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Integrated strategy approach for poverty alleviation in developing countries

Abstract

In this paper we attempt to show that there are different ways of defining and measuring poverty. Then we go on to analyse the theory of poverty before addressing the important issue of income distribution during the development process. Finally the issue of anti-poverty policies is addressed to this end the following policy turgets are set.

i. increase the quantity of assets owned by the poor.
ii. increase the volume of their market rules.
iii. increase the prices of the services they sell.

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ملخص

تتعرض هذه الورقة إلى استراتجية شاملة للتعرف و قياس ظاهرة الفقر. فبعد استعراض النظريات المختلفة لهذه الظاهرة حاولنا تحليل توزيع الدخل خلال صيرورة التنمية بتحليل سياسات محاربة الفقر و المتمثلة في:

ا - الرفع من كمية الوصول التي يمتلكها الفقراء.
ب - الرفع في حجم مبيعاتهم.
ج - الرفع في سعر الخدمات التي يقدمها الفقراء.

There are different ways of defining and measuring "poverty", even if we restrict ourselves to the conventional view of poverty as a lack of commodity command. One method of implementing this is to stipulate a consumption bundle considered adequate for basic consumption needs and then to estimate its cost for each of the subgroup being compared. This is the approach of Rowntree (1901) in his seminal study of poverty in York in 1899. In has been followed since in a number of studies for both industrial and developing countries, such as Thomas's work (1980). We call this the cost of-basic-needs (CBN) method of setting poverty lines.

In practice, the idea of respecting consumer choice has still influenced the interpretation of the CBN approach in important ways. The criterion for defining poverty is seldom that one attains too little of each basic need. Rather, it is that one can not afford the cost of a given vector of basic needs. Poverty is usually measured by comparing actual expenditure to the CBN.

However implementation of the CBN method poses a certain number of problems. For instance a degree of arbitrariness in defining basic needs is inevitable although it is not obvious that consistent poverty ranking will be affected much by the definition of basic needs. Another issue is that the cross-sectional price data are incomplete or unreliable.

A widely used method of setting poverty lines tries to avoid these problems while still anchoring the poverty line to the most basic consumption need: food-energy requirements. The main alternative to the CBN method is the food-energy-intake (FEI) method. This method proceeds by finding the consumption expenditure or income levels at which a person's typical food energy intake is just sufficient to meet a predetermined food energy intake. This method also aims to measure consumption poverty rather than undernutrition. The FEI method, like the CBN method aims to find a monetary value of the poverty line at which basic needs are more or less satisfied.

In 1955, one billion people all over the world, lived below the poverty line. The Wold Bank suggests setting the standard at an annual per capita income of US $50 of 1960 purchasing power.

The approach to poverty alleviation that will be advocated in the following pages is mainly a productivity-oriented approach aims to raise the incomes of the poor by increasing both their productivity and their access to productivity-enhancing assets.

a. A transfer-oriented approach becomes less effective over time, since its benefits, even when transfer continues unabated, tend to be dissipated into higher prices and into other leakages.
b. It is beyond fiscal capacities of almost all developing countries.
c. It needs to be maintained forever.
d. It does not allow for a more differentiated approach to enable the poor to decide on their consumption patterns according to their own priorities as defined by their own circumstances and culture.

It goes without saying that to be adequate, policy must be rooted in the stylised facts' of the issue that it seeks to address.

The Theory of Poverty

In less developed countries poverty is overwhelmingly a rural phenomenon. In less developed countries, the great majority of poorest 40 percent of the population are engaged in agricultural activities. One can add that among the poorest of the poor one finds the landless and the nearly handless. It is worthwhile noting that this is more so in the case of most Arab countries as it will be shown later. In urban areas, the majority of the poor are unskilled labour in the service sectors. The unskilled labour is the major asset owned by the poor and what determines therefore the course of poverty is the state of demand for and the productivity of their labour.

The course of income distribution during the development process

Let us say that what happens to poverty over time is determined by the rate at which total income grows and by changes in the share of the poor in that income.

The poor lose from growth the share of income accruing to the poor declines more rapidly than overall income rises, otherwise they gain.

