

Middle-income Countries Policy Guide

Addressing chronic poverty in middle-income countries: getting close to zero

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**Chronic Poverty
Advisory Network**

Preface

The Chronic Poverty Advisory Network (CPAN) is producing a portfolio of sector and thematic policy guides to help policymakers and programme designers use evidence about chronic poverty and poverty dynamics in designing policies and programmes to:

- Contribute to addressing the causes of chronic poverty;
- Assist poor households to escape poverty;
- Prevent impoverishment.

The guides are aimed primarily at policymakers and practitioners in developing countries, working for government, civil society, the private sector and external development agencies. This includes organisations working directly with and for the poor. They are also intended for the intergovernmental, bilateral and non-governmental international agencies that support those domestic actors.

The number of middle-income countries has increased substantially in the last decade; some of these countries have also successfully reduced chronic poverty as part of their efforts to accelerate structural transformation and achieve a higher growth path. At the same time, it is in middle-income countries that the majority of the poor lives. Low- and middle-income countries alike can learn useful lessons from the experience of middle-income countries that have reduced chronic poverty. The aim of this guide is to identify these lessons and show ways in which they can be replicated. In this sense, this guide will be of interest for a wide range of policymakers and programme designers and implementers who are working to reduce chronic poverty.

This guide identifies the MICs that have most successfully addressed chronic poverty, as well as the structural factors (chapter 2), the political trajectories (chapter 2) and the policies (chapters 3 and 4) that have contributed to their good performance. It also develops a categorisation of MICs by nature of their structural transformation, or lack thereof (chapter 1), emphasising the policy lessons that countries (including low-income countries) with similar characteristics can learn from the best performers in each category (chapter 5).

CPAN is happy to work with policymakers on the 'how to' question: please contact us if you would like to adapt the ideas in this guide to a particular context, or to get into more detail on how to design and implement or evaluate policies and programmes. You can reach us at chronicpoverty@odi.org.uk.

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Responsibility for the content rests entirely with the writers.

Picture credit: Rapid urbanization in Vietnam: workers take a break at a construction site in Ho Chi Minh City. Ho Chi Minh City, Vietnam. Photo: Tran Viet Duc / World Bank.

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List of Acronyms

ADB	Asian Development Bank
AGETIP	<i>Agence d'Exécution des Travaux d'Intérêt Public Contre le Sous-emploi</i> – a public works and employment agency in Senegal
BDH	<i>Bono de Desarrollo Humano</i> - Human Development Bond (Ecuador)
BISP	Benazir Income Support Programme (Pakistan)
CDPF	China Disabled Persons' Federation
CPRC	Chronic Poverty Research Centre
CCTs	Conditional cash transfers
ECD	Early Childhood Development
FDI	Foreign Direct Investment
FSSP	Female Secondary School Stipend Programme (Pakistan)
FUNDEF	<u>Fund for Maintenance and Development of the Fundamental Education and Valorization of Teaching</u> (Brazil)
GoV	Government of Viet Nam
HDI	Human Development Index
HDR	Human Development Report
IFAD	International Fund for Agricultural Development
IFIs	International Finance Institution
IFPRI	International Food Policy Research Institute
ILO	International Labour Organisation
IT	Information Technology
LDC	Least developed country
LMIC	Lower middle income country
MAS	<i>Movimiento al Socialismo-Instrumento Político por la Soberanía de los Pueblos</i> - The Movement for Socialism-Political Instrument for the Sovereignty of the Peoples (Bolivia)
MOLIS	Ministry of Labour, Invalids and Social Affairs (Viet Nam)
MST	Movement of Rural Landless Workers (Brazil)
NGO	Non-governmental organisation
PAICV	<i>Partido Africano da Independência de Cabo Verde</i> - The African Party of Independence of Cape Verde (Cape Verde)

PATTIRO	Center for Regional Studies and Information (Indonesian NGO)
PISA	Programme for International Student Assessment
PPP	Pakistan People's Party
PT	<i>Partido dos Trabalhadores</i> - Workers' Party (Brazil)
SAEB	<u><i>Sistema Nacional de Avaliação da Educação Básica</i></u> - <u>National Assessment of Basic Education</u>
SHG	Self-help groups
SMEs	Small and medium enterprises
SP	Social Protection
SRH	Sexual and reproductive health
SUS	<i>Sistema Unico de Saude</i> - the Unified Health System
TRT	Thai Rak Thai (Thailand)
TUFSP	The Universal Food Subsidies Program (Tunisia)
UMIC	Upper middle income country
UNDP	United Nations Development Programme
UNU-WIDER	United Nations University - World Institute for Development Economics Research
WDI	World Development Indicator

Summary

This Policy Guide is targeted to policymakers in middle- and lower-income Countries (MICs and LICs) who would like to be inspired and learn lessons from the countries that have reduced chronic poverty as part of their efforts to accelerate structural transformation and achieve a higher growth path. The Guide provides recommendations on how countries can replicate this achievement using lessons learnt from ten selected MICs with greatest poverty reduction record since 1990 (Cape Verde, Indonesia, Nicaragua, Pakistan, Senegal, Viet Nam, Brazil, China, Thailand and Tunisia). Evidence is analysed to identify the policies, strategies and political trajectories that have characterised their route out of extreme poverty.

Recommendations on how to promote pro-poorest economic development include emphasis on getting growth to: deliver quality as well as adequate quantities of employment; maintain a strong policy environment for agriculture; and address regional inequality where this is prominent. Social policies based on an integrated approach to human development (including education, health and social protection) produce powerful synergies for addressing chronic poverty. In education there is a need to provide access to pre- and post-primary education to the poorest households and create links with the labour market. In health, attempts to reach universal coverage need to focus especially on the hardest to reach. Social protection helps to create demand for both services among people who would otherwise be easily discouraged, as well as reducing their vulnerability.

The Guide examines the factors that shape policymaking and pro-poor public policy in particular. The experience of MICs shows that the successful promotion of pro-poor reforms requires changes in existing power structures and in the nature of state-society relations. Institutional and administrative capacities need to be strong to achieve integrated, effective and inclusive policies and programmes, especially in social protection, local justice and local administration. Civil society organisations can contribute to pro-poor policymaking providing services to the hard to reach and developing alliances with the state and private actors to develop reforms on difficult social and cultural issues which stand in the way of eradicating extreme poverty.

Successful MICs have followed two main political trajectories. The first is a 'maturing democracy' trajectory found in Latin America and Cape Verde, where governments with a base in social movements have introduced redistributive and pro-poor measures while maintaining conditions for economic growth. The second is an 'elite-driven' trajectory (found in many Asian countries), characterised by an inclusive, growth-based approach where concessions are made to human development as a requirement of economic growth.

Recommendations on how countries can find their route out of chronic poverty are finally provided by country learning group, according to a classification based on countries' degrees of structural transformation. Policy priorities for each typology of countries are identified. For example, highly urbanized countries with medium dependency ratios (like Brazil) share top priorities in education, skills training and social development policies. Those more reliant on agriculture should focus on skills upgrading, agricultural value chain development and regional development policies.

The Guide concludes with recommendations for national donors.

1. Chronic poverty in middle-income countries

Middle-income countries (MICs) are home to the majority of the world's extremely poor people. However, some have also successfully tackled chronic poverty, and have been a source of inspiration for developing countries as a whole. This Policy Guide investigates what can be learned from MICs that have been successful in addressing chronic (or severe), as well as extreme poverty in general – in other words, successful in getting 'close to zero' extreme poverty.

Recently, there have been several similar attempts to distil lessons from success. For example, the 2013 *Human Development Report* has analysed the performance of 40 emerging developing countries (Box 1). A recent UNU-WIDER publication, titled *Achieving Development Success: Strategies and Lessons from the Developing World* (Fosu, 2013), investigated the successes of 17 countries across all regions of the developing world, focusing on economic growth and human development (Box 2). The key findings of these studies are consistent and reinforce the analysis offered in this guide.

Box 1: The rise of the South: human progress in a diverse world

New economic and political powers are emerging in the Global South. Besides Brazil, China, and India, the report identifies the following high achievers: Bangladesh, Chile, Ghana, Indonesia, Malaysia, Mauritius, Mexico, South Korea, Thailand, Tunisia, Turkey, Uganda and Viet Nam. The report identifies three factors that seem to be crucial for accelerating human development. Firstly, these countries have been governed by farsighted and pragmatic political leaderships that pursue people-centred policies and strengthen domestic institutions to produce social cohesion. Secondly, countries were able to reap the benefits of international trade through opening up to the world economy gradually and in a way that was attuned to local conditions. Thirdly, integration with the world economy was accompanied by smart public investments, not only in infrastructure, but also in health and education.

What are the lessons learned for tackling chronic poverty? The report points out that balancing economic and social policy is pivotal. On the one hand, it ensures socio-political stability, a precondition for long-term economic growth. On the other hand, it also promotes poverty reduction. A good balance between economic and social policies induces a virtuous circle where growth and human development reinforce each other, spinning off equality, inclusion, and rising incomes. This is particularly true for education, especially education for girls. Education enables the chronic poor to find better jobs, engage in community life and make demands on government for better basic services. For example, a mother's education level is a much stronger predictor of child survival than is household income.

Source: Bulla (2013) and UNDP (2013).

This Guide identifies the MICs that have most successfully addressed chronic poverty, as well as the structural factors (chapter 2), the political trajectories (chapter 2) and the policies (chapters 3 and 4) that have contributed to their good performance. It also develops a categorisation of MICs by nature of their structural transformation, or lack thereof (chapter 1), emphasising the policy lessons that countries (including low-income countries) with similar characteristics can learn from the best performers in each category (chapter 5).

Box 2: Achieving development success: strategies and lessons from the developing world

Development strategies are largely time and location-specific, so countries' experiences are not necessarily replicable. Yet, sufficient commonalities exist (currently or historically) for successful countries to provide useful lessons to other less successful countries.

(i) Successful countries have adopted both heterodox economic policies and orthodox macroeconomic policies, either in sequence or in combination with each other. The former have enabled economic diversification and capacity building, while the latter have ensured stability and growth sustainability.

(ii) Countries that have managed to diversify their exports away from primary products have done so by relying on foreign direct investment and/or on domestic resource mobilization, raising domestic saving and tax revenue capacity. Countries such as Bahrain, Botswana, Oman, have successfully financed their development through their natural resource revenues.

(iii) Ability to manage social diversity is a crucial feature of development, as it is critical for creating and maintaining peace and security. An example of successful strategy is found in China, which exempted ethnic minorities in autonomous regions from the rigours of its one-child policy.

