through township and village off-farm enterprises.

¹⁷ Rodrigues-Pose (n.d.). The example of Wenzhou in southern China is provided in World Bank (2004).

poverty reduction. In some countries (landlocked mountain economies such as Bhutan and Nepal; other inland regions with arid desert environments in central Asia) such difficulties characterise most of the country. In others, they represent a smaller part of a growing economy. Rapid population growth in such regions often compounds pressures particularly on marginal or 'fragile' lands.

According to WDR 2003, in 2000 (World Bank 2003: 61):

- In South Asia, out of a population of approximately 1.35 billion people, 330 million or 24.4 per cent were estimated to live on 'fragile' lands
- In East Asia and the Pacific, of 1.86 billion, about 469 million or 25.3 per cent lived on fragile lands
- These regions account for many of the people in extreme poverty living on less than \$1/day.
- In such regions, fertility rates and population growth tend to be higher than average, putting further pressure on the land
- Many indigenous peoples with distinct languages, cultures and attachments to the land live in these regions.

Table 5: Share of population on fragile lands and rural population growth

Share of population on fragile land (%)	South Asia	East Asia and Pacific	Central Asia
>70	Bhutan (2.7)		
70–50	Afghanistan(2.21)	PNG (2.48)	
50–30	Pakistan (2.7)	Lao PDR (2.48)	Kyrgyz Rep. (2.7)
	Nepal (2.44)	Vanuatu (3.49)	Turkmenistan (3.93)
		Solomon I (4.38)	Tajikistan (4.08)
			Uzbekistan (3.62)
30–20	Sri Lanka (2.26)	China (1.78)	Kazakhstan (1.72)
	India (2.44)	Vietnam (2.6)	
		Indonesia (1.8)	
		Cambodia (2.82)	
		Korea, Rep. of (0.53)	
		Myanmar (2.31)	
		Mongolia (1.5)	

Note: Figures in parentheses are ratios of rural population in 2000 to 1950. Table adapted from WDR 2003: 62, Table 4.3.

Such areas usually lack basic infrastructure (roads, irrigation) and costs of provision are high; basic services are costly to provide and maintain (health, education, sanitation) but their absence creates fundamental obstacles to development in countries such as Bhutan, Laos and Nepal.¹⁸ Addressing these constraints is critical for the achievement by these countries of MDGs.

Even within countries of rapid growth and poverty reduction (China, India, Vietnam), such regional pockets of deprivation have proved least amenable to regional growth strategies or to targeted

¹⁸ As highlighted in the PRSPs for these countries.

poverty reduction programmes, suggesting that 'growth led' poverty reduction strategies that have been successful to date will increasingly yield lower returns in terms of poverty reduction. New ways of reaching the poor in such areas are needed.

This challenge is compounded by the fact that populations in these areas are often marginalised not only by poverty and location, but by additional factors such as ethnicity, religion or tribe. These interacting forms of economic disadvantage and cultural discrimination will be returned to in a later discussion of exclusion. Additionally such areas are home to some of the world's richest sources of biodiversity, non-renewable energy forms and other natural resources. The threat of permanently losing the environmental and cultural heritage of such regions increases the urgency of finding appropriate responses.

3.1.3. Urbanisation

At the other end of this continuum of spatial development are Asia's growing cities, concentrations of amazing growth but also home to vast slums housing extreme forms of poverty and exclusion. At a conservative estimate, Asia accounts for almost half the world's urban population, with 1.3–1.5 billion urban residents, amounting to 37 per cent of Asia's total population. Projected urban population growth to 1.8 billion by 2010 will give Asia over 50 per cent of the world's urban population, increasing to 53–55 per cent by 2030. By 2000, Asia had more than half of the world's largest cities, eight of the world's ten fastest growing cities (Tokyo, Mumbai, Delhi, Dhaka, Jakarta, Karachi, Seoul and Kolkatta) and ten 'mega-cities' (with populations in excess of 10 million). By 2015, Asia is expected to have 12 such cities. This speed of urbanisation presents major challenges across the region (Jack 2006).

Asia is also 'urbanising' – that is, a growing proportion of its total population will be located in urban areas – due to population growth, migration and the re-classification of expanding settlements from rural to urban. Having begun the 1970s with less than 25 per cent of their populations living in urban areas, China, India, Indonesia, Bangladesh and Pakistan have urbanised rapidly and consistently over the last 30 years, and all are projected to continue doing so over at least the next two decades (see Figure 2). China alone will gain 425 million additional urban dwellers over the next three decades (Jack 2006).

The most significant paradox of urbanisation linked to economic development is that the urban poor provide the labour and basic services that keep Asia's towns and cities running, but struggle to find adequate and affordable housing and often lack access to basic amenities and affordable services (health, education, transport) or to social benefits. Informal 'slum' settlements are the most obvious physical manifestation of these problems. In 2001, between 550 and 570 million people lived in slums and informal settlements within Asia, an increase from 420 million in 1990. At least one in three of Asia's urban population (and 58 per cent in South Asia) do not have safe and secure housing, and often lack access to basic services, water and sanitation. Given these conditions, sustainable urbanisation that encompasses the poor is an essential underpinning of Asia's future prosperity, but achieving this presents major challenges:

Box 4: Challenges for pro-poor urban development

- *Land use*: Finding a balance between commercial, residential and public land use, in a context of increased competition and rising value for urban land
- *Housing tenure*: Ensuring adequate provision of shelter and secure tenure for residents, particularly the low-income workforce; (MDG Target 11)
- Providing *basic infrastructure* (e.g. water, sanitation, electricity, drainage, access, transport) on which residents and productive enterprise depend; (MDG Target 10)
- Ensuring adequate provision of *social services* (e.g. health, education, law enforcement) that are affordable and accessible to the poor
- Ensuring residents' *incomes* are adequate to meet the costs of goods and services in urban areas
- Addressing poverty and creating conditions for inclusive citizenship and participation in community decision making.