The initial stages of the development process during which a mostly agrarian economy starts industrialisation are almost marked by substantial increases in the inequality of income distribution. Subsequent stages of the development process are characterised by an increase in the share of population involved in the modern-high-income sector of the economy, an increase in the income gap between the high income and the low income sectors of the economy and increases in inequality within both the high-income and the low-incom sectors. The shift in population from the low to the high-income sectors constitutes a force working for reductions in inequality, on the other hand, the increases in mean income differentials among sectors and the widening of income dispersion within sectors are factors making for greater inequality.

It is more often argued that there is no automatic tendency for distribution of income to improve as countries move to the last of their transition to the statues of industrial countries. Whether inequality does or does not increase depends upon the policies that countries pursue. More particularly it depends upon the policies the extent to which the policies adopted narrow the income gap between the sectors, the extent to which they decrease, the dispersion of income within the modern sector, and the relative speed of absorption into the modern sector. Thus the plot of the income share accruing to the poorest as function of development can be either U-shaped, as hypothesised by Simon Kuznets (1955) from a comparison of a sample of developed with mid-to high income developing countries, or J-shaped, depending on the nature of development strategies chosen (Field 1980).

The trend in inequality during the past two decades are consistent with the stylised facts described above (Irma Adelman, (1984).

Gini coefficients for countries in the Middle-East and North Africa area are in the 40s, although the fact that most of the coefficients are based on expenditure rather than on income may imply that they somewhat understate actual income inequality (see table I). Indeed until the early 1990s state subsidies helped keep poverty low by reducing the cost of consumption goods (subsidies were 3,4 percent of GDP in Algeria, 6,5 percent in Egypt) and health and education. These subsidies were designed more to distribute broadly the rents accruing to government than to reduce poverty. Now that the budgets are tighter, the instruments for poverty alleviation in the North-Africa and Middle-East area need to be more narrowly focused.

Table I: Income inequality in MENA Area

Economy	Num of observ.	Average Gini	Min Gini	Max Gini	Stand. Deviat.	First Year	Sec. Year	Ratio of top quint. Shar of income/ bottom quint. share
Middle-East and N-Africa	120	40.77	32	45.45	3.07	1959	1991	7.14
Algeria	1	38.73	38.73	38.73	/	1988	1988	6.85
Egypt	4	38	32	42	4.32	1959	1991	4.72
Jordan	3	39.19	36.10	40.80	2.67	1980	1991	7.39
Moroco	2	39.20	39.19	39.20	0.01	1984	1991	7.03
Tunisia	5	42.51	40.24	44.00	1.41	1965	1990	8.25

Source : Klaus Deininger and Lyn Squire: "New Data Set Measuring Income Inequality". The World Bank Econome Review: 10.1996

In the long term the most effective instruments are labour-intensive growth and education policies. Targeted interventions also have a place, whether through means testing or more preferably self-selecting, such as low wage works programs or subsidies on inferior goods. Tunisia's experience illustrated nicely the long-term beneficits of an active education policy-average schooling per worker and GDP per capita are about twice Morroco's and the beneficial effects of good targeting public spending was cut without pushing more people into poverty. Direct action to help the vulnerable makes sense in dealing with child labour and other cases where the market may produce undesirable results such as discrimination against women, children or other groups. Desirable actions may include support to poor families without a wager-earner, regulations to deal with the worst abuses and other protective measures to improve for instance the conditions of children who work.

Poverty is now to a large extent, as mentioned above, a rural phenomenon. In Egypt. Morocco and Tunisia some 60 to 70 percent of the poor live in rural areas.

Yet policies are still often biased against agriculture. Infrastructure investissements are most often concentrated in urban areas.

It has been estimated that agricultural terms of trade would have been 45 percent higher in Egypt and 35 percent higher in Morocco in the mid-1980s had the policy regime been neutral. It is worthwhile noting that there has been some progress recently in correcting this bias, especially in Algeria, Egypt and Tunisia. As food prices rise following the Uruguay Round agreements, it will be crucial to pass the increases on to peasants and farmers.

As macroeconomic adjustments take hold and realistic exchange rates become the norm, attention must go to the distortions generated by trade regime and to inefficiencies within the rural sectors. Within agriculture, subsidies on water, fertilisers and credits have more often than not favoured large farms over small ones, which are usually, much more productive and more labour intensive. The strategy had high efficiency costs and hurt the poor.

