

## EDITORIAL

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In the last decade, there has been growing concern to place poverty at the centre of public debate on development. This is due to the painful fact that economic growth in developed or emerging countries can go hand in hand with a widening of inequalities and an increase in poverty, and that the fight against poverty has become all the more urgent in developing countries as some of them have experienced a deceleration in growth for more than ten years. International aid institutions, particularly the World Bank and the UNDP, have raised the issue of the relationship between growth and human development, and proposed that development policies should be centred on the eradication of poverty.

Since its initial work on employment and the informal sector, DIAL has always been interested in problems of poverty. It is now at the heart of one of its two pillars of research, based on the theme of growth, redistribution and inequalities (the other pillar concerning competitiveness). Poverty is also the main focus of the research programme of the Joint Research Unit ; the DIAL researchers belonging to the IRD have asked this institution for approval to implement the programme in the coming months.

The two articles presented in this issue are devoted to this theme. The first is a critical review of the World Bank's World Development Report on poverty. The Bank's previous report on the subject was published in 1990 and had an enormous impact on the development community ; it can be hoped that the 2000 Report will in turn give rise to much debate and comment. Our review concerns the first draft version of the report, drawn up a few months ago (the final version is due to be published in Autumn). The first draft is an opportunity to measure progress made in understanding and fighting poverty ; it also gives a hint of certain limits and shortfalls in the guidelines offered by the Bank.

One of the analytical difficulties highlighted by the Bank's report is the fact that poverty is not a static phenomenon, as many people are not permanently « poor » or « rich », but move from one state to another at different stages in their lives. It seems vital to analyse this « dynamic » in order to gain better understanding of poverty. The second article addresses this question, on the basis of a case study on Peru, in which the analysis of existing panel surveys served to measure movements in and out of poverty. The article highlights the importance of such changes over a period of time and the impact that this phenomenon should have on poverty reduction policies.

To end this editorial, DIAL is pleased to announce its latest academic success. Florence Arestoff attended the viva for her doctorate in Economics in June this year, on the subject « The Relative Efficiency of Public and Private Education. An econometric application to the case of Madagascar ». Following in true DIAL tradition, Miss Arestoff passed with distinction, was highly commended by the jury and recommended for a prize for her thesis.

## Below the market :The Poor

### Review of the first draft of the report « Attacking Poverty »

Whilst most of the world's poorest countries are currently working on draft Poverty Reduction Strategy Papers (PRSP), at the instigation of the Bretton Woods Institutions, the 2000/2001 World Development Report, precisely focused on the fight against poverty, is keenly awaited. For the time being, the World Bank has published a consultation draft of the report which will be finalised next autumn.

This is an opportunity to take stock of progress in knowledge and current thinking on the issue, ten years after the 1990 World Development Report entitled « Poverty ». The 1990 report, reflecting the emergence of income poverty as a key theme in the concerns of international institutions and governments in developing countries, proposed a two-part strategy, backed up by targeted actions.

The first element of the strategy consisted in economic policy based on openness and market incentives designed to create rapid, labour-intensive growth<sup>1</sup>.

The second element involved the provision of basic social services for the poor, including primary healthcare, family planning, nutrition and primary education.

A comprehensive approach to poverty reduction called for well-targeted actions to set up safety nets for individual cases of fragility (due to sickness or old age) and for collective cases (natural disasters), as a complement to the basic strategy.

In the decade following this report, the fight against poverty gradually became the main concern of the international development agencies, at least in terms of intentions ; and the poor countries are adopting it as the basis for their development strategies, willingly or otherwise.

However, the evidence shows that results obtained during the past decade were mixed. In terms of income, the overall number of poor people remained roughly the same, but this « stability » masked a very wide variety of different situations across regions. Poverty in fact increased in every region in the world except East Asia<sup>2</sup> where it fell spectacularly.

Quite considerable progress has been made in analysing poverty, and the « Attacking Poverty » report offers an imposing summary of an impressive amount of recent work on this issue. The main themes of the report can be examined by looking at how the diagnosis and recommended strategies have changed compared with the 1990 report.

“Poverty must be seen as the deprivation of basic capacities, rather than merely as low incomes” The 1990 report extended the definition of poverty to the deprivation of fundamental assets (education, health, nutrition), but in fact used a monetary approach to conduct most of its analyses. The 2000 report posits that poverty is multidimensional and that each different factor must be addressed with equal attention. There is a move from the notion of lack of assets (income or basic assets) to that of lack of capacity to choose. It addresses new dimensions such as powerlessness and vulnerability.