The scale and pace of urbanisation, the numbers of people involved, and the new types and patterns of poverty and exclusion to which this gives rise, demand urgent attention from policy makers and the international community if MDG targets are to be met. While cities generate opportunities and growth, they bring new challenges of governance, service provision, integration of different populations (through migration) and urban planning – areas which often remain outside the scope of conventional poverty reduction strategies. The forms of exclusion and deprivation manifest in urban slums are potential sources of social fragmentation, instability and violence. Conversely, the concentration of population offers opportunities to maximise the impact and benefits of development investments. In the context of rapid urbanisation, urban planning and administrative systems as well as resources are stretched to keep up with the demand for services, with the burden of shortfalls generally being borne by the poor. These constraints of local government capacities and resources need to be addressed by governments and the international community in ways that promote active citizenship, inclusion and good governance.

3.1.4. Rural Urban Linkages: Migration

Neither the urban or rural problems discussed above can be addressed in isolation: in the absence of significant improvements in agricultural productivity, raising incomes will necessitate transfer of labour into non-agricultural production (Deshingkar 2006). Sectoral and spatial links are best illustrated through the migration process by which labour and population move between sectors, predominantly from poorer to wealthier, and from rural to urban areas. Migration can be regional or international, as well as domestic. However, internal migration is generally the main option for the poorest, or those from the poorest regions, due to the lower costs involved.¹⁹ In the context of the current discussion, migration is part of an inevitable process of structural change that contributes to rising productivity and increasing incomes in rural areas while meeting demands for labour in industrial and urban areas. As such, it needs to be facilitated.

Precisely because of the concentration of urban ‘problems’ highlighted above, however, the process of migration to urban areas, and by extension migrants themselves, are often regarded by

¹⁹ The recent Global Economic Prospects report (World Bank 2006) provides a comprehensive analysis of international migration. Based largely on aggregate data and modelling, it provides a clear picture of the overall scale of remittances and their importance to developing countries. Further research based on disaggregated data however would be needed to understand the direct impacts on the reduction of poverty among poor populations or regions within countries.

policy makers and the urban population as ‘problems’, and thus elicit negative policy responses. These include residential or mobility restrictions (for example in Vietnam and China), limits on access to social services and public goods (India, China), or differential pricing structures (schooling in China). The costs of migrating can be raised indirectly – through discrimination in employment or housing; by regulations designed to control mobility, residence or work requirements; and through public messages and stereotypes that stigmatise migrants, often blaming them for crime or unrest.

Despite such direct or indirect disincentives, internal migration (seasonal or temporary, or longer term) is huge and rapidly increasing. China has seen approximately 120 million rural residents move for varying lengths of time to cities in search of work; India has an estimated 30 million seasonal migrant labourers; other countries lack data but the documented trends show a widespread increase.²⁰

Positive incentives or support systems – assistance in finding jobs, appropriate training or improved access to services, or enforcement of employment protections and other rights – remain the exception.

Box 5: Factors promoting migration in Asia²¹

- Large reserves of under-employed rural labour, particularly in conditions of resource scarcity, limited returns to agriculture, lack of alternative rural livelihoods, and high rural urban wage differentials
- Regional disparities associated with rapid growth, with wealth and employment creation occurring in urban or industrialising regions vs. pockets of poverty in other regions
- An increase in the demand for labour – in construction, export industries, and the growing service sectors needed to service expanding cities
- Domestic policies or external forces (e.g. WTO accession) that affect the returns to agriculture or reduce prices for agriculture products
- Environmental conditions such as chronic or regular drought which may drive seasonal migration; natural or humanitarian disasters, conflict or other forms of involuntary movement such as trafficking
- A relaxation of some of the more rigorous controls on mobility in some countries
- Improvements in basic infrastructure which reduce costs for migrants (improved roads and transportation) or increase returns (e.g. to education and skills).

The increase in migration suggests the contribution made by migrants to economic growth (building and servicing cities, industries and the export sector), as well as to the development of rural areas and the alleviation of poverty (through reducing surplus labour in agriculture, remittances and the transfer of skills). Recent studies from a number of countries – including India, China, Thailand and Vietnam – show that remittances (whether from domestic or international migration) now account for a significant proportion of annual household income, and may even exceed the contribution from agriculture. Remittances substitute for lack of access to credit in rural

²⁰ See references cited in Deshingkar (2006).

²¹ World Bank 2006: 65 compares the causes of internal and international migration. More research is needed to understand the links between these, for example how emigration of urban workers (e.g. from the Philippines) facilitates rural to urban migration in these countries.

areas, and are used to finance expenses ranging from food, education and health care, weddings and funerals, to the purchase of productive assets. In Bangladesh and Vietnam, evidence suggests that the injection of cash into the economy stimulates the land market, increases local wages and generally improves the local economy. While international migration, through remittances or the return of skilled labour, is important to economies overall, and analyses suggest an impact on poverty reduction in some countries, internal migration is more important in the context of the very poor.²² According to World Bank (2006: 64, 67), less than 0.5 per cent of low skilled workers from the Asian region emigrated to developed economies compared with 6–8 per cent of those with tertiary education.