(iv) Institutions and governance play a fundamental role in development successes. In cases of countries with good initial economic conditions (e.g. Botswana and Mauritius), the existence of effective democratic and participatory institutions have enabled rapid economic growth and political stability. The process of state formation is crucial for developing checks and balances on politicians, dispute resolution mechanisms and overall good governance.

(v) Both high institutional quality and economic growth depend on human development. For example, in Tunisia early and strong investment in education and health have laid the foundation for sustained economic growth and progress towards gender equality.

(vi) Human development, however, is not enough. Governments also need to ensure that the physical and institutional infrastructure exists to attract investment and generate employment.

Source: Fosu (ed) 2013

1.1 Chronic poverty in MICs: the evidence

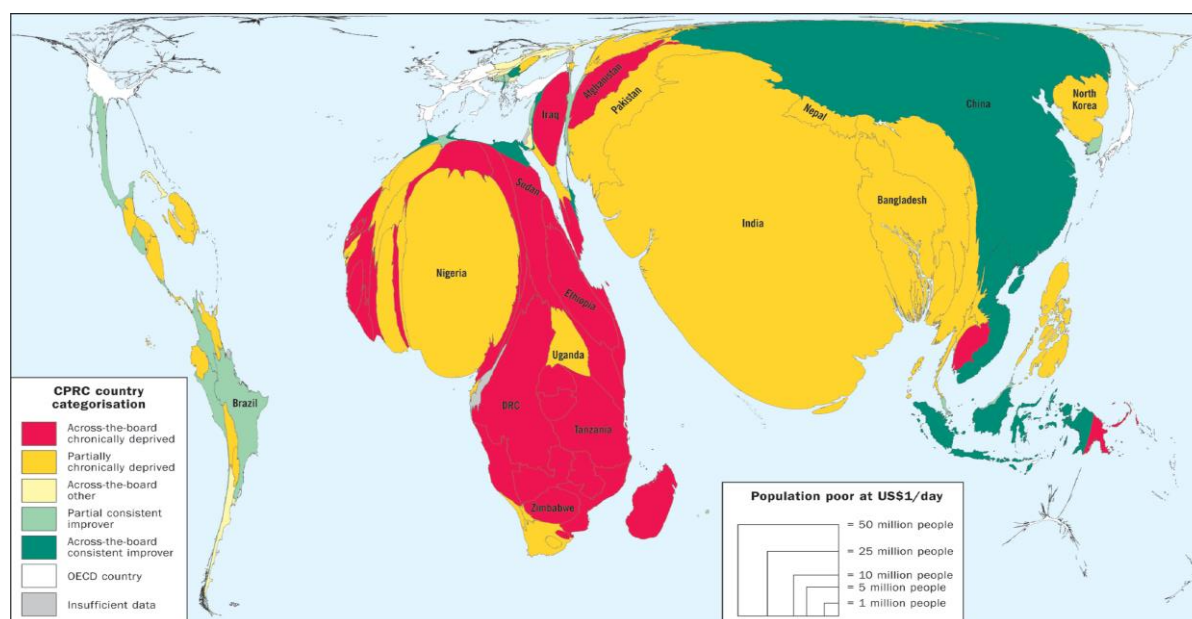
The majority of the world's poor, and the chronically poor among them, now live in MICs ([Sumner, 2012](#); [Kanbur, 2011](#)), and increasingly in fragile states - including MIC fragile states ([Kharas & Rogerson, 2012](#)). Despite the fact that economic growth and political stability have led to higher aggregate incomes, many MICs are becoming less equal ([OECD, 2011](#)) and the poorest have been lagging behind other wealth groups in human development progress ([Lenhardt and Shepherd, 2013](#); [Milanovic, 2012](#)). These trends threaten to jeopardize gains made by income growth, while also raising questions: what more can be done to harness overall progress so that the poorest can benefit? How can rising inequalities be curbed to prevent further marginalising disadvantaged groups as countries rise through the ranks of middle-income status?

Despite their aggregate national incomes having surpassed some predetermined threshold ([Ravallion, 2012](#)), MICs are not immune to chronic poverty, that is poverty that persists over many years (often over generations), across multiple dimensions and poverty that results in preventable death. There are over 200 million people living on less than US\$0.75 per day in MICs.¹ Figure 1 supports the finding that US\$1 per day poverty is predominantly found in populous MICs, particularly in South and East Asia, as well as Nigeria. It also shows that while 'across the board chronic deprivation' (measured by GDP per capita, child mortality, fertility and undernourishment) remains largely a low-income country (LIC) problem, 'partial chronic deprivation' is primarily of concern in

¹ Author's calculations based on PovcalNet income data and UN population statistics.

MICs. In fact, of the 44 countries ranked as 'partially chronically deprived' by the Chronic Poverty Research Centre (CPRC), 29 of them are now MICs (see Annex for full list).

Figure 1: Global distribution of chronic poverty: US \$1/day poverty and social welfare deprivations



Source: CPRC (2008)

Establishing the amount of time that households spend in poverty is difficult, since access to nationally representative panel studies is quite limited. Table 1 presents estimates for those countries that have collected such data. The data suggest that up to half of the poor in MICs are trapped in chronic poverty (i.e. they were found to be poor over at least two panel waves), with chronic poverty in rural areas in some cases surpassing the rate of national poverty.

The aim of this Policy Guide is to provide indications on the solutions to chronic poverty on the basis of the experience of successful MICs. For reasons of space, it does not discuss the causes and the characteristics of chronic poverty (the interested reader can find an updated analysis of these in Shepherd et al., 2014). However, before proceeding with the discussion it is worth reminding that the drivers of chronic poverty at national and sub-national levels are context specific. At the same time, there are some common tendencies. For example, chronic poverty tends to be geographically concentrated within countries, especially in remote rural areas. Spatial inequalities and remoteness lead to deprivations in service access, limit employment opportunities and are often associated with greater environmental risk.

Low educational attainments are everywhere associated with chronic poverty. Households headed by someone schooled beyond the primary level or with some technical training are more likely to escape poverty. Chronically poor households tend to be larger in size and the demographic transition among chronically poor people is often delayed. Child labour is a common coping strategy for chronically poor households.

Moreover, ethnic minorities, indigenous groups and socially marginalised populations make up a disproportionate number of the chronically poor, in both middle- and low-income countries. This is due to the fact that these groups of people face intersecting inequalities in the form of exclusion from services, health and education, labour markets, and political systems (Kabeer, 2010).

Table 1: Chronic poverty estimates from available panel data and national poverty line headcounts

Country (panel wave dates)	Chronically poor	Chronically poor (rural)	Below national poverty line (baseline)	Below national poverty line (recent wave)
Rural India (82-89)		23%		
Rural India (94-05)		18%	50.1% (94)	41.8% (05)
Indonesia (05-07)	3%		16.0% (05)	16.6% (07)
Mexico (01-06)		55.50%	53.6% (00)	42.7% (06)
Philippines (03-09)	11% (3 waves) 20% (2 waves)		24.9% (03)	26.5% (09)
Rural Sindh, Pakistan (88-05)		41%		
Rural Pakistan (01-10)		4% (3 waves) 17% (2 waves)		
Senegal (06-08)	46%	75%	50.8% (05)	
KwaZulu-Natal, South Africa (93-98)	22%			
KwaZulu-Natal, South Africa (98-04)	28%			
South Africa (NIDS) (08-11)	34%		23.0% (06)	
Viet Nam (02-06)	11.90%		28.9% (02)	16.0% (06)

Sources: see Annex 3

Box 3: Selected countries' experience with chronic poverty

South Africa: upper middle-income, 34% chronically poor

Despite being an upper middle-income country and having experienced an early period of prolonged economic growth, struggles to combat chronic poverty persist in South Africa. Analysis of a number of human development indicators show that South Africa has stagnated on health, hunger and gender equality outcomes (Shepherd and Scott, 2011).

South Africa has maintained high levels of inequality, and inequality has deepened. Among all middle-income countries with available income data, only Honduras and Bolivia record higher levels of income inequality today. A meagre 2.7% of national income is held by the bottom 20% of the population (World Bank, 2013). Racial divisions are deeply rooted in South Africa's history, but rural/urban and gender divisions further prevent poverty reduction efforts from bearing fruit. Inequality is both a cause and an effect of disparities in access to employment. A recent study found that 85% of

inequality in South Africa in 2008 could be explained by segmentations in the labour market (Leibbrandt et al., 2010).

Mexico: upper middle-income, 55.5% chronically poor (rural)

Mexico's poverty reduction efforts have produced mixed results, with some improvements in basic services and human development outcomes, but little achievement in raising the incomes of the poor (Walton & Lopez-Acevedo, 2005). Panel data collected in rural Mexico over 2001-2006 found that 55% of households were persistently poor (below the rural food poverty line)² over the five year period and another 35% were transiently poor (poor in at least one survey round) (Chiodi, 2009).

Mexico's extreme poverty is largely a rural phenomenon, where access to services and jobs is limited. It is also a result of social exclusion: it is estimated that 75% of the country's indigenous population lives below the poverty line (IFAD, 2012). Disparities across income groups and strong social divisions can act as barriers to investments for the poor since middle-class interests may come into conflict and require political compromise. To prevent middle-class discontent and maintain political support for the programme, Mexico's PROGRESA/Oportunidades social protection scheme for the poor was gradually extended to less marginalised groups (Desai, 2007).

Viet Nam: lower middle-income, 11.9% chronically poor

Considering where Viet Nam stood on poverty and human development in the 1990s, it has come a long way in tackling chronic poverty over a relatively short period of time. Sustained economic growth has been pivotal to this progress; of even greater importance have been the pro-poor components of this growth. An early focus on rural growth was adopted with equitable land distributions as a core component. This was complemented by the encouragement of on-farm diversification and the promotion of agricultural market linkages. Formal and non-formal job creation has also been achieved through government trade and investment strategies (World Bank, 2012).

Economic growth, even when pro-poor as in Viet Nam, needs to be accompanied by equitable human development investments to fully eliminate chronic poverty. Viet Nam has committed a smaller proportion of its budget to health and education than neighbours in South East Asia, and household expenditures for both remain high (UNDP, 2011). This has limited Viet Nam's ability to reduce chronic poverty. A further hindrance has been the fact that spatial and group-based inequalities have risen amidst this growth, further entrenching the exclusion of remote and marginalised communities.