*The political, institutional and social causes of poverty are strongly emphasised, indissociable from the economic causes.* Social capital is just as important a factor of poverty as human capital or physical capital. This is true for individuals and households, as the possession of social assets is essential if they are to escape poverty, but also for human societies : social cohesion, lack of discrimination or too much inequality are determining factors in the quality and level of economic growth. « *Individuals interact with each other not just through markets, but also through institutions, norms and values* ». The way in which institutions listen to and address the aspirations of poor citizens is the key to a vital element in the fight against poverty, now commonly referred to as « empowerment ». Effective poverty reduction strategies must include essential political, institutional and social aspects such as a pro-poor approach by public institutions (particularly in the struggle against corruption), the promotion of diversification of social assets and the strengthening of national cohesion.

*Public policies must not only promote efficiency but also security.* Vulnerability to shocks is one of the main reasons for falling into poverty. Negative shocks are not only detrimental to the living conditions of the households concerned, but also lead to situations that are extremely difficult to reverse and « *can translate into long-term poverty traps* ». The report covers protection from a certain number of shocks and their prevention : idiosyncratic shocks (e.g. illness), market instability, financial crises, natural disasters. The report clearly recognises that reform policies in the last two decades have left « *winner and losers, even among the poor* » and that one of the aims of security policies must be to protect the losers. Safety net mechanisms, touched on briefly in 1990, are given more attention in the 2000 report that advocates a modular approach based on different combinations of instruments such as insurance, targeted aid, redistributive transfers, social funds and microfinance.

<sup>1</sup> Open markets and competition were seen as a means of increasing the productive use of abundant assets, i.e. unskilled labour in poor countries.

<sup>2</sup> And to a lesser extent the Middle East.

*Micro-level deregulation should receive more attention than macroeconomic reforms.* To enable the poor to acquire assets and gain the best opportunities from them, markets must be pro-poor. But markets are subject to a large number of obstacles of micro origin, resulting from bureaucracy or corruption, that call for deregulation at the microeconomic level. In addition, economic efficiency cannot be considered separately from institutional efficiency, at micro and local levels, and it is the complementarity of the different players - State, private sector, civil society and population - that frees economic forces and increases opportunities for the poor.

These three pillars - Empowerment, Security and Opportunity - are at the heart of the strategies recommended by the World Bank. They are completed by recommendations to the international community on a more effective use of development assistance and on the mobilisation of forces to produce « international public goods ».

One point that was doubtless long-awaited by readers was how the World Bank would handle the impact of past economic reforms that it had fervently supported, and often promoted. Those who were hoping that the institution would re-examine the issue should not be disappointed<sup>3</sup>. The validity of deregulation is not questioned as such, but through the reservations it makes concerning the desirable rate, extent or institutional conditions required for a reform process, there is in fact a lucid analysis of the mixed results obtained by two decades of liberalisation. In case after case, reforms - financial liberalisation, privatisation, open markets, dismantling of public companies, abolition of public subsidies, tax reform, deregulation of raw material markets - are unfailingly criticised for having led to a deterioration of living conditions in segments of the poor population in a specific context.

In particular, the economic model of open markets which was the basis of strategies advocated in the 1990 report, is widely challenged. *“The view that removing trade barriers would result in low skilled labor-intensive growth was supported by the standard prediction of theory of trade... In fact, evidence shows that in the past 15 years the relative returns of skills have risen, not fallen »*. It can therefore be said that *« openness is correlated with a deterioration in income growth among the poorest 40% of the population »*. Once again, institutional issues are clearly vital to the effectiveness of economic reform: *« The financial crashes of the 1990s in particular revealed the importance of creating adequate*

*institutions and codes of behaviour, or « social capital », before market-oriented reforms are adopted »*.

In some respects, « Attacking Poverty » can be seen as brilliant - by the sheer amount of knowledge it contains -, innovative - by the adoption of new themes for the World Bank, such as institutions and the promotion of security -, and courageous - by its criticism of past macroeconomic reform policies. Nonetheless, in its present form, it can also be considered far less operational than previous World Development reports, particularly the 1990 report. The growing complexification of poverty issues and a certain degree of perplexity regarding the results of past reforms, give the recommended strategies a federating rather than a mobilising character. This can be highlighted through four main observations.

### ***1. The poor become elusive***

Recognising the multidimensional nature of poverty unquestionably adds to the richness of the analysis. In turn, phenomena such as material deprivation, malnutrition, illiteracy, sickness, powerlessness, vulnerability, insecurity and marginalisation are described as different facets of a single concept. In this way, the poor and poverty become relatively elusive, changing their form and nature depending on the angle being considered. The example of Antananarivo given in the box opposite illustrates this difficulty and gives an idea of how difficult it is to define policies aimed at such changeable targets.

Amongst other examples, the passage in the report that states that *« poverty is also fear for the future »*, gives the impression that, through poverty, it is perhaps « discomfort » or anything that may be detrimental to well-being that is being addressed. The move from a strategy designed to increase well-being to one designed to reduce discomfort is a radical change<sup>4</sup>, but experience shows that such concepts are rarely workable.