Given the structural changes discussed earlier, migration will remain a significant phenomenon in much of Asia for the coming decades – both in countries where growth is limited to a few areas and where structural problems in the countryside continue to hamper poverty reduction, and in countries experiencing more rapid growth, industrialisation and urbanisation. It will be influenced by demographic change: a younger rural population may add to migration streams of young adults – increasing the imperative for appropriate education and training to rural populations. While migration alone will not solve rural problems, it is necessarily part of a pro-poor growth process. It needs to be complemented by an array of policies to support rural and agricultural development, to raise productivity in agriculture, and to create alternative off-farm employment opportunities for Asia's rapidly growing rural populations who will not be able to generate livelihoods on the land. Facilitating the transfer of surplus rural labour into more remunerative off-farm employment would contribute to poverty reduction in many countries in the region. If regional or international migration is to play a larger direct role in poverty reduction, a wider set of supportive interventions and cooperation among countries would be needed.

3.2 Features of Poverty and Exclusion in Asia²³

The economic, demographic and spatial transformations described above create new opportunities and routes out of poverty, as well as new risks and insecurities; they reinforce old, and give rise to new, patterns and forms of poverty, disadvantage and social exclusion. As poverty has come increasingly to be viewed as multi-dimensional – encompassing income and consumption as well as wider notions of deprivation, capabilities, rights, freedom and social justice – our understanding of the geography and experience of poverty also changes. Across Asia some broad patterns can be outlined, but within each country specific characteristics need to shape richer descriptions and responses to identified problems.

²² An important dimension of international migration is its counter-cyclical potential: increases in emigration in response to domestic crisis can help smooth consumption and incomes at home. However, opportunities for the poorest to participate would remain limited without measures to facilitate and reduce the cost of access to overseas employment.

²³ This section draws on the background paper by Kabeer (2006), which includes sources and data, as well as other examples of the relationship between exclusion and non-income MDGs.

Box 6: Characteristics of the poor in Asia

- *Severe or chronic poverty in Asia remains predominantly rural* (in terms of absolute numbers) with the rural poor often located in remote, ecologically disadvantaged regions with 'fragile' environments. Poverty in such areas will not be relieved by growth alone (see Table A1 for rural and urban poverty rates)
- *The share of urban poor is increasing*: often most visibly among slum dwellers and migrants, but also among new groups – often those negatively impacted by reform and transition (Mongolia, urban China) or risks associated with globalisation (such as those affected by financial crisis or changing terms of trade)
- These may be compounded by a *changing demographic structure that increases dependency* (e.g. through ageing, dependence and gender based disadvantage) and through the spread of HIV-AIDS or other diseases
- Both rural and urban populations in poverty face *multiple and interacting forms of disadvantage and discrimination* (by virtue of ethnicity, race, religion, caste, gender, place of origin etc.) contributing to deep-rooted exclusion
- *Social exclusion* undermines the capacity of citizens to participate in the economic, social and political functioning of their society on equal terms. Alternative policy interventions are necessary if such forms of exclusion are to be addressed.

The geography of poverty means that the poor are predominantly found in poor regions and fragile environments, with overlapping features of identity-based exclusion, as illustrated by examples in Box 7a.

Box 7a: Poverty, place and identity: examples of exclusion

- *India*: 'Untouchable' or dalit castes made up 20 per cent of rural population but 38 per cent of poor; Tribal or adivasi groups made up 11 per cent of rural population but 48 per cent of poor
- In the poorest state in India, *Orissa*, 24 per cent of population are adivasis compared with 9 per cent for all India; poverty in Orissa was 47 per cent compared with 26 per cent nationally. 82 per cent of the adivasi population in the southern areas were illiterate compared with 17 per cent in urban areas
- *Pakistan*: The poverty rate was 39.6 per cent for religious minorities who made up 4 per cent of the population, compared with 24.6 per cent for the rest of the population
- *Vietnam*: Poverty among the Kinh and Chinese populations declined from 54 per cent to 23 per cent between 1998 and 2002, compared with 86 per cent to 69 per cent for ethnic minority groups. Infant mortality rates among ethnic minorities were 1.7 times (14 deaths per 1000) higher than in the rest of the population.
- *China*: Ethnic minority incomes were 19 per cent those of Han majority. Between 1989–1995, the average income grew by 52 per cent for Han and 22 per cent for minority households.

The examples in Box 7a illustrate elements of the interaction between social identity and poverty: similar examples can be provided for other characteristics, such as gender, see Box 7b.

Box 7b: Gender as exclusion

Gender constitutes a specific form of exclusion in conditions of poverty. As a widespread basis of social discrimination, the intersection of gender inequality and economic deprivation means that women from poor households represent a particular category of the multiple-disadvantaged. Relative disadvantage is almost universal in relation to literacy, education, earnings and employment, while in many parts of Asia, it also extends to physical well-being and life expectancy. Addressing gender imbalances are thus critical for achieving progress on several core MDGs.

Exclusion can be manifested in a myriad different ways and in all arenas of life – economic, social and political. For instance, it may operate through:

- high levels of exploitation so that socially excluded groups are to be found working in the worst paid jobs in the harshest working conditions and in the most insecure margins of the informal economy
- asymmetrical patron-client relationships in which members of excluded groups exchange their labour, loyalty and independence in return for protection and security from more powerful sections of society
- criminal, illegal or stigmatised activities in the face of the barriers faced by excluded groups in accessing socially recognised forms of livelihood.