1.2 Progress on chronic poverty since 1990

The category of MICs is highly heterogeneous: according to the World Bank's classification system, it is composed of 107 countries with aggregate annual per capita income ranging between \$1,025 and \$12,476; highly variable levels of financial and administrative capacities; and distinct political economy characteristics with associated national and sub-national agendas. These countries also present a heterogeneous record in chronic poverty reduction. The majority of MICs have seen some decline in the proportion of their populations living in severe poverty but rates of progress have varied across countries with very different characteristics and capacity levels.

For example, some countries that have only marginally reached the MIC threshold have achieved relatively significant progress on addressing chronic poverty and on human development outcomes, while some long standing upper middle-income MICs have failed to progress, as their baselines suggest they would have.

² Mexico's rural poverty line is equal to \$1.83/day based on 2004 prices (Tetreault, 2010).

A small number of countries with initially low levels of severe poverty did see their rates marginally increase, notably Paraguay, which rose from 0.27% to 2.16% between 1990 and 2008. For the most part these increases were relatively small though, with Peru, Morocco, Belize and Gabon reporting increases in severe poverty headcounts of less than 1%. Two MICs have seen their rates of severe poverty increase significantly. These are Nigeria, going from 36.86% of the population on less \$0.75 a day in 1990 to 42.06% of a much bigger population in 2008; and Zambia from 41.23% to 46.4%. This suggests that as countries come close to eliminating severe poverty, more entrenched chronic poverty becomes exposed, demanding distinct policy measures to address it.

Inability to address chronic poverty may contribute to explaining why very few MICs have graduated to the status of High Income Country (HIC), where absolute poverty is entirely eradicated through full (formal sector) employment and universal social policies. In the last 50 years, South Korea and Taiwan are the only non-oil exporting countries that have made the transition. Chile, for example, has joined the OECD but has a way to go to achieve HIC status. Most of those that did make the transition were southern or eastern European, or oil producing countries. As a result, there is talk of a 'MIC trap' – a situation in which MICs find it very hard to make that transition (Felipe, 2012).

Amidst rising aggregate incomes though, few countries have achieved these advances without accompanying rises in inequality, a known inhibitor of poverty reduction (Kwasi Fosu, 2011; Naschold, 2002). Among those countries with available income distribution data, we see that the share of income going to the bottom 20% has declined in half of all MICs. This has occurred in initially relatively equal Asian countries such as China and Indonesia, but also in some already highly unequal countries, such as Peru and Honduras. There are, however, some cases of progress towards more equitable income distributions, particularly in Latin America, with Brazil emerging as the exemplar positive example (Lopez-Calva and Lustig, 2010).

The majority of countries in this small sample have displayed significant gains in education, with Pakistan and Senegal leading with the greatest relative gains, though both from low baselines. China, Indonesia, Nicaragua and Thailand have also made significant gains in education, all of which have moved from low to medium human development on this indicator. Hunger alleviation is another area where these countries have done well, five among them ranking in the top 20 of MICs who have decreased their global hunger index scores (Brazil, China, Nicaragua, Thailand and Viet Nam). The positive outcome was achieved thanks to well-functioning agricultural systems and policies to improve distribution.

Strides in reducing gender inequality have occurred in initially highly unequal countries. Tunisia has had the greatest success, having reduced its gender inequality index from 0.42 in 1995 to 0.29 in 2011. Pakistan has made progress as well, though from a much more unequal starting point (0.77 to 0.57). China, Nicaragua and Viet Nam also show relative progress towards gender equity. The area of human development that has seen the smallest gains among these progress countries in the last 20 years is health. Only Nicaragua, Cape Verde and Viet Nam have ranked highly among MICs on relative progress in this area. This can partly be explained by earlier gains for some countries in the case study sample, as in Brazil, China, Thailand and Tunisia. However the seemingly stalled progress in the latter group suggests that 'harder to reach' service delivery that would bring these countries up to HIC standards may be an area where the gains are yet to be made.

1.3 Methodology of the report

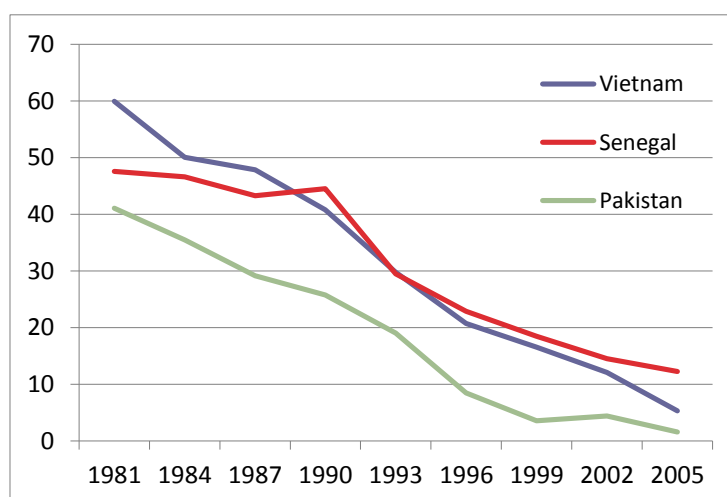
Case study selection

This Policy Guide provides recommendations on how countries can tackle chronic poverty on the grounds of lessons learnt from MICs that have successfully reduced poverty. In particular, the evidence comes from ten countries selected that have had the greatest relative decline in severe

poverty since 1990. In the absence of globally representative panel data, this Guide has used national aggregate indicators on income and human development in order to allow a comprehensive look at the range of middle-income countries and also to compare progress over time.³ The ten selected countries are Cape Verde, Indonesia, Nicaragua, Pakistan, Senegal, Viet Nam (all lower middle-income), Brazil, China, Thailand and Tunisia (upper middle-income). An explanation of how these countries were identified is below.

The first stage selection measured progress on the reduction of severe poverty headcounts using a \$0.75 poverty line (World Bank, PovcalNet),⁴ as this measure has been considered to be a reasonable (conservative) proxy for chronic poverty (McKay & Perge, 2011). This produced a list of 23 countries that had reduced their severe poverty headcounts by 70% relative to their 1990 baselines (see Annex 2). All MICs were then ranked according to five further indicators of progress, comparing relative change between 1990 and the most recently available estimate: share of income going to the bottom 20% (WDI), education human development index (HDI), health human development index (HDI), gender inequality index (HDI) and global hunger index (IFPRI). From the initial list of 23 countries that had reduced their numbers of severely poor, those that: (1) ranked in the top 20 on at least one of these indicators⁵ and those that (2) had a good evidence base to support their success⁶ formed the final list of 10 countries.

Figure 2: Severe poverty progress from high poverty headcount baseline



These countries can be classified in three distinct trajectories out of severe poverty (figures 2, 3 and 4): progress from high, moderate and low severe poverty headcount baselines. This illustration is significant for the purpose of this guide because it demonstrates that poverty eradication can be achieved even in countries with a high incidence of chronic poverty.

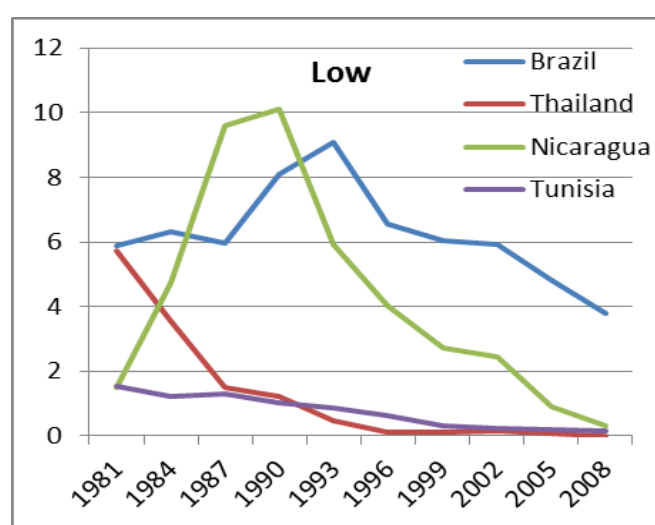
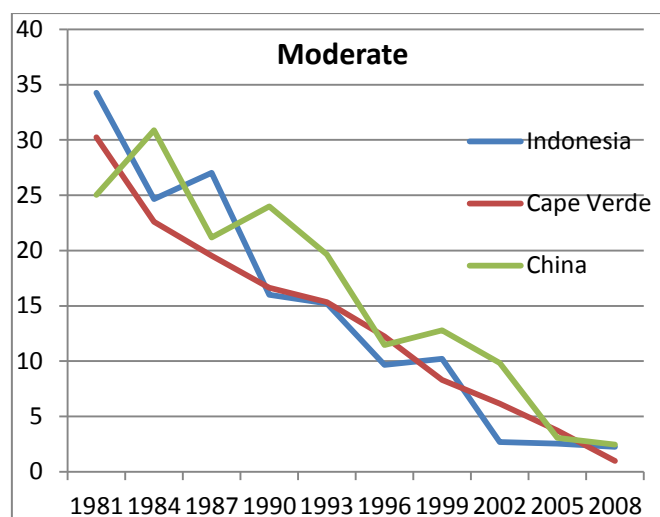
Figure 3 & 4: Severe poverty progress from moderate and low headcount baselines

³ Former USSR and Yugoslavia countries were excluded from this analysis since their historical and political economic positions are considered distinct from most other MICs.

⁴ Countries were excluded from this stage that did not report at least two income observations between 1990 and 2008. These were: American Samoa, Antigua and Barbuda, Bolivia, Bulgaria, Cameroon, Colombia, Cuba, Dominica, Grenada, Jamaica, Jordan, Kiribati, Lebanon, Libya, Malaysia Maldives, Marshall Islands, Mauritius, Mongolia, Palau, Samoa, Sao Tome and Principe, Seychelles, Solomon Islands, South Africa, South Sudan, St. Vincent and Grenadines, Tonga, Turkey, Tuvalu, Uzbekistan, Vanuatu.

⁵ Namibia, Sri Lanka, Argentina, Botswana and Uruguay were excluded for not having ranked on any additional indicator.

⁶ Dominican Republic and Guyana both ranked highly in human development outcomes but a scoping literature review found gaps in information to explain this progress.



A categorisation of MICs

As mentioned in the previous sections, the 107 countries that fall in the MICs categories are highly heterogeneous: they vary in average income per capita, macroeconomic performance, political regimes, record in chronic poverty reduction, etc. This demands the formulation of policy recommendations that are tailored to country contexts.