All the more so since the poor defined in this way form statistical aggregates of population and not groups in the sociological sense of the word. Old people, marginalised families and deciles of low income are ways of grouping the poor, but they are not living social structures with their rules and norms. Social and political relations between the poor and the rest of the population can only be analysed by looking at pertinent social groups. In practice, the fight against poverty cannot be based on segments of the population but must be made on the level of village groups, associations of producers, rural communities, urban co-operatives, all of which groups, incidentally, do not only include poor people but also have their own elites.

<sup>3</sup> Those that hoped for a mea culpa will be slightly disappointed, as the Bank's role in the reforms is not really mentioned, except in the sibylline phrase : « During the height of the « reform rush », the prevailing view was that reforms should be introduced as quickly as possible in order to take advantage of the « window of opportunity » provided by reform-friendly governments. This view is now changing ».

<sup>4</sup> The respective weights of individuals are completely changed under each of these alternatives.

## **II. Lack of conflicts and need for arbitration**

The report gives the impression that poverty reduction strategies rarely give rise to dilemmas or conflicts that require delicate arbitration. It gives a picture of smooth-running governance, which seems unlikely to offer practical assistance to politicians who are required to define and implement policies to fight against poverty on a day-to-day basis.

There appear to be no dilemmas but, on the contrary, complementarity between efficiency and equity : « *In the real world setting of imperfect information and imperfect markets, equity and efficiency are inextricably linked* ». A large number of studies are presented to show that inequality is unfavourable to growth, although other studies that are not mentioned give far more ambiguous results<sup>5</sup>.

There is practically no mention of opposing interests between rich and poor. Once again, complementarity is underlined to plead in favour of setting up a coalition to overcome poverty. The report does not cover the issue of tax, where there is an obvious conflict of interests, and only touches on the problem of the redistribution of public expenditure. Land reform is analysed as an anti-poverty strategy, but seen in a strict market framework. Similarly, questions relating to political arbitration between groups including the poor are not developed. For example, devaluation often improves conditions for the rural poor whilst worsening the situation for the urban poor.

As it minimises the possibilities of conflict, the report does not sufficiently emphasise the need for arbitration procedures and particularly for respected, competent government departments. One of the main reasons for the failure of adjustment policies in the poorest countries is nonetheless the State's lack of ability to arbitrate in favour of underprivileged groups. In fact, the problem of the State's non-ability to define and implement suitable economic policies is felt even more keenly when it comes to policies designed to fight against poverty.

## **III. The international environment is not studied in enough detail**

The report's general diagnosis quite rightly puts the accent on geographical inequality as a fundamental factor in world poverty : « *The world distribution of income is becoming more unequal, due almost entirely to increasing inequality between nations. Within-country inequality, and its relation to a country's growth performance plays only a small role in global inequality dynamics* ». The main cause of this growing inequality is countries' diverging patterns of growth.

One of the causes of this divergence is the difference in « quality » of the policies run by the different countries. But could it not be posited that the nature of international relations also has an effect on this trend towards growing inequalities ? Although it is recognised that national policies of openness have often helped aggravate inequalities on a national level, the hypothesis that wide-scale liberalisation may have contributed to differences between nations is not analysed.

With a few rare exceptions, the report overlooks the consequences of international relations on poverty issues. International trade relations, brought to the forefront in Seattle, are not mentioned. Financial relations are brought up in the analysis of the Asian crisis. But, for example, it would also be interesting to know (with supporting evidence) whether it is a good idea or not to tax short term capital transfers - the famous Tobin tax - or whether it would be advisable, and possible, to encourage unrestricted investments in developing countries.

## **IV. The recommendations are complex to implement**

Contrary to the 1990 report that proposed a clear, universal strategy, « *Attacking Poverty* » limits itself to defining general guidelines. It is more difficult to imagine in concrete terms exactly what is meant by the three pillars proposed by the current report - empowerment, security, opportunity - as far as actions on the part of governments and donors are concerned. The social and institutional analysis of the causes of poverty is convincing, but it is not accompanied by precise political recommendations and leaves a large number of questions in the air : how can the social capital of the poorest people be increased, how can social cohesion be improved, how can vulnerability be measured and corrected, how can an effective policy be introduced with weak institutions ?

Ready-made answers cannot be given to such questions, but there is a risk that a few simple ideas will be forgotten because of the overwhelming complexity of the issue. For instance, poverty is very concentrated, with three out of four poor people living in sub-Saharan Africa and the Indian sub-continent. The report not only fails to isolate the specific problems in these areas, but it also spends a lot of time on questions that do not particularly concern them (financial crises, national insurance systems).

Also, growth in the agricultural sector is obviously a central factor for a great majority of poor people in the world, and yet the report seems to have nothing to say about the role or the content of agricultural policies. Finally, the effectiveness of public health and education policies is of utmost importance for the world's poorest people, but there seems to have been little progress made in understanding this issue since the 1990 report.