Different forms of poverty and exclusion require different solutions: the discussion above has largely focused on stimulating regional growth, raising productivity and creating remunerative employment, and investing in human capital (health and education). Many of the poor however are excluded from directly sharing in the benefits of growth through lack of labour or other assets. Two additional elements are critical:

1. Expanding the *provision of basic social services and social assistance* to poor and excluded population groups, and particularly to the elderly, sick, disabled and those unable to secure their own livelihoods.²⁴
2. Expanding *social protection mechanisms* which both provide safety nets to protect consumption in moments of crisis, but which also can be productivity enhancing and promote livelihood security for the poor.²⁵

The multiple and overlapping forms of disadvantage highlighted in the discussion of exclusion, however, pose particular obstacles for policy makers. In many contexts, the extreme or the chronic poor are not 'just like' the rest of the poor, only poorer or poor for longer, but are additionally disadvantaged by 'who they are', aspects of their identity which set them apart from the rest of the poor. This helps to explain why some sections of the poor find it harder than others to transform the resources at their disposal, including their labour, into the satisfaction of basic needs. While this 'transformation problem' may sometimes reflect differences in individual efficiency, when it is systematically experienced by distinct groups in a society, and when these groups occupy a distinctly disadvantaged position within the social hierarchy, it is likely to be a consequence of their socially excluded status. Addressing these complex economic, social and political relations requires alternative policy approaches, beyond alleviating economic deprivation: including overcoming discrimination, protecting the rights of all citizens, and guaranteeing them meaningful voice and participation in economic, social and political life.

A social exclusion analysis of poverty thus illustrates why conventional poverty reduction methods may fail to benefit some groups. It also indicates that most policies or interventions can

²⁴ These are addressed in more detail in a separate background paper (Joshi 2006).

²⁵ On productivity enhancing social protection, see Devereux and Sabates-Wheeler (2004).

unintentionally create or reinforce exclusion, or lead to 'adverse' inclusion: no policies are 'neutral'. This implies a strong case for:

- a focus on advocacy, institutional and in some cases legal or constitutional changes (e.g. around rights protections and against discrimination), and
- strengthening the 'voice' and political representation of such groups and their representatives in *mainstream* political processes as well as local decision making.

A social exclusion lens thus highlights not just *what type of* interventions and resources are needed, but *how and by whom* decisions need to be made and acted upon.

4. Responses: Asian Paths to Poverty Reduction and Social Inclusion

The preceding sections have described both the achievements and remaining challenges in reducing poverty and exclusion across the region. This section turns to the ways in which Asian countries have engaged with these challenges, in order to identify lessons and options for further progress. In doing so, it is of course necessary to bear in mind the diversity of conditions across the region. Particular choices for each country depend on a range of factors including current levels of income, poverty and human development; expectations of growth; the political system and state institutional capacity; and the level and nature of resources available to the state (see also Table 5). Recognising this diversity, Box 8 summarises some key policy areas emerging from the preceding analysis.

Box 8: Summary of key policy issues

- Addressing regional disparities and chronic poverty by fostering pro-poor sub-national growth and through targeted poverty reduction programs
- Raising the returns to agriculture, diversifying the rural economy, and enhancing the security of rural livelihoods through strengthening control over assets including land, access to finance
- Creating employment opportunities through labour intensive growth, facilitating labour migration, enhancing relevant skills, and removing controls which limit access to employment or services
- Putting in place social protection systems to support the vulnerable and those with low or variable incomes and institutional arrangements which protect against production related risks
- Extending the provision of social goods and services, particularly basic education, healthcare and, in some cases, support for the elderly
- Investing in improved city planning and governance in ways that foster growth, create employment, and meet the housing and other needs of the urban poor
- Protecting the rights of all citizens, and increasing their participation in society, in order to combat exclusion
- Improving the governance and institutional environment: for any package of policies, a fundamental challenge for all governments is to strengthen the governance and institutional conditions need for effective implementation.

From these flow various policy options and interventions. The prior discussion of structural change, spatial imbalances, poverty and exclusion has highlighted the inter-relationship among policy

issues: while policies and interventions may need to be targeted by region, sector or population group, *only by taking a more comprehensive view can we understand the synergies or tradeoffs among interventions*. A package of complementary and mutually reinforcing policies is generally required, while trade-offs may exist between the goals of different policies. For example, even the best regional policies may not be best for assisting the poor in the region and, conversely, the best poverty alleviation policies may not be best for promoting regional development. Policies to address both goals together may be needed.

4.1. Regional Approaches to Combating Poverty and Exclusion

Sub-national spending in poor countries and regions is crucial to addressing the most severe and intractable forms of poverty described above. There are sound arguments for investing in 'lagging' regions both on the grounds of equity, political and social stability, as well as for the benefits to growth that will accrue over the longer term from a healthier, better educated population. A key challenge for fast growing countries with large disparities (China, Vietnam, India, Indonesia) is *how to redistribute growth across regions without reducing overall economic growth and thus undermining overall poverty reduction* (Devas 2005).

Regional investment strategies: Conventional policies towards regional development have focused on *investments in physical infrastructure*, direct interventions to transform the economic structure, such as assisted industrialisation, and creating conditions for economic activity through reducing transaction costs for enterprise and trade. Elements of this strategy have been questioned due to the high costs involved, the limited developmental impact and in some cases negative impacts on the environment. The aim of raising regional GDP by accelerating growth may in fact conflict with the goals of raising the incomes of the poor in the region or with longer term sustainability particularly in fragile regions.

A high *risk of failure* and uncertainty of outcomes is particularly associated with large, undiversified infrastructure investment projects. Such projects are often compromised by weak governance, limited accountability, corruption and rent-seeking, particularly over land use, procurement, and resource transfers. More diversified interventions, such as improving the *investment climate* and reducing transaction costs, as well as investments in human capital, reduce these risks.