For this purpose, this Policy Guide adopts a classification of countries based on progress in selected structural characteristics. These characteristics (and the corresponding indicators) were chosen to reflect economic, social and spatial transformations that are relevant for the chronic poor. They are: the share of GDP from the agricultural sector, where most of the chronic poor are still employed; the population dependency ratio as a measure of the advancement of the demographic transition, which in turn is a critical facilitator of escaping poverty and avoiding impoverishment; the level of urbanisation, because strategic urbanisation and rural-urban migration are also ways out of poverty (CPRC, 2008).

On the grounds of these three indicators, a cluster analysis has been carried out to situate countries with shared characteristics in the current context (using WDI 2010 data).⁷ This leads to the identification of five categories of structural transformation, illustrated in Table 2.

The classification can be used to identify commonalities and differences between countries, as well as the policy priorities for each typology of countries. For example, highly urbanised, low agricultural but medium population dependency countries (led by Brazil) may share top priorities in education, skills training and social development policies. Those in the next category (led by Indonesia and Tunisia) which are less urbanised, maintain lower population dependencies and continue to rely to some extent on agriculture, may be more focused on skills upgrading, agricultural value chain development and regional development policies. The third and fourth categories have strong similarities and may overlap. For example, China is classified as a low transformation country despite a rate of urbanisation of 50%, which would put the country in the medium transformation category, together with Indonesia and Tunisia. Policy recommendations by country category are illustrated in Chapter 5, on the grounds of the analysis of the ten country case-studies carried out in chapters 2-4.

Table 2: MICs by current level of structural transformation

High Transformation		Low transformation		
High urbanisation Medium dependency Low agriculture	Medium urbanisation Low dependency Med. agriculture	Medium urbanisation Medium dependency Med. agriculture	Low urbanisation Low dependency Med. agriculture	Medium urbanisation High Dependency High Agriculture
Brazil	Indonesia	Cape Verde	China	Nicaragua
Argentina	Tunisia	Belize	Thailand	Pakistan
Chile	Algeria	Bolivia	Viet Nam	Senegal
Colombia	Costa Rica	Egypt	Bhutan	Angola
Congo, Rep.	Cuba	El Salvador	India	Cameroon
Djibouti	Fiji	Honduras	Sri Lanka	Cote d'Ivoire
Dominican Republic	Malaysia	Jamaica		Ghana
Gabon	Mongolia	Lesotho		Guyana
Jordan	Morocco	Namibia		Guatemala
Lebanon	Suriname	Philippines		Lao PDR
Mexico	Turkey	South Africa		Nigeria
Peru		Swaziland		Papua New Guinea

⁷ Small island states were dropped from this analysis as their structural characteristics do not match those of the majority of middle-income countries.

Uruguay				Paraguay
Venezuela				Sudan
				Syria
				Yemen
				Zambia

This Guide also speaks to the current context of LICs looking to 'upgrade' to MIC status. Using the same indicators of structural transformation, today's LICs are classified in three categories of transformation, plus one of no transformation (table 3). This second classification also includes the ten MIC case studies at their level of transformation in the 1990s (i.e. the indicators of transformation are taken at their 1990s value⁸).

A striking fact resulting from this classification is the existence of a 'no transformation' category. The countries in this category are predominantly rural, maintain high population densities and rely heavily on agriculture (42% of GDP on average). These countries will first need to initiate some form of structural transformation to be able to support progress in human and economic development and in poverty reduction. It is also worth noting that more than half of these countries are in conflict or post-conflict situations. This may very well be *the* progress inhibiting factor. With respect to the no transformation category, the larger low transformation category registers only slightly lower population dependency rates and somewhat less reliance on agriculture, yet is more rurally based.

Overall, this classification suggests that many LICs still have to initiate transformation in many areas, before being able to speed up the process. These countries still need to undergo significant structural change on the road to human development progress. The policy implications drawn may therefore indicate starting points and priority areas to open-up, as opposed to focusing on speeding up progress as suggested by the previous classification. These implications are discussed in Chapter 5.

Table 3: Country classification by level of structural transformation: LICs 2010 and progressing MICs in 1990

High transformation		Low Transformation		No Transformation
Med. urbanisation High dependency Med. agriculture	Low urbanisation Med. Dependency High agriculture	Low urbanisation High dependency High agriculture	Low urbanisation High dependency High agriculture	Low urbanisation High dependency Very high agriculture
Brazil	China	Pakistan		Benin
Cape Verde	Indonesia	Afghanistan		Central African Rep.
Senegal	Thailand	Burkina Faso		Comoros
Tunisia	Viet Nam	Chad		Congo, Dem. Rep
The Gambia	Bangladesh	Eritrea		Liberia

⁸ Data was not available for Nicaragua, which is therefore missing from the table.

Mauritania	Burundi	Guinea	Mali
Zimbabwe	Cambodia	Kenya	Sierra Leone
	Ethiopia	Madagascar	Togo
	Kyrgyz Rep.	Malawi	
	Myanmar	Mozambique	
	Nepal	Niger	
	Tajikistan	Rwanda	
		Tanzania	
		Uganda	

2. Political Economy

Making development more inclusive and broad-based – that is pro-poor, is a political as well as a technical issue. It is not only a matter of ‘getting the policies right’ (important as that is), but also of actually reaching the point where progressive policies are adopted into law and then implemented. This chapter examines the factors that shape policymaking and pro-poor public policy in particular. Looking at the ten selected case-studies, it identifies three political trajectories historically followed by countries in achieving their poverty reduction record. The experience of MICs shows that the successful promotion of pro-poor reforms requires changes in existing power structures and in the nature of the understandings and arrangements linking state and society. The chapter concludes with policy recommendations for other countries.

2.1 What factors shape inclusive development and pro-poor policymaking?

Achieving effective pro-poor public policy is not always straightforward and efforts to promote reforms that benefit the poor often encounter considerable difficulties. Problems blocking the development of pro-poor policies go deeper than weak technical capacity and lack of political will (Bird and Pratt, 2004). Enabling factors are to be found in good governance and in the country’s political economy.

Which actors are involved, what interests and incentives they have and the nature of the elites all influence the nature and outcome of processes of contestation and bargaining within and between the state and society over how rights and resources are to be distributed (Haggard and Kaufman, 1992). These processes of bargaining and contestation also shape prospects for pro-poor growth because they determine the current and future space available within domestic politics and public resource allocation for both regulatory (e.g. labour market regulations) and redistributive interventions (e.g. social policies) to tackle chronic poverty. These mechanisms are complex and long-term, and cannot be engineered from the outside – though international actors and drivers can play an important role in influencing different dynamics and incentives, in both positive and more pernicious ways.

Drawing from the experience of the ten selected case studies, this section provides an overview of the structural factors and institutions that influence public policy and that can enable or obstacle the adoption of pro-poor and redistributive interventions. Particular attention is dedicated to two aspects of the process of bargaining and contestation mentioned above: the role of elites in influencing adoption of redistributive policies and role of civil society in giving political voice to the poor, so that they can influence the policymaking process.

State quality

The state is the single most important institution in achieving pro-poor development. There are many factors that influence state quality and effectiveness, some are easier to address through policies than others. An important but unmodifiable factor is the history of state formation, which shapes the access to political and economic power of different groups, the relationships between them, and the perceptions of state legitimacy (Unsworth and CRU, 2007).

An area where instead policymakers can intervene is how the state generates revenue. In fact, a good tax collection capacity can help to strengthen the quality of the linkages between state and society. On the other hand, the availability of ‘unearned’ income from natural resources or aid can lessen the interest of governments in promoting inclusive growth, or in delivering a range of public goods and services in exchange for tax revenues (Unsworth and CRU, 2007). This is because such sources of income do not require the support, or at least the acquiescence, of the population to finance the state. The experience of Angola provides a particularly stark example of this (Box 4).

Box 4: The political economy of pro-poor growth in Angola

After a devastating 30-year civil war, Angola has experienced a period of relative peace and stability since 2002. However, Angola today remains one of the most poorly-governed countries in the world, despite spectacular levels of economic growth over the past ten years. Such growth, driven mainly by oil and diamonds, has not been broad-based and has not benefited the majority of the population. Power and resources remain heavily concentrated in the hands of the ruling party and the executive and the political system continues to thrive on clientelism, patronage and corruption.

Constructive linkages between state and society are minimal because most of what the Angolan state needs can be obtained without Angolan labour, taxes and consumption. The country's elite has had no interest in promoting more equitable growth and in ensuring that the population as a whole thrives because they do not depend on the majority of the population to raise revenue or to survive. International thirst for reliable sources of minerals and oil has helped sustain the Angolan state and perpetrate existing power dynamics.

One possible and very important way out of this dynamic is to work towards altering the incentive structures embedded in oil and mineral extraction. International initiatives like the 'Publish What You Pay' campaign and the Extractive Industries Transparency Initiative (EITI) represent efforts in this direction, seeking to increase transparency and accountability in the extractive industries. However, much more remains to be done if such initiatives are to have real teeth and prove enforceable.

Source: Rocha Menocal (2009)

A democratic regime instead does not seem to be a pre-condition for pro-poor development. Improvements in the Human Development Index, for example, have not been found to be strongly correlated with political freedom (Tsai, 2006; Stewart, 2010). The evidence linking regime type to developmental outcomes remains remarkably mixed and contested (see Rocha Menocal, 2011 and Booth, 2012 among others), while non-democracies have in some cases yielded progressive policies. However, the MICs case studies in this guide reveal that presence of institutions and mechanisms of substantive democracy (including political parties, civil society, quality and accountability of public administration, decentralisation, the legal system legal grounding of progressive policies), were critical to achieve poverty reduction, even when present in the context of autocratic regimes and one-party states.

The Legal System

Legal systems are sets of social institutions that govern state actions towards citizens as well as behaviour among citizens. Equality before the law refers to the entitlement of all citizens, including minorities and the poor, to equal protection of their human rights. Reforms in the legal systems – especially those that provide a legal basis to social policies – are often the first step towards progressive social change. Tunisia enacted many legal reforms that gradually improved the status of women and eventually resulted in much lower gender inequality compared with many Arab countries. Soon after independence in 1956, it enacted the Code of Personal Status, which legalised divorce for women and established a minimum age for marriage. Furthermore, it guaranteed the right to vote and to seek office for women. These fundamental social and political rights were further strengthened by Tunisia's first post-independence constitution, which promulgated the principle of equality between men and women. As a direct consequence of these steps, women increasingly gained access to non-traditional jobs such as in medicine, the army and engineering. The recognition of basic rights led to more direct policy interventions to tackle socio-economic inequality.