<sup>5</sup> On this point, see : Cogneau, Guénard (1999), « *Les inégalités et la croissance : une relation introuvable ?* », DIAL.

### Fighting all the forms of poverty

Although it is now widely recognised that poverty is multidimensional, most studies carried out in developing countries are still based on a monetary approach to the issue, sometimes extended to include certain basic needs (health, education). In developed countries, a certain number of recent works have endeavoured to examine other aspects of poverty in their surveys, based, for example, on scores for living conditions and more subjective measurements of perceptions of standards of living. The results obtained in western Europe and in transition countries showed that, although they were linked, the different approaches were little correlated and did not identify the same categories of poor people. In a survey carried out in 1998 in the capital of Madagascar under the MADIO project, this methodology was applied for the first time in a developing country.

Seven measures of poverty were established, four resulting from objective, three from subjective approaches. To test the links between the different forms of poverty, the poverty line was fixed in such a way as to include in all cases the most deprived third of the population for each indicator, corresponding to the incidence of income poverty derived from the international line of \$1 purchasing power parity a day.

It can be seen that only 2% of the population of Antananarivo suffered from a combination of all the forms of poverty. On the other hand, 78% of the population suffered from at least one form.

• <b>Income poverty (consumption &lt; \$1 per capita)</b>	<b>32%</b>
• « Objective » non income poverty :	
- in terms of conditions of existence (existence poverty)	35,0%
- in terms of human capital	32,6%
- <i>in terms of social exclusion</i>	34,6%
• « Subjective » poverty :	
- General perception :	33,0%
- Non satisfaction of what are considered vital needs	34,5%
- <i>Financial difficulties</i>	33,9%
<b>CUMULATING THE DIFFERENT FORMS OF POVERTY</b>	<b>2,4%</b>
Cumulating the 4 " objective" forms of poverty	7,1%
Cumulating the 3 " objective" forms of non income poverty	8,9%
Cumulating the 3 "subjective" forms of poverty	11,9%
<b>Presenting at least one form of poverty</b>	<b>77,7%</b>

Source : 1-2-3 MADIO survey, phase 3, Antananarivo, 1998, our own calculations.

The fact that the different categories of poverty do not overlap obviously has an effect on poverty reduction strategies. It invalidates the idea in principle that widening the definition of poverty does not change the targeting of associated policies to a great extent, an idea that was recently taken up by Kanbur and Squire\* (1999) who concluded that, « broadening the definition of poverty does not change significantly who is counted as poor. This reflects the fact that the many aspects of poverty -income, health, education, political rights, etc. - are often closely correlated ». The observation that there is very little overlapping between the different dimensions of poverty could therefore challenge the nature and causes of poverty highlighted by studies based on a purely monetary approach, and consequently, the appropriateness of policies to be implemented. Finally, it is natural to question the specificity of instruments used to fight against poverty when nearly 80% of the population of the capital, and doubtless far more on a national level, are affected by this phenomenon.

\*Kanbur R., Squire L. (1999), « The Evolution of the thinking about poverty: exploring the interactions », Banque Mondiale. Ravi Kanbur is also the main author of the first draft of the report "Attacking Poverty".

These results are taken from Razafindrakoto M., Roubaud F. (2000), «Les multiples facettes de la pauvreté dans un pays en développement : le cas de la capitale malgache », Dial.

## V. Conclusion

As it is such a comprehensive survey on one of the world's most central issues, the report will doubtless become a vital reference work for all those concerned with development. It is also important because it reveals what may be a change of culture on the part of the World Bank.

In fact, the report's weak points stem from its strong points. It can be considered insufficiently operational, but this is to a great extent because it avoids laying down a ready-made doctrine, a criticism that has often been made of research work coming from this institution. In the introduction, the report states that: "the patterns of poverty evolution are enormously varied. One should not expect, therefore, a simple causal explanation of these changes, and even less so a uniform set of policy prescriptions." Some people will appreciate this as simple common sense, but others will think that a report that starts off with such a preliminary condition can

hardly be operational. It is nonetheless a new attitude for the World Bank's economists.

The second noteworthy point is the new position sought by the World Bank as advocate for the world's poor<sup>6</sup>, a position that is a radical change from its international image. One can wonder to what extent the institution will really be able to pass on poor people's demands if they go against the Bank's traditional positions on globalisation, openness and liberalisation for example. It can also be noted that above all the institution is positioning itself as the defender of the poor against their own governments. It is no doubt less at ease when it comes to defending these same poor people on the international scene, with respect to the policies of the international institutions and the rich countries, as in this area it can be said that it is, to a great extent, both judge and judged.

<sup>6</sup> Also demonstrated in research that was published almost simultaneously, entitled : « Voices of the Poor ».