Raising the quality and efficiency of investments must be a priority in poor regions (Humphrey 2006; Hussain et al. 2006). This can be achieved through focusing *government investment* in areas where it has comparative advantage over private investment. This includes complementary investments in human capital, through the provision of health and education; in public utilities; and in institutions, including regulation, law and order and environmental protection. Such investments generally yield social and economic returns that exceed pecuniary returns, making a case for government intervention.

Geographically targeted poverty reduction programmes: Significant progress in understanding what works in regionally targeted poverty reduction programmes has been made over the past two decades: China and Vietnam offer particular lessons from government-led programmes focused on

particular geographic areas ('poor counties' in China). Lessons from the Chinese experience suggest that – in the absence of additional measures to ensure their participation – the poor benefit less through regionally targeted programmes than the non-poor, and that the size of the unit of targeting matters: reducing the size of the geographic unit (for example from county to village) increase the benefits accruing to the poor. China and Vietnam now both use the village as the targeting unit. The location of the poor also matters: while many poor people live within geographically targeted areas, significant numbers also live outside these regions, and need to be reached through other programmes. Elsewhere transfer programmes that target on basis of 'need' – such as food for work and public works schemes – have predominated (for example, in India).

Increasingly, there is awareness of the need for *better data* to improve the *effectiveness of targeting* – whether of poverty programmes, social protection or other interventions and for evidence based planning. A poverty mapping exercise in Indonesia (Suryahadi et al. 2005) illustrates the importance of more detailed and disaggregated data, with significantly greater targeting errors where data was aggregated at higher levels.

One of the major recent developments in poverty reduction programmes is recognition of the value of *participation* of the intended beneficiaries in design, implementation and monitoring. Vietnam and China have both introduced participatory planning approaches in community and village targeted poverty programmes in efforts to increase participation and improve outcomes for the poor. In environments where the state remains the dominant player, these initiatives bring other problems: demands on local governments for facilitation and coordination may exceed their capacity to deliver. In contrast, where civil society organisations play a larger role, and community driven initiatives are more common (as in Bangladesh) NGOs can be more proactive. Citizen initiatives such as monitoring government budgets and delivery of services to the poor have grown in several countries in the region (including India and Indonesia) in recent years.

Financing regional programmes: The finance and delivery of services to poor regions – whether for infrastructure, human development or poverty reduction – requires significant resource transfers. While private investment may be encouraged, state resources – whether through fiscal transfers, sectoral budget allocations, targeted poverty programmes or aid flows – are needed. Given the scarcity of locally available resources, *state capacity* is required both to mobilise resources and to redistribute them through intra-governmental transfers or other mechanisms. For poor or indebted countries *external financial assistance* remains essential; in others, more critical issues relate to the *institutional arrangements* and mechanisms for effective implementation. The negotiation and design of intergovernmental fiscal relations, revenue and expenditure sharing arrangements, and mechanisms for revenue equalisation across regions, particularly in the context of decentralisation, is politically contentious. Institutional mechanisms to ensure transparent and accountable resource flows, and to prevent corruption or misallocations, are rarely in place. The design of appropriate institutions remains a major challenge but will underpin the success or failure of a range of policies requiring resource transfers.

4.2. Addressing Urban Poverty and Exclusion²⁶

Asia's rapidly growing cities demand more attention than they have generally received in PRSPs or other national poverty reduction strategies, or in donor priorities. With rapid urbanisation, urban problems are becoming increasingly important in the landscape of Asian poverty, potentially creating negative externalities for growth (for example, through congestion, pollution, poor sanitation and lack of access to services), all of which affect the poor. Effective governance of cities, on the other hand, could stimulate growth and provide employment for both the urban poor and for rural migrants (with transfer of benefits to rural areas).

Innovative interventions and partnerships for planning and financing urban development, that benefit the poor provide possible models for replication. Examples include:

- *Providing secure land use rights or tenure:* The UPDF in Cambodia (Box 9) and the Baan Mankong programme in Thailand (Jack 2006) show how governments can support city- and nationwide urban development programmes which incorporate land-sharing, nearby relocation and mixed developments through a partnership-based approach
- *Providing capital funds* for medium and long-term development investment, through innovative mechanisms that leverage resources from a range of stakeholders, and create space for collaboration and collective decision making around scarce resources, whether in relation to investment in social services, infrastructure provision, settlement improvements or income generation (see Box 10).

A medium-term strategy may be to explore how urban plans or City Development Strategies (CDSs) which assist local authorities in planning for and managing urban growth, as well as other policies to tackle urban poverty or deprivation, can be more fully incorporated into PRSPs or other poverty strategy documents.

Box 9: From City Development Strategy to policy and action in Phnom Penh, Cambodia

Phnom Penh's City Development Strategy was carried out jointly by the Municipality of Phnom Penh, UN-Habitat, the Asian Coalition for Housing Rights (ACHR), the Solidarity for the Urban Poor Federation (SUPF) and the Urban Resource Centre. Research was undertaken to understand local development forces and trends as they directly affected the poorest, and results were shared among communities, academics, professionals and officials. The process of collecting and analysing information led to new working relationships, culminating in city-wide settlement planning and new models of land-sharing, voluntary resettlement and settlement upgrading carried out in accordance with the city's evolving urban development policy. Implementation was facilitated through the Urban Poor Development Fund (UPDF), capitalised by both donors and community savings, and jointly managed by the Municipality, SUPF and ACHR.

Source: ACHR (2003)

²⁶ Drawn from Jack (2006).

Box 10: The Community Led Infrastructure Finance Facility (CLIFF) in India

Launched in 2000, CLIFF is a facility providing loans, guarantees, bridge finance and technical assistance to encourage and support private sector investment in housing and infrastructure initiatives developed by organisations of the urban poor in partnership with municipal/state authorities in India. Capital is revolved to support an evolving portfolio of initiatives. DFID provided £6.84 million, Sida £1.5 million and Homeless International £0.6 million to set up the facility, and by June 2005, CLIFF had supported projects in five Indian cities and was scheduled to draw in revenues of more than £25 million, including £19.2 million from market sources.