Efforts to reduce developing countries poverty therefore must focus both on more participatory growth process within developing countries and on accelerating development that affect the poor. Structural change associated with development give rise to process that increases the absorption of some labour, displace labour and other factors and generated geographic and sectoral reallocation of employment of labour and other factors how all these process of absorption, displacement and labor-force distribution net out in their effect on the poor depends upon the institutional structure of factor and product markets. To be sure segmentation of markets leaves some areas and sectors with labour gluts and others with shortages. Even without market segmentation, socially induced rigidities, the lack of relevant skills or the absence of capital and information may in the short term prevent the poor from escaping the contractionary influences to which they are exposed and finding.

Now if one takes the initial distribution of assets and the structure of institutions as given the major determinant of the cause of income inequality and poverty becomes the overall development strategy adopted. The development strategy defines the basic thrust of economic policy. It combines a definition of policy target (eg. export promotion) with an identification of policy instruments (eg. devaluation or export subsidies). Each strategy is associated with a configuration of the structure of production and a particular pattern of factor use.

It is the development strategy that determines the pretax, pre-transfer (i.e. the primary) distribution of income. It governs the speed of absorption of labour into the modern sector, the extent of the income gap that develops between the modern and the traditional sectors, and the degree of income inequality within sectors.

The primary policy for helping absorption into the modern sectors is to develop the growth rates the poor countries.

Policies and programs to reduce income inequality within developing countries

How the poor fare during the course of economic development depends upon how the distribution of assets, the institutions for asset accumulation and the institutions for access to markets by the poor all interact with the development strategies chosen.

Chief among assets whole distribution has a significant impact on income distribution and poverty are land and education. Poverty is greatest where land is divided into many small holdings and where there is a marked concentration of landownership coupled with cultivation by either landless labour or subsistence tenants (Derbal 1995). In contrast where commercial farm owners supply most of their own labour, the rural distribution of income is in general more equal and productivity increases may well improve the distribution of income. Concentration of land ownership under circumstances in which small cultivators and landless workers lack altermative employment opportunities permits large landowners pay low wages and to charge high rents.

As far as education is concerned increases in education spread the ownership of human capital and reduce inequalities in wage income. Increases in education also increase the rate of rural-urban migration there by rising the share of population that is employed in the higher income sector and improving the agricultural terms of trade by raising urban demand for food white reducing its supply.

Institution in factor and product markets are important determinants of how labour-intensive modes of expansion operate in those sectors. The labour intensity of growth can principle be modified either by expanding the share of labour-intensive products and sectors in total employment or by increasing the labour intensity of production of a given mix of outputs (i.e. by appropriate technology). It is quite clear that the first process seems to be the more effective. The conventional wisdom states that artificial shifts away from best practice technology for a given factor mix reduce the amount of output obtained from a given amount of resources. This approach is there fore less effective than shifting the mix of output toward sectors requiring a mix of resources that corresponds more closely to the basic factor endowment of the labour-abundant economies of the developing countries.

Once the choice of development strategy has gelled, policies and programs aimed at changing the primary distribution of income can do very little indeed.

This is true for both transfer programs and poverty-oriented projects. The size distribution of income tends to be quite stable around the trend established by the basic choice of development strategy. Following any intervention, even one sustained over time, the size and distribution of income tend to go back to the pre-intervention distribution.

Only large, well-designed packages of anti-poverty policies can bring about a change in the primary distribution of income.

Types of anti-poverty policies

If we consider among the "assets" of the poor their personal capacities trained or not, their incomes consist of the value of services of the assets owned by them that are sold on the market. In a very basic sense then, the poverty issue is one of too small a quantity of assets, too low a volume of market sales and/or too low market price.

Poverty-focused approaches to policy therefore consist of measures to accomplish one or more of the following policy targets:

a. increase the quantity of assets owned by the poor.
b. increase the volume of their market sales and.
c. Increase the prices of the services they sell.

The general approaches that have been advocated to achieve a non-immesirising growth price can be grouped under these tree headings.