## POVERTY DYNAMICS : THE CASE OF PERU

The Peruvian economy experienced a period of rapid expansion from 1993-1997 (exceeding 6% per year on average) but growth then slowed down significantly, similarly to the other countries in the subregion hit by the Asian crisis. It is stagnating at 0.5% and per capita household spending fell by 8% from 1997 to 1999. There have been far-reaching macroeconomic disruptions in Peru since 1991, marking radical changes in its economic policy: most State enterprises were privatised; subsidies and price control were abolished; the labour market was liberalised whilst social spending was multiplied by three from 1993 to 1998 (from \$63 to \$174 per capita). In this new unfavourable macroeconomic environment, the insistent problems of poverty that concern nearly four out of ten Peruvians (six out of ten in rural areas) and the continuing extremely high levels of inequality (Gini coefficient: 0.48) have come back onto the agenda in academic and political circles. In Peru, certain people maintain that the fact that the indicators have not improved challenges the effectiveness of policies aimed at fighting poverty and the capacity of economic growth to reduce inequality and poverty.

However, the disappointing results obtained in terms of living standards and inequalities are judged from a static standpoint, by comparing indicators in a given year with those of previous years. Net balances of poverty are taken into consideration and not the households' trajectories over a period of time. Important questions remain unanswered.

### Data from ENAHO panel

As of 1996 INEI, with support from the IDB in the framework of the MECOVI programme for the improvement of household surveys on living standards, has a new data base at its disposal on recent trends in poverty in Peru. The national household surveys (ENAHO) that we use were designed from the outset to include a significant panel base, with national coverage. Conclusions can be drawn with respect to seven geographical zones, and to urban and rural areas. The survey concerned 3,100 households and nearly 15,000 individuals over the complete period 1997-1999. The panel base represents a little over 50% of the total sample. Apart from information on housing and demographical data concerning the individuals, the surveys included a section on education, health, expenditure, income, employment, etc. The surveys analysed were carried out in the last quarter of 1997, 1998 and 1999.

Data from these surveys was completed with data from local population censuses carried out in 1994 and 1997. It was thus possible to include not only the characteristics of the households and the individuals but also local variables, such as provision of public services (health and education), distance, quantity and quality of roads and economic density.

What share of the population is in a state of permanent poverty and what percentage of the poor in a given year are « transient poor ». Do the permanently poor have any particular characteristics that differ from those of the transient poor? In what way does this dynamic approach to poverty lead to rethinking on policies to

combat poverty? Few developing countries are equipped to answer these questions as this implies being able to monitor the same households on a large scale over a period of time, and the necessary surveys are quite rare in these countries.

However, Peru has recently set up a panel of households with national coverage (see box). Taking advantage of this new data base, a joint study covering all the above questions was carried out by the Peruvian National Institute of Statistics and Information Technology (INEI) and DIAL, on poverty dynamics for the period 1997-1999. The main results are presented in the following pages.

### 1. Flows between poverty and non poverty

The incidence of poverty rose from 37.3% in 1997 to 39.2% in 1998 for the households in the panel and again to 42.7% in 1999. These increases may seem very moderate considering that per capita spending fell by about 6% in the panel for two consecutive years. Monitoring the trajectories of the same households over a period of time, hence distinguishing between people going into and out of poverty, revealed a more complex picture and qualifies the relative immobility of the static indicators of the net balance of poverty.

A synthetic means of assessing flows between poverty and non poverty is to build transition matrices in which the lines refer to the situation of the individuals in the first year, whereas the columns refer to the situation of the same individuals at a later date. In the following table, it can be seen that, although the net balance of the incidence of poverty varied by only 2 points, 28.3% of individuals in poor households in 1997 were no longer in poverty in 1998. On the other hand, one non poor person out of five moved into poverty during these two years.

Other characteristics of transitions can also be noted. It is interesting to observe the rate of mobility compared with the degree of poverty, and between rural and urban areas.

### Poverty transitions : 1997-1998

Poverty in 1997	Poverty in 1998		
	Non poor	Poor	Total
Poor (37.3)	28.3	71.7	100.00
Non poor (62.7)	80.1	19.9	100.00
Total	60.8	39.2	100.00

Source: Own data compiled using ENAHO 1997-IV and 1999-IV.

A little over 40% of people in extreme poverty (who spend less than the cost of a shopping basket equivalent to the consumption of 2,318 kcal.) managed to increase their spending sufficiently to no longer suffer from extreme poverty, without being completely free from poverty nonetheless. However, nearly six «extremely

poor » people out of ten remained in the same condition. As for poor who were not in extreme poverty, nearly 40% escaped from poverty whereas 20% plunged into extreme poverty. Out of the 20% of non poor who moved into poverty, four fifths managed to maintain an overall level of spending above the cost of the shopping basket and the remaining fifth fell into extreme poverty. These results are of vital importance in assessing poverty reduction policies which attempt to give priority to targeting the « extremely poor ».