Source: www.homeless-international/cliff

4.3. Investing in People – Productivity and Protection

Spatial policies and sub-national growth contribute to poverty reduction and achieving the MDGs only in so far as the poor benefit, principally through their labour. Thus, human capital investments – particularly through health and education, as well as the institutional arrangements which empower, protect rights and enable participation are critical issues across the region. The other side of this equation is the availability of and access to remunerative employment – whether through higher productivity in agriculture, access to markets, or the creation of new and accessible jobs.

The possibility of ‘jobless growth’ is illustrated by the Indian experience of the 1990s. In countries with large rural populations, and declining agricultural productivity, effective strategies to promote labour intensive growth are needed. Governments can provide incentives: specific policies will depend on national conditions and the potential for different types of employment, for example in export processing, SMEs or the service sector. At the same time, as labour markets become more flexible, the quality of employment and labour conditions has implications for equitable development: highly exploitative forms of employment where workers fall outside any social protection systems, may not help to reduce poverty. The creation of new jobs (whether rural or urban) is an essential element of a pro-poor growth strategy, but needs to be complemented by mechanisms to protect those in the most high risk, exploitative or informal employment, or those unable to work.

A corollary of employment creation is ensuring the poor – and particularly the rural poor – have the skills to access new jobs. Programmes to support the rural labour force to diversify into more remunerative employment are limited, but examples include:

- *In China:* The Ministry of Agriculture launched an initiative in 2003 to provide free vocational training for rural people preparing to migrate or who are already in the cities (Murphy 2005).
- *In India:* Action Aid has initiated a number of education projects together with local and state governments in the States of Andhra Pradesh and Orissa in India (Deshingkar 2006).

Ensuring access to services and protecting the vulnerable: An important lesson of the Asian financial crisis was that governments need to use opportunities and resources generated during periods of rapid growth to put in place the institutional arrangements, social protection schemes

and safety nets that protect the vulnerable at moments of crisis. Based on this experience, Asian governments have led the way in the creation of innovative safety nets and social protection mechanisms, with several countries devoting an increasing share of GDP to investments in social or public goods and services needed to provide livelihood stability to the poor. Some important examples include:

- Thailand's '*30 baht health scheme*' which provides affordable access to healthcare to the poor
- Indonesia's '*Rice for the poor*' programme which provided subsidised rice at the village level following the financial crisis (1998–2003) (Suryahadi et al. 2005)
- China's '*minimum living standard guarantee programme*', initially covering only urban areas but now being expanded to some rural areas, which provides cash transfers to raise household income to a minimum level.

Social protection programmes involve tradeoffs in terms of *implementation mechanisms*. A key lesson from international experience is to avoid too much complexity in design: provisions for inclusion or exclusion can be made so complex that poor people are unable to understand them and therefore cannot exercise 'voice'. Schemes with simple inclusion criteria, but which focus more on the quality of delivery mechanisms may be preferable, even at the expense of 'over-inclusion'. Increasingly, evidence also points to a preference for cash over in-kind transfers, both as less distorting of local markets, and for the wider benefits that can accrue to households exercising choice over the use of resources.

Social protection schemes require significant financing commitments. Countries experiencing rapid growth and a sound fiscal situation have options to implement such programmes. Countries that are fiscally constrained face harsher tradeoffs and may require donor assistance. These *should not be viewed however as a tradeoff between productive investment and consumption*. An important shift in thinking about *social protection* has occurred in recent years, with interventions formerly seen as 'market' distorting or solely 'consumption' now recognised as contributing to livelihood security and enhanced production for the poor (Devereux and Sabates-Wheeler 2004; Farrington 2005). Evidence suggests that welfare programmes targeted to the poorest or most vulnerable, by making resources available to households, help to raise productivity and may thus contribute to growth.

Social protection is not only an option for the higher income countries in the region: the impressive human development gains in Bangladesh, despite low per capita incomes and less rapid growth, highlight the potential role of a wider set of actors in social protection and human development. Programmes by NGOs such as BRAC have helped to put in place protective and productivity enhancing programmes, and in raising education access for girls.

As discussed earlier, demographic transition is creating changing demands across countries for education, labour market skills and employment, and support for the sick and elderly. The value of basic universal provision of education and health, and the high costs of not providing them, are increasingly recognised. Both financing and delivery are major obstacles, but both government and non-government schemes provide models for what can be done. An innovative component of Vietnam's poverty reduction programme, for example, is the inclusion of access to education for poor households.

Over the coming decades, many countries will see the elderly become a large and more vulnerable group. While pensions are generally considered affordable only among urban formal sector employees, the problem will become more serious in rural areas. A medium-term goal for such economies may need to include the replacement of family-based support with a basic pension scheme.

Finally, in countries which are growing rapidly and are close to achieving or have reached the poverty reduction target, interventions need to incorporate the 'near' poor. Asia has vast numbers of people with incomes marginally above the \$1/day line or who experience variable incomes around the line (Table 6 and Table A2). Raising incomes and providing security for this group will be necessary for sustained poverty reduction.