The quantity of assets owned by the poor can be increased either by redistributing assets to them (eg. through land reforms) or by creating institutions for their preferential access to opportunities for accumulation of further assets (eg. through subsidised credits or wider access to primary education). In a famous world Bank/Sussex study, Hollis Chenry emphasised the second strategy, i.e. of concentrating assets increments on the poor-primarily on grounds of political feasibility.

Chenery (1977) made some recommendations. In an approach he calls "redistribution with growth". He advocates differentially allocating a larger share of the proceeds of economic growth to asset accumulation by the poor. If for instance, the annual growth rate is 9 percent, one third of the growth (or 3 percent of CNP) should be earmarked to investment in irrigation facilities for land owned poor people, or investment in credit programmes or input subsidies aimed at subsistence farmers.

Demand-generating strategy

Development strategies that increase the demand for unskilled labour, coupled with institutions that enhance labour mobility and access to jobs by the poor, will undoubtedly bring some benefits to the poor, this is so because the poor's assets consist of unskilled labour.

Two strategies look promising along these lines:

a. reliance on export-oriented growth in labour-intensive manufactures and
b. reliance on agricultural-development led industrialisation.

The most labour-intensive sectors in any economy are agriculture, light manufacturing and some types of services, especially construction. It is agreed that labour -intensive manufacturing is a high- productivity sector indeveloping countries. That is albeit output per worker is lower than it would be for more capital-intensive process of producting the same products, it is generally higher than in most of agriculture and labour-intensive services. Policies that focus on labour-intensive growth in different sectors are therefore quite different depending on which sectors they stress.

Let us make it clear that strategies that emphasise employment growth in manufacturing must focus primarily on generating demand for the output of the labour-intensive industries. In smaller countries, this implies that development will have to be oriented toward export markets. In larger countries, industrialisation may be oriented toward the domestic market, particularly when the distribution of income in not too skewed However, a strategy that is based on agriculture or on services can rely on existing demand but must concentrate on increasing the productivity of labour on these sectors.

To be sure there are no known technologies for increasing the productivity of merely intensive services. The choice, therefore, is between a labour intensive manufacturing strategy, on the one hand, and an agricultural strategy on the other. The choice between the two strategies depends upon two factors:

a. the size of the direct and indirect employment multipliers that result from expanding either labour-intensive manufacturing or agriculture, and
b. comparison of the cost and feasibility of increasing agricultural productivity.

The basic reasons for choosing the agricultural strategy as Mellor (1986) emphasises in an "agriculture -and employment-led" strategies are:

a. agriculture is much more labour intensive than even labour intensive manufacturing.
b. land-augmenting increases in agricultural productivity generate increases in demand for the labour of the landless.
c. increases in agricultural production is less import-intensive than an equivalent increase in manufacturing production.
d. increases in agricultural incomes generate high leakages into demand for labour-intensive manufactures on the consumption side and for manufactured inputs on the production side.
e. increases in agricultural output with good practice developing country technology are less capital-intensive than increases in manufacturing and
f. the agricultural infrastructure required to increase agricultural productivity such as roads, irrigation and drainage facilities has a high labour-output ratio.

It has to be emphasised, however, that both strategies need to have some institutional and asset-distribution prerequisites. For instance the agricultural strategy necessitates favourable tenure conditions and easy access to agricultural inputs namely: credits, fertilisers and irrigation water. Availability of education and easy access to jobs.

All these prerequisites are needed to improve agricultural yields.

Both strategies have some price policies implications. The trade-oriented strategy requires a price policy that does not discriminate against exports by means of an overvalued exchange rate and other means of a restrictive trade regime such as tariffs and quotas. The agricultural strategy requires a price policy allow farmers to gain some of the benefits from improvements in agricultural productivity.

The latter, therefore, implies a terms-of-trade policy that divides the income benefits of increased output more evenly between urban and rural dwellers.

Price-increasing policies

Price-increasing policies that work through factor markets must raise the wages of the poor. The labour-intensive growth strategies outlined above can therefore also be wage-increasing policies, since an increase in the demand for labour can either raise the amount of labour supplied or raise the wage rate or both indeed; but the effects of these policies on the wages of the poor depend critically on how the labour market works. If the barriers to access to jobs are easy for the poor and the level of both unemployment and underemployment is low, then an increase in the demand for labour will raise the wage rate of the poor.