Constitutional reforms to address issues of chronic poverty help to guarantee the continuity of pro-poor policies over the possibility of change in political leadership. The constitutional recognition of women's rights in Tunisia led to the adoption of pro-women family planning policies in 1968, for instance. As a direct consequence, the fertility rate dropped from 6.4 children in 1970 to less than 3 children in 1996. This drop is considered to be one of the main factors behind Tunisia's development success. Brazil included socio-economic goals such as the right to food or health into its 1988 Constitution, which expressed a fundamental commitment of the political system to the accomplishment of these rights (Chimielewska and Souza, 2011, Paim et al., 2011).

Public Administration

The quality of public administration is a crucial factor of government effectiveness. However, in many settings public administration is a key source of patronage, and appointments are based less on meritocracy than on clientelistic pressures to buy political loyalties. These mechanisms contribute to explaining poor government effectiveness in many low- and middle-income countries.

Strong administrative capacities of government are essential for effective formulation and implementation of poverty reduction policies. In Thailand, for example, the quality of its public administration made possible the rapid implementation of a universal health scheme (see for instance the process described in Hughes et al., 2009). Promoting a culture of meritocracy within public administration can help improve its quality, and the provision of universal and high quality education can help to strengthen government effectiveness in the long run.

Developing countries transitioning from a low-income to a middle-income status often face a change in the relationship between the public administration and public service users. The ability of citizens to mobilise and demand a public administration that is less corrupt and not driven by patronage is essential in the process of building more accountable systems and a more effective interface between state and society. Countries that lie on the lower end of government effectiveness see non-state service provision as an alternative to ineffective public service delivery (Box 5).

Box 5: Non-state service provision: Senegal's AGETIP

Senegal's *Agence d'Exécution des Travaux d'Intérêt Public Contre le Sous-emploi* (AGETIP) is one example of non-state service provision. At the end of the 1980s, Senegal suffered from high levels of youth unemployment due to the severe economic and political problems, which eventually resulted in street riots in Dakar. The government was forced to act on youth unemployment and launched AGETIP. Previous attempts to address youth unemployment through public works programmes had failed in particular because of their cumbersome administrative and management procedures, and political interference.

AGETIP is a private non-profit entity that is governed by its own charter and bylaws and managed by a general assembly made up of members from the private sector, while still reporting to the president. This structure allows more efficient management of Senegal's small-scale public works projects to address unemployment and to develop the country's basic infrastructure. An evaluation of the first seven years of AGETIP showed that, among other outcomes, 35,000 person-years of employment were generated.

Source: van de Lugt and Kuby 1997, World Bank 2007

Public administration and public service performance indices can help to monitor the sector performance over time. In 1995, for example, Brazil introduced a sample-based student assessment tool (SAEB). It was designed to provide representative results at the state level and to standardise tracking of learning progress in mathematics and Portuguese over time. In 2000, Brazil adjusted SEAB to OECD's PISA system (Program for International Student Assessment). Later on, it was

transformed into a census-based testing tool that provides performance indicators for 4th and 8th grade students for all schools in the country. This does not only allow standardised tracking of learning improvements over time but also constitutes an important source of public information on school and sector performance, strengthening accountability to both policymakers and parents.

The increasingly administratively demanding nature of policy interventions to address chronic poverty requires countries to develop their own 'good enough governance agenda' of capacity building interventions. This will evolve over time and follow the development of the policy agenda from simpler interventions during the initial lower income stages to more sophisticated strategies during the higher income stage. Such an agenda should therefore reflect domestic poverty assessments and be attuned to the resulting multi-sectoral chronic poverty reduction strategy.

Decentralisation capacities

Decentralisation is the devolution of powers and resources from higher levels in political systems to elected bodies at lower levels. There are three main types of decentralisation: administrative decentralisation (when agents in higher levels of government move to lower levels), fiscal decentralisation (when higher levels of government cede influence over budgets and financial decisions to lower levels), and devolution (when resources, power, and often tasks are shifted to lower-level authorities who are somewhat independent of higher authorities, and who are at least somewhat democratic) (Manor, 1999).

Decentralisation is believed to strengthen local government structures, increase government efficiency, promote transparency and accountability, improve public service delivery, and foster citizen participation. In principle, dispersing state functions and powers closer to the chronic poor can increase their capacities to participate in public decision making and to hold policymakers and service providers to account. In Brazil, for example, the onus of beneficiary selection within the *Bolsa Escola* cash transfer is on municipalities. A process evaluation found a negative correlation between leakage of programme benefits and the likelihood of office holders within municipalities getting re-elected. Hence, decentralisation can provide citizens with more opportunities to influence public service delivery.

A cross country study of poverty dynamics in the 2000s (Narayan et al., 2009) found that poor people valued local democracy; especially where it provided opportunities for freedom of expression, freedom to organise, collective or group based participation and justice. Where local governments were seen to have become more responsive to citizens, health and education services, road connections and law and order had also improved. However, the study also highlighted some of the obstacles that decentralisation may face, eventually only transferring problems (e.g. authoritarian practices, corruption, weak capacity) from the central to the local level. For example, the study found that elite capture was common, with only a third of local governments tracked in the study showing signs of greater responsiveness over time. Various countries' experiences confirmed that pro-poor local governments require good leaders, fair local elections, access to information, active people's organisations and bottom-up participatory initiatives.

More generally, evidence suggests that the pro-poor impact of decentralisation depends on political, administrative and fiscal factors. Political factors include political commitment to decentralisation by central government and political elites, policy coherence and transparent and participatory processes. Administrative factors include an investment in local capacity building and a clear division of functions between local and central government. Fiscal factors entail adequate and secure resources, including tax raising powers (Jutting et al., 2005). Additional contributing factors are strong political parties committed to popular participation and social actors that can organise effectively and engage with the state at the local level.

To ensure not only localised and accountable, but also effective service delivery for the chronic poor, political and administrative decentralisation must be complemented by fiscal decentralisation. This does not only require vertical devolution of fiscal authorities but also redistributive measures across subordinate units. Otherwise, poorer jurisdictions in particular may suffer from an insufficient level of funding for quality services. Brazil's education reform, for example, introduced a funding system (FUNDEF) that redistributes funds across states through a common pool for the benefit of the poorer states. Thailand's universal coverage health care policy relied on a capitation funding system that allocated funds to primary care units according to the size of their local populations, irrespective of local income levels. Its ultimate goal was to create incentives for professional staff to transfer from over-served urban areas to under-served rural areas.

A successful case of devolution with fiscal decentralisation is that of Porto Alegre in Brazil. There, participatory budgeting was implemented, with local government opening up to public debate and scrutiny in an attempt to improve the character of local institutions. Positive outcomes include increase in public health spending, which in turn directly contributed to a reduction of infant mortality (Gonçalves, 2014).

Corruption, patronage and nature of rent-seeking

High levels of corruption tend to inhibit economic growth and make policymaking less efficient. However, evidence exists that rent-seeking can be associated with growth, stability and a decrease in violence. (Khan, 2006; North et al., 2009). In fact, maintaining political and social stability may require transferring resources for the benefit of relevant groups outside or alongside official channels of public spending. In this respect, the distribution of rents can be seen more as a vital functional requirement of these societies than a pathology (Rocha Menocal, 2013). The effect of these transfers is pro-growth when the beneficiary groups invest rent in productive activities, and can be pro-poor if these groups also represent the interests of the poor.

Many of the best performing East Asian countries (e.g. South Korea, Taiwan, Hong Kong, Singapore) have been characterised by very close ties between state organisations and business groups, but rents have been invested productively in dynamic sectors of the economy, so driving economic growth. Cases of the developmental state in Africa, e.g. Malawi (1961-1978), Kenya (1965-1975), and contemporary Rwanda, have been characterised by neo-patrimonial⁹ regimes. In these countries, the government in power is committed to long-term growth and development, carrying out needed strategic coordination while exercising central control over the collection and distribution of rents, which become a component of economic policies (Booth, 2012; vom Hau, 2012; and echoes of Meisel and Ould Aoudia, 2007).

On the other side, pervasive clientelistic politics multiplies personalised policymaking, encourages fragmentation within both the state and society and militates against the emergence of a united front of potential beneficiaries of pro-poor reform. Patronage also undermines the internal unity and coherence of the state, which as a result cannot impose reforms benefitting the poor against elite opposition. As discussed below, civil society and political parties with broad social bases can play a role in counteracting these forces or directing them towards pro-poor outcomes.

Political parties

Political parties are crucial in both democratic and non-democratic systems as vehicles of citizen representation and for their influence on policymaking. Parties that are more firmly institutionalised

⁹ Clapham (1985) defines neo-patrimonial as a 'form of organisation in which relationships of a broadly patrimonial type pervade a political and administrative system which is formally constructed on rational-legal lines.' It is a system in which an office of power is used for personal uses and gains, as opposed to a strict division of the private and public spheres.

tend to be associated with more long-term, developmental policymaking (as in the case of several countries in East Asia and, increasingly, Latin America) than parties that lack such institutionalisation (as in many emerging democracies in Africa) (Keefer, 2011). A reason for this is that they can convey a programmatic policy stance and discipline party leaders and members.

Political parties face a more acute challenge in democratic contexts: the necessity of winning elections for political survival affects the kinds of development projects elected state officials choose to implement (Whitfield and Therkildsen, 2011; Carothers, 2006). Very often, it is election cycles and concerns with the immediate visibility of state action that are likely to shape investments in organisational competencies and infrastructural power (vom Hau, 2012).

The social basis of political parties is also critical: where they are biased to urban elites or organisations (like trade unions), the provision of services is also likely to be biased in favour of these groups. In Latin America, Brazil and Bolivia offer counter-cases. Here the ruling parties, PT and MAS respectively, were formed in rural areas and have strong links to rural social movements. Thailand's current populist regime is another such example. The experience of these three countries suggests that political parties with a strong social basis and ability to channel demands from this social basis into programmatic politics, are more likely to take a population away from poverty in a sustained manner (Robinson, 2010). Again, Brazil constitutes a clear example (see Box 8 below). Such political basis is also necessary to counter the clientelism which often characterises politics: the poor are rarely clients unless they organise. Clientelistic redistribution tends to provide individual rather than collective goods – even pro-poor governments like that of Venezuela behave in this way, to the detriment of the majority of poor people's life chances.

Elites' interests and incentives

Where elites perceive that a change in public policy is likely to result in a relative loss of wealth or a challenge to established power relations, they have strong incentives to divert or block even the most well-intentioned policies (Khan, 2010 and 2012). Elites are likely to oppose redistributive policies - especially public policies for social development - because these often entail a zero-sum redistribution of existing assets and income from richer to poorer groups, and are therefore more conflictual than more dynamic pro-poor policies (e.g. provision of access to credit).