Table 6: Number of people living in poverty (millions)

Region	People living on less than \$1/day			People living on less than \$2/day		
	1990	2004	2015	1990	2004	2015
East Asia and Pacific	470	261	44	1094	873	354
Of which China	360	204	41	799	600	256
South Asia	466	432	268	971	1,052	968
World total	1,236	1,100	734	2,653	2,738	2,144
Asia share of total (%)	76	63	42.5	78	70	62

Source: Adapted from World Bank (2004) *Partnerships in Development: Progress in the Fight against Poverty 2004*, Washington, DC: World Bank Group, poverty.worldbank.org/files/15028_wb_partners.pdf

4.4. Governance and Institutional Arrangements for Combating Poverty and Exclusion

Institutional issues are at the core of all effective policy interventions: the lack of effective governance mechanisms or faulty institutional arrangements frequently undermines the implementation of even the best designed initiatives. According to World Bank leaders, a prime challenge for developing countries is further progress to build capacity, fight corruption, improve the investment climate, deliver social services in an efficient and effective way and to empower the whole population (Wolfensohn and Bourguignon 2004: 32). Several important governance and institutional issues are crucial to the effective implementation of policies considered above.

At a *structural level* issues that underpin the capacity to address poverty and promote more equalising or pro-poor growth particularly in ‘lagging’ regions include:

- the fiscal system and mechanisms for resource transfers
- the nature of relations between central and local governments, particularly in decentralised systems
- corruption, lack of transparency in budget and resource allocations or flows.

Strengthening local government capacity: Many of the governance innovations recognised as essential for promoting greater accountability, inclusive and pro-poor outcomes, can also undermine the implementation of programmes by adding greater complexity and requiring higher levels of state or – particularly – local government capacity than exists in practice. In the context of decentralisation, projects generally place greater discretion in the hands of local officials; but this can also increase the scope for rents; those involving large lump sum payments may attract ‘commissions’ or allow collusion between local businessmen, politicians and officials. Others are dependent on weak local (provincial/state or sub-provincial) government capacity to deliver when stronger central institutions might be more effective.

Some institutional and government weaknesses can be overcome through the engagement of a wider range of actors and coalitions, particularly from civil society. While mechanisms of democratic accountability and participation vary across countries, some of the most innovative approaches are those that link local level participation and accountability with service delivery or other interventions to combat poverty and exclusion. Several countries in Asia have led the way in fostering civil society organisations that now play a crucial role in growth, development and poverty reduction, and whose activities have been successfully scaled up. Examples include participatory budgeting in Indonesia and citizen report cards in India.

At the same time, stronger *representative* and *rule of law* institutions, that are inclusive and accessible to the poor, are needed in order to guarantee the rights of participation, and where necessary recourse or redress, for those most likely to be excluded. Addressing these issues may also require longer-term investments in the *people* (e.g. local government officials), in government systems, and in the capacity of government *institutions*, particularly those that provide oversight and accountability for ensuring pro-poor policy outcomes.

5. Partnerships for Poverty Reduction

Asian countries have been the architects of their own progress in reducing poverty and exclusion. Lessons learnt along the way are relevant for their continued progress, and for other countries – within and beyond the region. Many however continue to face slow growth and continued resource constraints in delivering progress towards MDGs.

This paper concludes with a discussion of:

- areas where additional resources are needed, how these can be delivered, by whom
- issues that appear to have been neglected or have proved most intractable and require new partnerships or approaches to deliver development outcomes and the MDGs
- the possible partnerships for sharing lessons and experiences.

The *Millennium Development Goals* provide a commitment to reducing poverty building on mutual responsibilities of poor and rich countries: ‘poor countries must improve governance to mobilise and manage resources more effectively and equitably. Rich countries must increase aid, debt relief, market access and technology transfers’ (UNDP 2003). Building on Asia’s significant achievements, what can the international community do to support further progress in the light of the above challenges? What partnership modalities can most effectively ensure the effectiveness of development assistance?

5.1. Development Assistance in Resource Constrained Environments

The overall goal of poverty reduction demands a continued focus on countries and regions where poverty is most severe and, given interacting forms of spatial, social and economic exclusion, most intractable. This category would include the lowest income countries: those with low growth rates, high population growth, a predominantly rural population in adverse environmental conditions, and that may be indebted, or experiencing conflict.

Given conditions of slow growth, donor financial assistance along conventional lines is needed for:

- poverty reduction, social sector expenditures and to stimulate growth, whether as programmatic assistance or budget support
- debt reduction
- humanitarian assistance or disaster relief
- assistance in the formulation and implementation of pro-poor growth strategies or PRSPs.

Sectoral investments such as basic infrastructure (roads, water, irrigation) and social sectors (health, education) require priority attention if MDGs are to be achieved. Achieving universal basic education in the most resource constrained countries with growing populations will require additional development resources as well as effective delivery mechanisms, both of which can be assisted by donor aid.

Targeted poverty programmes may be most effective where resources are limited, but assistance in their design, collection of data relevant for targeting and implementation can be provided by donors, drawing on experiences of other countries.

Externalities and inter-temporal tradeoffs: Particularly, but not exclusively, in poor regions, governments face potential trade-offs between short and long terms objectives: supporting certain types of growth may yield higher immediate returns but at high longer-term environmental costs. The externalities (whether domestic, regional or global) of unsustainable development (pollution, loss of natural resources) which accumulate over time are ideally addressed at an earlier stage of development. Prioritising them requires external assistance: donor initiatives can provide incentives or support to reduce negative impacts in ways that complement their development interventions. Donors can also support this process through technical support and the production and sharing of knowledge and appropriate technologies at regional and global levels.

5.2. Maintaining and Sharing Growth

For some of the larger, faster growing economies international development assistance is negligible in terms of financial resources. Some countries (India, China) are becoming donors in their own right. Nonetheless solutions to remaining pockets of poverty and exclusion, and increasing inequalities leading to instability, have proved especially intractable.