However, if there are institutional or economic barriers to an increase of labour supply from the poor, then an increase in demand for labour can raise the wage rate of the non-poor while leaving the wage rate of the poor largely unchanged and having only a second-round effect on the employment of the poor.

Indeed the institutional organisation of the labour market is of great importance as for demand-increasing strategies on the price of labour.

Let us turn, now, to price-increasing policies that work through commodity markets, they must raise the prices of the goods produced with the labour of the poor. Since most of the poor live in rural areas, an increase in the relative price of agricultural output, or put an other way an increase in the agricultural terms-of-trade will tend to favour the poor. This is true even though such an increase will tend to reduce the real wages of the urban poor. An increase in the agricultural terms-of-trade will also tend to favour the landless workers, even though they are not net buyers of agricultural products, in increasing the demand for their labour. This is so because, given the usual employment elasticities in developing-country agriculture, the employment effect raises the entire income of landless labour more or less in proportion to the increase in agricultural prices, whereas the food-price effect reduces only that fraction of their income that the landless spend on purchased food.

Productivity-increasing policies

Another way to increase the price of the major asset owned by the poor -their labour- is to increase its productivity. This can be achieved through:

a. investing in human capital so as to upgrade the quality of labour,
b. increasing the amount of complementary assets employed by the poor such as land or capital,
c. introducing productivity-enhancing technical change like land-intensive innovations in agriculture.

It should be noted that investments in the nutrition, education, and health of the poor, besides increasing their welfare directly, they also enhance their capacity for productive labour. More often than not, the market wage that the poor are paid is not even sufficient to allow them to purchase enough food to make for the calories used in earning that wage (Roders 1976). Such low wage labour therefore exposes the poor to higher morbidity and mortality and to higher health hazards than if they had remained unemployed. It is not therefore astonishing that the productivity of the poor if they are employed remains low. Hence nutrition supplements or higher wages can raise the productivity of the poor.

Investments in the education of the poor-through adult literacy campaigns and increase in the availability of primary education in rural areas and in shanty towns where generally the poor live-spread human capital among the population.

Such a policy gives the necessary qualification to the poor for more productive jobs and narrow the distribution of wage income. Investments in the education of the poor increase also the rate of rural-urban migration, thereby providing the poor with access to higher-income employment opportunities and raising the agricultural terms of trade. All scholars agree that the primary education of girls helps to reduce the population growth.

The primary causes of rural poverty are the small pieces of land and the low demand for hired labour by large landowners. Hence among the most effective productivity improvements for increasing the rural poor incomes, we may suggest land-augmenting investments and innovations. For instance, irrigation facilities may allow multiple cropping, and improved seeds and fertilisers can boost the yield per acre.

It should be noted, however, that at least in the early stages of the diffusion of such innovations, productivity-increasing innovations tend to have two opposite effects on the rural poor:

a. they increase the demand for wage labour, since the land-augmenting innovations are all quite labour-intensive, but
b. they reduce the price of agricultural products since the increase of output from the larger farmers gives rise to an increase in overall supply knowing that the demand for such products is inelastic in general. Hence big landowners gain from such improvements, since they increase their sales, but small farmers tend to loose.

CONCLUSION

Poverty is mainly a rural phenomenon in North-African countries.

To attack the high incidence of poverty requires rapid and broadbased overall economic growth through an effective development policy, and a population and human resource policy which increase per capita growth. The best way to alleviate poverty lies in broadbased agricultural growth strategies that employ intensively the rural poor. This implies assured access of the poor to productive factors of production such as land, credit and fertilisers. Also, a favorable environment through the availability of complementary services such as roads, irrigation infrastructure, markets, and research are needed to accelerate growth.

Public expenditures need to be geared to providing basic social goods such as health care facilities, primarily school education so as to increase the qualification of the poor.

As for the transfers, although they have not been dealt with in this paper, they need to be effected to reach the very poor. Targeted interventions may be the best approach even though this may be very difficult to implement than general subsidies and tends to be highly intensive of detailed information and competent personnel.

An effective overall strategy to uproot poverty needs to be tailored to each country's particular initial conditions, resource base, size, asset distribution institutional structure, and social and political configurations as well as to the external conditions and trends that the country faces at any time.

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