#### Specific poverty lines in each region

Specific poverty lines were defined for each region, taking into account differences in consumption patterns, differences in price levels and relative prices. It is thus possible to obtain a national figure for poverty and to compare the incidence of poverty for households living in different regions. In comparisons over a period of time, we used price indexes broken down into eight sub-groups for the 24 departmental capitals.

It can also be observed that twice as many people fall into poverty in rural areas than in urban areas, and also that there are approximately 40% more cases of being freed of poverty in urban areas. It should be noted that, despite lower population figures, poverty is concentrated in rural areas.

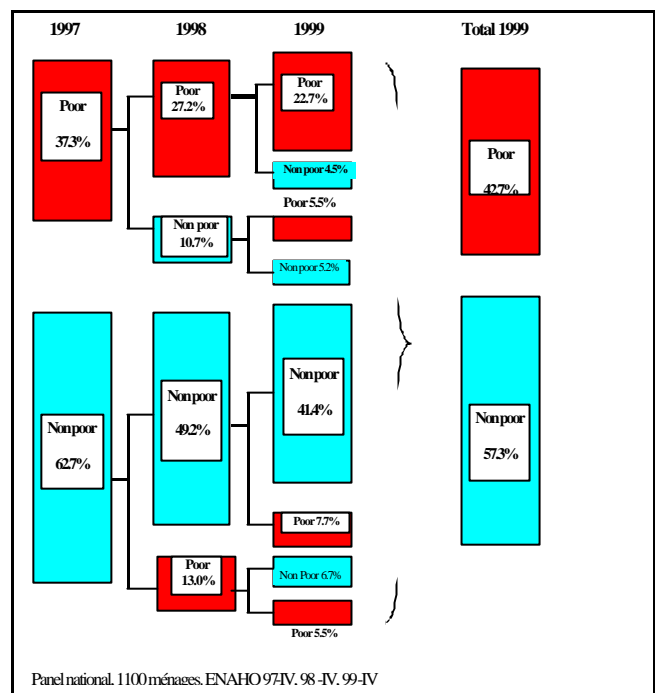
In order to test the sensitivity of our results to the definition of the poverty line and to errors in measuring spending, we first extended the poverty line to a fringe of 10% on either side of it and second, excluded transitions resulting from small variations in spending (less than 10%). The conclusions were practically the same, indicating the fact that flows to and from poverty were relatively clear-cut. This is partly related to the fact that the observed variations in living standards mainly resulted from changes in the size or make-up of households, the rate of participation of their members, the dependency ratio, etc., rather than variations in the rates of remuneration on the labour market.

The transition matrices can be used to calculate a poverty equilibrium rate (reached when flows into and out of poverty are equal). In the present case, the rate stands at 41.3%, relatively close to the rate observed in 1999. However, as Stevens, Bane, and Burgess and Popper in the United States and Jenkins in the United Kingdom have remarked, the probabilities of transition are not stable over time and remain highly dependent on the households' initial situation despite the observed mobility. Hence, examination of the transitions between 1998 and 1999 shows that the probabilities of escaping from poverty fell from 28% to 25%, whereas the probabilities of becoming poor rose from 20% to 22% (the equilibrium rate reaches 46.8%). Hence, the percentage of people escaping from poverty was slightly higher when seen from the angle of annual transitions (1997/98 and 1998/99) rather than from the period 1997/99. It therefore emerges that these two-year

transition matrices cannot be extrapolated to obtain a single long term poverty equilibrium rate.

The following diagram gives an idea of the complexity of poverty transition during the three years in question. In particular, it shows that approximately half the poor people who escaped from poverty in 1997 and 1998, returned to it in 1999. This reflects the vulnerability of a category of households which is unable to escape poverty on a permanent basis, and suggests the need to reconsider the interpretation of annual transitions in poverty.

Flows into and out of poverty, 1997-1999



## II. Permanent and transient poverty in Peru

The diagram above shows that nearly 23% of households experienced poverty in each of the years of the observed period. These households, that can be referred to as the hard core of « permanent poor », represent over half of the total poor observed each year, the other half being comprised of « transient poor »<sup>7</sup>. Over the whole period, 41% of households had never experienced poverty, whereas 36% (i.e. the balance) went between poverty and non poverty. This means that poverty is a far wider-reaching phenomenon, given that six out of ten Peruvians were touched by poverty at least once during the period 1997-1999.

This mobility between poverty and non poverty is not specific to the Peruvian population. In its latest report on poverty, the World Bank gives comparable figures for other developing countries. Transient poverty

<sup>7</sup> The transient poor represent respectively 39%, 42% and 47% of the total poor in 1997, 1998 and 1999.

represented a share ranging from 47% of the total poor in the Ivory Coast to 85% in Zimbabwe (see table below).