Donors may have a significant role to play in:

- understanding what works and facilitating the sharing of knowledge within and across the region (for poverty reduction, social protection or other programmes)
- support for governance and institutional capacity building (at central and local levels) to enhance the effectiveness of programme implementation
- providing research and inputs on ways to meet the needs of groups marginalised by multiple forms of exclusion.

These countries are also in a position to share experiences with each other, and transfer lessons to other countries in the region, through regional exchanges which could be supported by the international community.

Other countries in the region, while experiencing more rapid growth, remain constrained by debt, low government revenues, weak governance and high levels of need. Donor response may involve a combination of both conventional donor assistance together with support for improved governance and accountability to ensure resources are focused on pro-poor growth and MDG attainment.

5.3. Neglected Issues in Poverty Reduction Programmes

A number of issues raised in this paper have not been adequately addressed either within country PRSPs or national plans for poverty reduction, or by the international community. These include:

- *Migration*: Donors could work with national governments and regional bodies to find appropriate mechanisms for smoothing labour flows, integrating labour markets and reducing the costs for the rural poor seeking alternative urban livelihoods. Regional partnerships could play a role in (a) sharing experiences within countries; (b) strengthening mechanisms that facilitate migration across the region; and (c) protecting the poorest and most vulnerable (often involuntary) migrants who may be exposed to exploitation and abuse
- *Urban planning and governance*: Donor assistance could support innovative municipal, civil society and community schemes to improve education, health, housing, sanitation and other basic services in 'slum' settlements. Technical assistance to improve planning, inter-agency coordination, regulatory frameworks and governance of expanding cities could provide substantial benefits to smoothing the transition to more urbanised economies, while reducing the negative externalities associated with rapid urban growth.

Other issues which are receiving significant donor attention, but which will demand sustained resources and technical support from the international community if recent progress is not to be undermined, include public health threats:

- The *HIV-AIDS* epidemic is still poorly understood in much of Asia, and will have a significant impact on growth and poverty if concerted efforts are not continued to inform the public about the disease and to limit its spread.
- Other *epidemics* (notably the current avian flu threat, but also infectious diseases such as TB which can re-emerge where public health systems become weakened by marketisation) require international technical expertise to develop adequate systems of reporting as well as prevention and treatment.

5.4. Information and Knowledge Gaps

A recurring theme in development discussions concerns the lack or poor quality of data, particularly at a sufficiently disaggregated level to be useful for policy makers and planners, and for monitoring implementation. Donors could assist national statistical offices, researchers or NGOs in the systematic collection of relevant data for improved planning and targeting. The process of generating locally based information, as well as the information itself, can play a major role in the development and implementation of effective policies. National governments can work more closely with local authorities and other local stakeholders to ensure that local information is fed into national development strategies.

Similar gaps exist in knowledge about ‘what works’ in governance reforms (such as decentralisation) and institutional strengthening for poverty reduction (Rahman and Robinson 2006). The international community can facilitate learning around the development of institutions (state or non-state) that can deliver pro-poor growth in more responsive, transparent and accountable ways.

6. Conclusion

Messages which emerge from an examination of development policies and practices for the international community in considering appropriate interventions and mechanisms for assistance include:

- the value of coordination among donors, with the full participation of national governments, to reduce the costs of engagement for recipient countries
- the need to support local processes, such as assistance in scaling up activities that work for the poor or excluded, or building local capacities for decentralisation
- integrating a focus on poverty and exclusion through all aspects of bilateral relationships, not only in relation to development assistance.

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Annex

Table A1: Rural urban distribution of poverty in selected Asian countries based on national poverty line

Country	Initial year head count (%)			Latest year head count (%)				
	Year	Rural	Urban	Total	Year	Rural	Urban	Total
Bangladesh	1995–6	55.2	29.4	51.0	2000	53.0	36.6	49.8
Cambodia	1997	40.1	21.1	36.1	1999	34.1	9.7	77.7
China	1996	7.9	<2	6.0	1998	4.6	<2	4.6
India	1993–4	37.3	32.4	36.0	1999–2000	30.2	24.7	28.6
Lao PDR	1993	48.7	33.1	45.0	1997–8	41.0	26.9	38.6
Mongolia	1995	33.1	38.5	36.3	1998	32.6	39.4	35.6
Pakistan	1993	33.4	17.2	28.6	1998–9	35.9	24.2	32.6
Philippines	1994	53.1	28.0	40.6	1997	50.7	21.5	36.8
Sri Lanka	1990–1	22.0	15.0	20.0	1995–6	27.0	15.0	25.0
Vietnam	1998	45.5	9.2	7.4	2002	35.6	6.6	28.9

Data Source: World Development Indicators 2005.

Table A2: Poverty in selected Asian countries based on international poverty line

Country	Survey year	Less than \$1 a day (%)		Less than \$2 a day (%)	
		Head count	Poverty gap	Head count	Poverty gap
Bangladesh	2000	36.0	8.1	82.8	36.3
Cambodia	1997	34.1	9.7	77.7	34.5
China	2001	16.6	3.9	46.7	18.4
India	1999–2000	34.7	8.2	79.9	35.3
Indonesia	2002	7.5	0.9	52.4	15.7
Lao PDR	1997–8	26.3	6.3	73.2	29.6
Mongolia	1998	27.0	8.1	74.9	30.6
Nepal	1995–6	39.1	11.0	80.9	39.6
Pakistan	1998–9	13.4	2.4	65.6	22.0
Sri Lanka	1999–2000	7.6	1.5	50.7	15.2
Vietnam	2000	<2	<0.5	33.4	8.3

Data Source: World Development Indicators 2005.