However, elites are not always and not necessarily hostile to progressive policies. Recent experience of conflict, political turmoil or simply the increasing perception of lower-income groups as threats to the political stability of a country can make the ruling elite more willing to transition towards a more inclusive institutional and decision-making regime. This in turn may then create avenues for more pro-poor social policies, which ultimately provide added legitimacy for the political status quo. South Korea, for example, introduced social assistance and public works programme for the chronic poor and gradually expanded coverage. It also decreed corporate welfare schemes such as educational subsidies for employees' children. Such policies helped to increase the political legitimacy of South Korea's military rulers and also contributed to industrial peace, which was indispensable for long-term investment and business development (Chang, 2002).

The fact that redistributive or pro-poor social policies often appear late in the process of development and sometimes only as a result of crisis or threat of social conflict, suggests that political motivation is not easy to generate. In Pakistan for example, the Benazir Income Support Programme was a direct response to persistent high levels of poverty and inequality and the ineffectiveness of the existing social transfer schemes. But it was also motivated by the new government's interest in stabilising the country politically after the social tensions and unrest that followed the financial crisis and the assassination of Benazir Bhutto in 2007.

At the same time, broad-based political support is important for social programmes' success, as the case of Nicaragua's *Red de Proteccion Social* shows. This conditional cash transfer, which ran from

2001 to 2006, was one of the best performing replicates of the *Oportunidades* programme in Mexico and recorded substantial improvements in health and education outcomes amongst the poor. Despite the excellent track record of CCTs and the availability of funds for its continuation, the programme administration and the partnering Inter-American Development Bank could not overcome political resentments against this foreign-driven programme, causing it to come to an end.

While lack of policy advocacy led to abandonment of a successful programme in Nicaragua, its presence was a determinant for Tunisia's Food Subsidy reform (see Box 6) and for the support of rights of people with disabilities in China. In fact, thanks to the advocacy work of social organisations such as the China Disabled Persons' Federation (CDPF), the political environment in the country became more receptive towards the needs of people with disabilities and ultimately resulted in an amendment to the Chinese Constitution, providing a general principle on protection of disabled people (Dongmei, 2009).

Box 6: The role of communication in Tunisia's food subsidy reform

For decades, the Universal Food Subsidies Program (TUFSP) was Tunisia's key policy against poverty. The programme aimed at improving the nutritional status of low-income households while protecting their purchasing power. It ensured around 60% of caloric intake and 50% of protein consumption of the poor. However, TUFSP was extremely costly and suffered from severe leakage to better-off households. As a result, the government removed subsidies for cereal products at the end of 1983. In an attempt to prevent mobilisation of protests, the reform was announced just one day in advance of the subsidy removals. Despite the short notice, however, the announcement immediately caused riots in most cities of the country. As a result, the government cancelled the reform a week later. In the early 1990s, the government planned another attempt to reform the increasingly unsustainable food subsidy programme. This time the government employed an effective communications strategy. Amongst other initiatives, public announcements were placed several months in advance and ensured a public debate on both the rationale and the gains. No riots occurred and the reform was successfully implemented.

Source: Muller, 2006

The experience of the MICs in our sample suggests that elite support to redistributive and pro-poor reforms is difficult to achieve (although not impossible), but necessary for successful poverty reduction. In order to manage and attenuate the opposition from established elites to these reforms, a broad coalition of support in society and determined, coherent state action are often necessary for success.¹⁰ The experience from MICs also shows that 'forces from below' – in the form of political parties, social movements, civil society organisations – play a fundamental role in the creation of political motivation and political support to reforms, and more generally to give political voice to the poor. The role of civil society is explored in more detail in the next section.

2.2 Civil society

Since the 1990s, civil society organisations have played a pivotal role in shaping pro-poorest policy in countries that are making the transitions to democracy, or towards more decentralised governance structures. This has been in the form of advocacy activities, delivery of services or shaping policies directly (Ibrahim & Hulme, 2010).

Civil society organisations have also been of critical importance in giving agency and voice to the poor, promoting their participation in the policymaking process. While the latter is central to pro-poor

¹⁰ This is amply discussed and documented in the academic literature on policy reform. See for instance Haggard and Kaufman (1992 and 2004) and Grindle (2004).

growth, 'the poor' do not constitute a homogeneous group: their interests and incentives may not always coincide (Rocha Menocal and Sharma, 2008) and therefore they may find it difficult to organise and to be politically active. As discussed in the following sections, an open and pro-active civil society can address these problems by supporting local good governance and pro-poor participatory budgeting, engaging in advocacy campaigns, supporting social movements and promoting state-society relations.

However, it is important to keep in mind that the mere existence of a vocal civil society should not presume its ability to affect poverty-responsive policy, nor even a pro-poor agenda. At the same time, groups representing the middle-class may play a leading role in demanding progressive policies. For example, Nicaragua and Pakistan's women's movements been predominantly led by middle-class, educated women (Cuadra Lira & Jiménez Martínez, 2009; Khan & Khan, 2004). Facilitating an active and inclusive civil society is therefore the responsibility not only of governments but also civil society groups themselves. Incorporating the poorest, who tend to be among the most marginalised from social and political processes and networks, will require a conscious effort by governments and civil society groups alike.

Civil society, good governance and pro-poorest budgeting

In some cases, civil society groups have sought an active role in the design of transparency and accountability mechanisms and have maintained a collaborative relationship with policymakers by gathering evidence of policy interventions and feeding this back into policy to ensure better-informed decisions. The Civil Forum in Senegal, a citizen-led governance monitoring organisation, has gone so far as to develop a 'good governance' label, which it awards to local government authorities who perform well according to its governance index. The Forum undertakes evaluations of local policies and has become an important voice in not just local but also national policy setting discussions (ADB, 2006).

Public spending decisions are another key area where civil society can play a role in ensuring the inclusion of pro-poorest governance systems. In the case of Porto Alegre in Brazil mentioned above, participatory budgeting is based on the formal collaboration between the state and civil society organisations. In turn, the achievement of this formal collaboration was facilitated by the strong and widespread social base of the *Partido dos Trabalhadores* (Workers Party, henceforth PT), which was in power when participatory budgeting was introduced. The case of PATTIRO in Indonesia (Box 7) shows that an active and inclusive civil society with strong technical expertise and political networking capabilities can help to bridge the gap between policy and the needs of the poor. Where formal collaboration mechanisms do not exist as they do in the still relatively rare cases like Porto Alegre, governments can nonetheless maintain open dialogue with civil society groups and, where possible, provide technical and financial resources to maintain this bridge between bureaucratic institutions and the poor.

Box 7: Civil society engagement in budget accountability: PATTIRO, Semarang, Indonesia

Amidst profound structural change in Indonesia, which saw swift transitions to both democracy and decentralisation, a more vibrant civil society emerged with a number of non-state actors harnessing the social momentum that came with first-time elections at national, regional and village levels (Ibrahim, 2006). One pivotal role for these groups was to act as accountability and anti-corruption observers, since newly decentralised powers came with weakly enforced checks and balances and loosely defined accountability mechanisms to monitor local spending.

In direct response to these structural changes, PATTIRO - a research and advocacy group - was formed in 1999. Its mandate was to engage local citizens and marginalised voices in the process of policy design and priority setting, particularly with regards to gender responsive policy and pro-poor public spending. The organisation used media outlets, public meetings and local consultations to

develop sets of priorities and to engage local groups, while also forging strong networks with local policymakers to ensure direct influence on public spending and programme prioritisation (MacLaren, Surya Putra & Rahman, 2011).

Through relationships forged with local politicians, PATTIRO was able to contribute to the design of new spending legislation; sponsoring public meetings during this process. Through media linkages helping to mount public pressure and by means of their established channel to responsive policymakers, PATTIRO guided municipally-led poverty legislation, which was passed within one year of the group's initial intervention. Measured outcomes from this new pro-poor legislation have included significant increases in direct public health expenditures and a new municipal health insurance scheme was introduced with full health cost reimbursement available to 398,000 poor residents (Ibid).

Social movements and advocacy campaigns with political impact

Civil society is an instrumental part of good governance, and its ability to thrive is an indicator of good governance itself (Roy, 2008). Although some countries such as China and Viet Nam have tended to limit civil society engagement while also progressing in human development outcomes, in other countries civil society groups have filled a very important role in setting pro-poor policy agendas (Ibrahim & Hulme, 2010). Transitions to freer and more deliberative societies have been accompanied, or in some cases have been caused by, active social movements and civil society advocacy organisations (as in Thailand and Tunisia). Although social movements may not typically emerge around the issue of poverty *per se*, many have centred on some structural component of poverty or from a power imbalance leading to the marginalisation of some social groups.

Measuring the direct impacts of advocacy is difficult beyond the observation of some policy reform and the acknowledgement from political actors that this reform would not have taken place otherwise. However, one area where benefits might be observed is where marginalised groups are made aware of their existing rights by advocacy campaigning. As seen in the case of the MST in Brazil (Box 8), advocacy campaigning is not only about pushing for rights, but also about disseminating information about them once they have been guaranteed and organising groups to fully enjoy these newly established rights. Civil society can therefore pave the way for rights, but can also be a facilitator of them once they've been established.

Box 8: Social and political outcomes of MST Brazil

The *Movimento dos Trabalhadores Rurais Sem Terra* (MST), or the landless workers' movement, has been widely regarded as an influential presence in Brazilian land politics. It is considered an example of social activism which has served to build political capabilities among the poor while also engaging with state actors to enact pro-poor policies (Carter, 2009). Despite some views within and beyond Brazilian politics that the movement has been antagonistic and therefore counterproductive, there have been significant productive gains from its presence, particularly by way of organising the poor at local levels and in generating a broader awareness among the poorest about their rights (Carter, 2010).

By way of direct impacts, MST has assisted in the resettlement of over 150,000 families onto unoccupied land, from which have emerged over 60 consumer co-operatives; 1,000 primary schools and a literacy program for approximately 7,000 adults (Foweraker, 2001). Although the movement's strategies initially involved land occupations and public protests, over time it has diverted its focus to negotiations with government in an attempt to ensure a broader, more equitable land reform process. The movement has also established a monthly newspaper to communicate its messages to a wider public forum, study groups to formulate political and ideological approaches and a 'work-and-study' programme (Martins, 2006). However, the movement's main demand for land redistribution has been never met with an official response from the PT.