Permanent poverty and transient poverty				
Country	Period	Permanent Poor	Occasional Poor	Never Poor
<i>Peru</i>	1997-99	22.7	35.9	41.4
<i>China</i>	1985-90	6.2	47.8	46.0
<i>Ivory Coast</i>	1987-88	25.0	22.0	53.0
<i>Ethiopia</i>	1994-97	24.8	30.1	45.1
<i>Pakistan</i>	1986-91	3.0	55.3	41.7
<i>Russian Federation</i>	1992-93	12.6	30.2	57.2
<i>South Africa</i>	1993-98	22.7	31.5	45.8
<i>Zimbabwe</i>	1992/93-1995/96	10.6	59.6	29.8

Source: Attacking Poverty, World Bank 2000, p.21 and our estimates for Peru.

Jalan and Ravallion (1998) have recently proposed a new indicator distinguishing between chronic and temporary poverty. The chronically poor are defined as people whose long term per capita consumption (or permanent income, according to the life cycle theory concept) is below the poverty line. The difference between observed poverty and permanent poverty provides us with the transient share of poverty, a breakdown that is immediately available for additively separable indicators such as those in the FGT family. The chronic share is therefore the value of the poverty indicator when spending does not fluctuate close to its average rate over a period of time<sup>8</sup>. Vulnerable populations suffer greater fluctuations in their income and, as they do not have sufficient savings, they pass on such shocks in their levels of spending. Hence, for example, a household may be deemed « permanently » poor over a period of 5 years although it was poor for one year only, if spending for that year was well below the poverty line and thus pulled the average spending over five years down to below the poverty line.

If we take average household spending for the period 1997-99, it can be seen that 35.8% of the population was below the poverty line, i.e. a higher percentage than the number of poor individuals in each year. In other words, around 12% of vulnerable households suffered from a drop in their spending that was sufficiently large to bring their average spending for the period 1997-99 to below the poverty line.

The accent here is less on the volatility of income, as lean years can be compensated for by good years. From this angle, poverty appears to be partly a problem of uninsured or unanticipated risk. In certain cases this vulnerability can lead households into poverty traps, for

instance when the children are taken out of school or when medical care is not given.

### III. Profile of poverty transitions

In the same way, it is possible to compile static poverty profiles, showing the incidence of poverty according to households' demographical and economic characteristics and also to build a profile of the vulnerable population (i.e. people who fall into or escape poverty), the chronically poor and those that are never in a state of poverty. Of course, this exercise particularly serves to characterise these different populations and not to establish relations of causality between the population's characteristics and the different poverty transitions (these are, to a certain extent, unconditional risks). The concomitant effects of the different variables will be examined later, in the presentation of the main results of the econometric estimates.

These profiles provide an outline of typical households. For instance, the profile of households in a state of permanent poverty corresponds to a relatively large household with a low number of working members and hence a quite high dependency level. The head of household lives in the sierra, is of average age, cohabits and has not received an education (on a national level, only 8% of heads of households have not been to school whereas the figure reaches 20% amongst the chronically poor). Vulnerable households are characterised by the young age of their head, by living in a rural area and by only having reached a primary level of education. The benefit of a secondary education prevents people from becoming chronically poor but is not sufficient to allow them to avoid episodes of poverty. A particularly significant fact is that there does not seem to be any relationship between the risk of poverty and the fact that the head of household is a woman. On the contrary, a higher percentage of such households manages to escape from poverty than for households where the head is a man. Households that are sheltered from poverty are households residing in the large coastal cities, with a less than average size, a high rate of participation in the labour market and whose heads are employers or salaried executives with a higher level of education.

### IV. Determining factors of poverty transitions

We attempted to estimate the determining factors of the different forms of poverty transition (falling into poverty, escaping from poverty, chronic poverty, never in poverty) using a non ordered multinomial logit model. This model is designed to estimate the impact of the different explicative variables on each of the forms of poverty transition. For the explicative variables, we took into account the usual socio-demographical characteristics of the members of the households (type of household, age, sex, level of education, socio-professional category, etc.), but also spatial variables, concerning the provision of public infrastructures (number of schools, health centres, quantity and quality of road infrastructures) and economic density (number of

<sup>8</sup> A similar approach was adopted by Fields (1999) to study the relation between economic mobility and long term inequalities. As far as equity is concerned, a society with the same degree of inequality but with greater mobility can be considered as « fairer » than another with a lesser degree of mobility.

markets, shops, etc.) taken from local population censuses. Some of the most significant results were the impact of the size of the household and the absence of education on chronic poverty; the confirmation that the sex of the head of household had no specific impact; the positive impact of public services (health, education) on the probability of escaping poverty, whereas the economic density appeared to affect households that were always poor. Households which did not possess assets appeared to have a greater probability of living in poverty than those which did. Even more so, possession of productive assets (sewing machine, transport vehicle) was related in a negative manner to the probability of being chronically poor, but did not prevent (or favour) movements into or out of poverty.