Civil societies paving the path to zero

Some countries have achieved progress in human development in spite of limitations to civil society activity. However, to eliminate residual, structurally embedded poverty, the most marginalised groups in any society require a voice in policy dialogues, so that they can lobby for the legal recognition of rights and against discriminatory norms and practices. Otherwise, without civil society engagement, there is the risk that the dismantling of social practices that impoverish (such as funeral costs in Africa and dowry costs in South Asia) is overlooked by policymaking.

China's remarkable trajectory in poverty reduction, for example, may be undermined by the fact that labour legislation does not meet the needs of workers who lack sufficient rights to hold their employers to account. Recent strikes held by unpaid teachers, taxi drivers facing excessive fees and factory workers owed wages in arrears, show that workers' discontent is now generating civil society activity. Without the political space to mount civil society lobbying, or the opportunity for international civil society groups to generate this momentum; unreachable and barely visible groups will be disadvantaged by broader progress. In addition, there need to be effective spaces for state-society engagement, so that social groups can exercise their voices effectively, but state institutions also have to have the capacity to respond (Rocha Menocal and Sharma, 2008). The case of South Korea (Box 9) shows the role of civil society in promoting progressive state-society relations.

Box 9: South Korean civil society laying the path to zero

Support for the hypothesis that the eradication of poverty may not be possible without civil society engagement can be taken from the example of South Korea. Both under authoritarian rule, but especially amidst democratic transition, South Korean civil society groups played a pivotal role in shaping pro-poor policies and have maintained a collaborative and 'intimate' relationship with government institutions (Henderson et al., 2002). The state not only funded third party research to inform policy, but also in the democratic period even took the step to create an umbrella organisation to support 35,000 community-level groups (Ringgen et al., 2011). Through shared programming targeting children, elderly and people with disabilities, state-civil society alliances were able to address challenging social issues (Ibid). By establishing partnerships with civil society throughout the course of progress, a culture of volunteerism and civic engagement has been generated which serves as a broad social safety net. This has not only contributed to the eradication of absolute poverty, but may also serve to prevent impoverishment into the future.

2.3 Understanding different political trajectories that have promoted pro-poor policymaking

Recent research on the long-run of economic growth emphasises that the historical emergence of sustained and broadly shared prosperity is underpinned by a shift to institutions that support inclusion (North et al., 2009; North et al., 2013; Acemoglu and Robinson, 2012; Khan, 2012). The case studies examined in this guide achieved poverty reduction by balancing economic growth and redistribution through social policies. Indeed, there is evidence that investment in social policies supported economic growth in these countries. An econometric analysis for Thailand, for example, shows that a higher share of spending on health, education, and agriculture has a bigger poverty reduction impact than increased spending on transportation (Warr, 2003). In Ecuador, social spending did not only help to improve the productive capacities of the poor but also helped stabilise the economy as a whole. In response to the recession in 2008, the government expanded social spending on *Bono de Desarrollo Humano* (Human Development Bond – BDH) and housing assistance for the poor. This fiscal stimulus, besides smart monetary policies, helped Ecuador to overcome the recession within a short period of time (Ray et al., 2012).

As we have seen in the previous sections, there are a range of factors that can block or facilitate the adoption of social policies to tackle poverty and inequality. We have also seen that in the MICs case

studies elites and civil society have played an important role. On the grounds of the above discussion, in this section three different political trajectories are identified in the MICs case studies examined. These categories are not meant to be exhaustive or prescriptive, but rather explanatory, in order to understand the different ways in which MICs have managed to balance the need for economic growth and human development.¹¹

i) The maturing democracy trajectory

This trajectory is found in Latin American countries such as Brazil, Ecuador, Bolivia and, in our case study samples, also in Cape Verde. In these countries, the maturing of democracy has led to governments of different political persuasions (but mostly left of centre), which have as their base or form alliances with social movements and civil society groups that also represent the interests of the poor. These governments have introduced more or less radical redistributive measures and, despite the populist inclination, have maintained the conditions for economic growth.

Brazil is the most outstanding example in the group, as well as the one with the most stable economic and political conditions. Brazil's democratic regime has been characterised by the coming to power of a mass-base political party –the Workers' Party- which is also very coherent and well organised. The Party provided an institutionalised vehicle for collective action for the lower classes and as such has played an instrumental role in shaping government incentives to adopt policies that can foster more inclusive growth. This has resulted in an overall bottom up and redistributionist approach with a strong tradition of encouraging participation, including in local government. However, the coalition of forces in power was such that it was made clear from the beginning that redistribution and investment in poor regions would take place within the prevailing capitalist framework.

In Ecuador, the government of president Correa (in power since 2007) has brought political stability to a country whose development was long held back by constant political changes. Correa's regime is built on a new populist party and is less obviously rooted in institutionalised political movements than the PT. While it stands in alliance with more established leftist parties, it has an ambivalent relationship to the country's significant indigenous groups, who are the main beneficiaries from the Constitutional reform of 2008.

Cape Verde features in this group following a substantial 'change of heart' by the major political party, the PAICV, which first showed willingness to relinquish power by writing a new constitution (in 1990) and then relinquished power in the 1991 elections, only to win again in 2001. This new administration continued the neo-liberal economic policies initiated by the previous government, which were focused on attracting FDI, especially in tourism. However, it also strengthened policies on agricultural development, social services and social security. Cape Verde's success is a model for other African countries.

ii) The Asian trajectory: elite-driven growth trajectory

The key feature of this trajectory is an inclusive, elite-driven, growth-based approach where concessions are made to human development as a requirement of economic growth. In fact, its origins are in a nationalist project focused on economic development. Whatever redistribution is carried out, it serves the broader economic project. For instance, education investments are made to fit with the evolving requirements of the dominant firms in industry or services, and the political motivation to go beyond these requirements can be difficult to mobilise (see Box 10).

It is found in a number of Asian countries in two main variants:

¹¹ As specified in a long tradition of research on development, but in different ways and sequences (e.g. see Ranis and Stewart 2010).

a) Communist or post-communist regimes led by a strong one-party state with roots in mass organisation, revolution and civil war, but pursuing a liberal economy. Examples are China and Viet Nam.

Box 10: Increasing demand for education investment in China

In China, people's desire for education has outstripped the government's ability to provide relevant jobs. This then constrains the extent to which further investments can be made (in quality and secondary or tertiary education) and thereby holds back China's possibilities for escaping the Middle Income Trap (Zhang et al., 2012). In the meantime, education inequality between the eastern and western regions has become hard to move, as migrants from the west have not been considered to need more than basic education for the formal and informal jobs they have been offered. Mobilising political support for a greater investment in education across the board is a major challenge for the new Chinese leadership.

b) Authoritarian and post-authoritarian Southeast Asian countries characterised by elites with a strong nationalist project. Examples are South Korea and Taiwan, and more recently Thailand and Indonesia.

In South Korea and Taiwan, the government pursued political stability and legitimacy through the formulation of strong nation building projects. Potential antagonistic vested interests (e.g. the landed elite) were neutralised early on, also thanks to communist threats and US policy pressure. This created the policy space to implement equalising land reforms, while investments in agriculture were maintained during industrialisation.

The driver of nation building was economic development. Social policy, as it developed, remained subordinate to economic development policy. However, 'forces from below' played an intermittent role in stimulating progressive social policies. For instance, whereas education investments were part of the nation building project from the beginning, investments in welfare and health were introduced as a response to crisis, social movements, riots, the emergence of political opposition and democracy, as in Taiwan in the 1980s. The welfare state in both Taiwan and South Korea became more inclusive after the Asian financial crisis of the late 1990s. However, South Korea in particular shows a steady progression and expansion of social welfare development through its 50 years of development (Box 11).

Overall, industrialisation, accompanied by social and agricultural policies, provided opportunities for upward mobility (education), security (health and social assistance), as well as redistributive land reform. This combination of economic and pro-poor policies made it possible for Taiwan and South Korea to eradicate poverty and make the transition to HIC status.

Box 11: Economic development and the welfare state in South Korea

Following the Korean War (1950-53), a land reform was implemented in the country that led to the demise of the feudal landowning class, the creation of a meritocratic bureaucracy and the development of a national project to turn South Korea into an advanced country. The mission was to regain 'Korea's place in the Sun'. Social policies were seen from early on as a core component of the nation building project through their influence on social control, order, efficiency and legitimacy. For instance, education was increasingly demanded by productive peasant households. The Government responded with significant investment in the sector and making education more affordable. This resulted in massive enrolment over the 1950s and 1960s, which laid the foundation for the industrialisation of the 1960s.

In the 1970s, education was the biggest budget item next to defence, and rural people's ticket to jobs in industry. Medical insurance was introduced from 1977. Absolute poverty was already down to 10%

by 1980. However, state support to certain categories of the elderly, the disabled, pregnant women and children was still discretionary and relatively ineffective. It took democratic rule and the 1997-9 Asian financial crisis to build a truly inclusive welfare state.

The move to democracy in 1987 gave a boost to the labour movement, and employment insurance soon followed, also prompted by the concern for the collapse of traditional heavy industry in the early 1990s. Health insurance coverage expanded to about 90% of the population. In 1999, a modern, rights-based social assistance system was introduced, with the adoption of the Basic Livelihood Security Act. Yet in 2002 the social security budget was 2% of GDP and 10% of government spending, much below the levels of other OECD countries. There is therefore still room to eradicate the remaining chronic poverty through the expansion of the welfare state.

Source: Ringen et al. (2011)

What lessons for other countries?

Are there any obvious common features in these diverse histories? They have all had elite driven *inclusive* political nation-building projects, but also political parties or social movements that have, in a more or less obvious way, influenced policymaking from below.

Otherwise the strategies have been different, and with different policy emphases at different times. Brazil and other Latin American countries have focused on inclusion through redistribution, mainly for human development, but to a degree also for economic assets, in addition to relatively pro-poor employment-generating patterns of growth. Asian countries have focused on economic growth, with human development efforts serving this end, and following a specific sequence: first investment in education, especially productivity improving (i.e. not just basic) education; then social assistance; and moves to universal health care and social insurance only in the 1990s. Cape Verde and Thailand have combined elements from these different histories and strategies. Thailand, for example, was ruled by military governments until its transition to a democratic populist rule in the 2000s, which has its political roots in the less developed parts of the country and among small farmers as well as in the protest movements that led to the regime change. Following the transition to democracy, the government has emphasised protection and health as well as education in social policy, and developed measures to recognise and progressively formalise informal employment, including that in agriculture.