### ***V. Poverty transitions and poverty reduction policies***

A large number of developing countries have introduced various programmes to fight against poverty, either through direct transfers to bring short term relief for the social cost of reforms or through longer term programmes designed to improve poor people's human capital. However, pro-poor policies, particularly those targeting the chronically poor, require a dynamic view of poverty.

An approach in terms of the dynamics of poverty transition has a dual impact, first on the diagnosis of who the poor people are and second, in terms of the design of suitable programmes to fight against the different forms of poverty. Static analyses identify the poor at a particular point in time and introduce sustainable aid measures, usually defined in terms of transfers towards the poor people identified in this way. Given the high percentage of movements in and out of poverty, these programmes contain a relatively high error rate if the aim of the actions is to target the permanently poor.

#### **Targeting indicators for policies to fight poverty**

<b>1998</b>	<i>Nonpoor in 1998</i>	<i>Poor in 1998</i>	<i>Total</i>
Did the household benefit from one of the social programmes (food aid, health, education) ?			
No	28.7	6.6	35.3
Yes	32.6	32.1	64.7
<b>Total</b>	<b>61.3</b>	<b>38.7</b>	<b>100.0</b>

Note : households in panel

In the case of Peru, the poverty reduction programmes appear to target the poor relatively well, given that less than one out of every five poor persons is excluded from one of the three types of programmes in question (food programmes, health, education). The massive nature of these programmes (65% of the population benefits from them in one form or another) also explains why there is a

high percentage of « leakage », as over half of the nonpoor population (53%) has benefited from one of the programmes. As many nonpoor households have benefited from the social programmes as poor ones. If it is assumed that the amounts of aid were equivalent, it would therefore have been possible to double the aids given to the poor if the programmes had been better targeted. The proportion of people in extreme poverty covered by the social programmes was maintained at 18% in 1998 and 1999, but different trends can be noted depending on the degree of poverty. The rate of exclusion of those in extreme poverty fell from 12% to 8%, whereas it rose from 17% to 25% for poor who were not in extreme poverty. This diverse deterioration was due to a reduction in the general cover of health programmes, accompanied by a loss of effective targeting in health and education programmes (from 42% in 1998 to 31% in 1999 for health programmes and from 53% to 47% for education). It should be noted that targeting errors are more significant for the health and education programmes than for those designed for food programmes which give priority to people in extreme poverty.

The targeting of programmes designed to fight poverty in Peru is also relatively effective, given that almost nine out of ten permanent poor are able to benefit from them. The means of targeting (poverty maps identifying underprivileged areas) and the concentration of the permanently poor in rural areas explain these good results. Three-quarters of the vulnerable populations are touched by the programmes to fight poverty. There is therefore very little exclusion even if poverty transitions are taken into account. However, people who are never poor no doubt absorb a substantial share of aid, given that they represent 40% of total beneficiaries. This opens the possibility of a redistribution of the resources of the social programmes in a view to increasing aid to vulnerable households and permanently poor people.

#### ***Transitions 1998-99***

	<i>Fall into poverty</i>	<i>Escape from poverty</i>	<i>Always poor</i>	<i>Never poor</i>	<i>Total</i>
Did the household benefit from one of the social programmes in 1998 (food aid, health, education) ?					
<b>No</b>	2.3	2.2	3.6	24.9	33
<b>Yes</b>	7.5	7.7	25.2	26.7	67
<b>Total</b>	<b>9.8</b>	<b>9.8</b>	<b>28.8</b>	<b>51.6</b>	<b>100</b>

Source: Our estimates using the ENAHO surveys 1998-IV and 1999-IV.

An examination of the characteristics and determining factors of transitions between poverty and non poverty also provides a new type of policy to fight against poverty. By focusing attention on the static indicators,

the public authorities were encouraged to implement a policy based on transfers of resources to the poor. However, by examining the characteristics of the chronically poor and transient poor, a new type of policy associating transfers with the determining factors for movements in and out of poverty could have more lasting effects in reducing poverty. This would be quite apart from the reduction of targeting errors (« filtering » and « exclusion ») due to a high degree of mobility between poverty and non poverty.

We now know that the factors associated with permanent poverty and transient poverty are not always the same, as we have demonstrated in the case of Peru<sup>9</sup>. This implies that when designing programmes to fight against poverty, it is possible to distinguish not only between the short term aspects (food programmes, direct transfers) and those that concern the medium and long term, but that it is now possible to decide more precisely which factors should be emphasised. The recent trend is to bring into play the positive effects of interactions between the different poverty programmes<sup>10</sup>.

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<sup>9</sup> Non nation-wide studies in Pakistan come to the same conclusions, whereas one concerning southern China does not show any specific factors to explain permanent or transient poverty. See works by Jalan and Ravallion, plus Baulch and McCulloch.

<sup>10</sup> See Kanbur and Squire (1999).