Not all the countries selected as key case studies for this Guide fit in the three categories above. Those which are left out (Senegal, Tunisia, Pakistan) are trying to pursue a balance between economic growth and human development policies. They are also trying to make the transition to multi-party democracy, led by weaker and more elitist versions of one party states which are however careful to maintain political support across the different groups in society, and to react to pressure from below for reforms.

The experience of Latin American countries also suggests that political moments containing scope for redistribution and new structures of political power are clearly less rare than they were, and can be arrived at from different starting points. Thailand has seen social movements translate into political government, shaping the elite driven project in the 2000s. Tunisia's Arab Spring has only recently challenged the elite in Tunisia, while other countries, with the exception of China and Viet Nam, have seen a democratic broadening of power bases since 1990, but have not (yet) experienced the leftwards political shift of Brazil or Thailand, and have retained their elite driven strategies through the advent of democracy. Pakistan is a very interesting case, where the advent of democracy again quickly led to some redistributive policies. Here democracy would seem to play a very progressive role - the problem is how to safeguard it.

Another general lesson is that to be stable, countries committed to redistribution will have to make some compromises with corporate power (as in Ecuador and Bolivia). Though controversial, these are necessary given the enhanced need for state revenues with which to pursue redistributive reforms. Where revenue generation is more broad based, such compromises can be less pressing.

Low- and middle-income countries seeking to improve their performance in both economic development and poverty reduction should try to combine economic growth and redistribution. These should be based on consistent policies, responsive leadership and effective governance. The most appropriate combination of these elements will vary from country to country. The political and economic pre-conditions for the strongly redistributionist approach of Brazil, or for the pro-poorest growth path of the East Asian champions are quite historically specific and difficult to achieve, and the political trajectories described above are difficult to replicate in a deterministic way.

2.4 What can countries do to achieve equity-enhancing policy change?

As has been discussed, socio-economic and political institutions govern state actions towards the poor, shape the scope for pro-poor strategic alliances, and form the capacities for both effective and accountable delivery of poverty interventions. These outcomes also largely depend on the nature of processes of bargaining and contestation, and the role that elites and civil society (in their broadest meaning) play in them.

The case studies examined in this chapter demonstrate that the existence of elite-driven but inclusive nation building projects can play a formidable role in the path to economic development, while moves to democracy create the conditions for the adoption of progressive social policies, as states became more responsive to pressures from below. They also showed that strengthening cross-state and civil society alliances is critical for sustained poverty reduction and giving political voice to the poor. However, it may not be possible to transform political systems along all these different dimensions at once, and it is essential to remain realistic about what is possible based on context. Yet, focusing on a few strategic reforms and building upon them one step at a time can be essential in laying the foundations for further reforms and transformation (see Rocha Menocal, 2012 for example).

Against this background, the following policy recommendations are formulated:

1. Political leaders should include long term and effective pro-poor policies as part of an economic and political nation building project. Proponents of pro-poor reforms will have to be prepared to face and manage the opposition by institutions and players who have the power to block change (Weyland, 1996). For this, forging strong strategic alliances across societal actors to open up the political space for pro-poor reforms and initiatives is crucial. These alliances will also be important steps towards strengthening domestic stability.
2. It is necessary to strengthen public policies and institutions so as to make the state more responsive to and inclusive of the poorest. A fundamental step in this direction is to ensure full equality before the law to all citizens (including the poorest) and perhaps more challenging, to ensure that such laws are given substance in actual practice. Countries must also improve their taxation capacity and diversify their sources of revenue.
3. Decentralisation can be an avenue to make public systems of resource allocations and accountability more pro-poor. Evidence is not unambiguous though. Countries that embark on pro-poor decentralisation reforms must closely monitor this process to ensure maximum impact on poverty reduction. Among other things, it is essential to understand the politics and incentives at both the national and the subnational level to assess the potential of decentralisation in practice.

4. Successful MICs increased the performance of public administrations to deliver effective and cost efficient poverty interventions. Performance measures like the Brazilian adaptation of PISA help to keep track of public sector performance. Additionally, decentralisation of state functions and powers requires strengthening administrative capacities of lower state tiers to ensure effective public policymaking closer to the chronic poor.
5. The acceptability of pro-poor policies and programmes across groups of society can be enhanced through careful design. For instance, resource transfers that are obvious, long-term, and large tend to be more difficult to receive universal support. But transfers narrowly targeted to the deserving or appealing poor (like conditional cash transfers aimed at the very poorest) are difficult to oppose. Programmes falling between these categories may need to rely on 'upward leakage' – permitting benefits to flow to people technically not poor enough to qualify – in order to survive politically.
6. Policymakers must recognise and facilitate the important role that civil society can play in achieving pro-poor development. Helping to forge alliances between the state and the society, civil society organisations can support policymaking in difficult areas, such as domestic relationships and discrimination in the community and wider society. In periods of economic and political transition, they can also serve as a check on effective transfers of power and accountability, while representing the interests of marginalised groups.

As the PATTIRO example shows, policymakers can assist in this process by being available for consultation with non-government agencies and taking part in network building initiatives. This can include participation in conferences, public meetings and similar networking events which serve to build collaborative relationships among diverse group interests. Transparency allows civil society groups to monitor policy initiatives in a collaborative way and creates a space for open public dialogue on priority setting. Public dissemination of this information can allow individuals and groups to see what initiatives are being taken to address their needs and can therefore produce political returns where support for positive outcomes is generated.

3. Economic Development

3.1 Enabling pro-poorest growth

What enables growth? What enables pro-poor growth? And what enables pro-poorest growth? As we drill down through growth towards the poorest the picture becomes more complex and differentiated. In the case studies examined in this guide, growth has been enabled by a combination of good macro-economic management, liberalisation, and in the case of the East Asian tigers, strategic industrial policy. This chapter examines three sets of policies – agriculture, employment and regional development – which have contributed to make these countries' growth paths pro-poor.

Our success stories have followed different strategic routes to pro-poorest growth, but they also share some important common features. One of these features is stable and consistent macro-economic management: the five countries with average GDP per capita growth rates of more than 2% over the two decades – Cape Verde, China, Indonesia, Thailand and Tunisia, all were successful in keeping inflation, public debt and deficit management under control.

Table 4: Rates of per capita GDP growth 1990-2010 for some countries succeeding in addressing chronic poverty

Country	Rate of economic growth %	Rate of annual change in severe poverty %
Brazil	1.5	-0.94
Cape Verde	4.2	-0.91
China	9.2	-0.88
Indonesia	2.6	-0.82
Nicaragua	1.9	-0.96
Pakistan	1.7	-0.95
Senegal	1.1	-0.72
Thailand	2.9	-0.99
Tunisia	3.5	-0.82

Source: UN Data, Statistics

Pro-poor growth is broad based, cross-sectoral and occurs in areas and sectors where the poor are, which often includes agriculture. High inequality, including gender inequality, high levels of vulnerability and an absence of protection are major hindrances to the translation of growth into poverty reduction, especially if inequality translates into exclusionary markets and politics (OECD/DAC, 2006). From our successful cases, we can infer that pro-poor growth is enabled by consistent public investment in economic infrastructure, human capital development (chiefly education, gender equality and health), and rural development. All countries in the sample, except Cape Verde, invested in agriculture and rural development persistently over decades, supported by later investment in wide-coverage health and social protection.

Pro-poorest growth requires the same, but since the poorest rely most on their labour, it is policies that encourage labour intensive economic activities – manufacturing or services – which will lift the poorest out of persistent or deep poverty most quickly. Agriculture retains a special role in pro-poorest growth, because the persistently and severely poor are typically found disproportionately in agriculture, and agricultural growth is a foundation for growth in other sectors (see Box 12 and section 3.3). Policies that favour poor migrants and migration from deprived regions, and a strategic approach to urbanisation can also be great facilitators of pro-poorest growth. Whether any of these types of policies are prioritised will depend more fundamentally on governance and institutional dynamics and the politics involved.

Box 12: The key messages from CPAN's *Agriculture Policy Guide*

The poorest rural people need to accumulate assets – land, livestock, equipment – if they are to escape poverty. These assets then need protecting from the many shocks and stresses they are subject to in a high risk agricultural environment. Asset building is a greatly neglected aspect of agricultural policy, which typically focuses on increasing crop or enterprise productivity. While the latter is important, the sustainability of technological innovations is also critical.

The poorest people are also often excluded from the commodity and finance markets which could benefit them most. Policies need to address these market failures. The poorest people also need value chains that do not push all economic pressures downwards to the lowest point in the chain. There is much development activity in extending financial services to the poor, with recognition now that it is savings and insurance that the poorest value most; and the best firms recognise that poor producers and labourers need value chains to work for not against them.

Finally, labour is a second grossly neglected aspect of agricultural policy. Many smallholders also rely on wage labour income, and in most countries the agricultural wage labour force is growing. However, governments need to develop bold agricultural labour policies that address labourers' capabilities, their conditions of work and wages.

Source: Lenhardt et al. (2012)

Key policies that promote labour intensive manufacturing include institutional reforms and social sector investments guaranteeing greater equality of opportunity, like China and Viet Nam's pre-liberalisation land reforms and subsequent basic education investments. Education investments are needed to meet the demands of investors for unskilled (but literate and numerate), as well as skilled labour; but also to enhance the capability of poor children for learning and adapting more broadly. Promoting services development, especially tourism, is an alternative or additional route pursued by Cape Verde, Tunisia and Indonesia. This strategy requires a good business policy environment, an educated workforce, critical infrastructure development (e.g. international airports), and infrastructure and industrial location policies that create beneficial backwards and forwards linkages to the local economy. Once labour has been effectively absorbed in the process of growth, strategies need to upgrade labour productivity and move to higher value industries as wages and the social wage increase, and more educated workers become available – China is engaged in this 'rebalancing'. Tunisia needs to be and Cape Verde is not quite there yet.

3.2 Employment

Employment - of sufficient quantity and quality - is the largest single contributing factor to poverty reduction in MICs. This justifies the emphasis on economic growth as essential for poverty reduction. However, economic growth is pro-poorest only if it induces the creation of sufficient productive and remunerative employment opportunities for the chronically poor. This requires not only a quantitative effect but also a qualitative effect, so that productivity and earnings (i.e. both real wages and returns

from self-employment) must rise sufficiently to increase the incomes of the poorest (Ernst et al., 2009).

More jobs and higher productivity

The nature of the job challenge varies across MICs. This is particularly true in upper MICs, which are characterised by better educated labour forces and more developed social safety nets; but which face problems of high unemployment rates, in particular amongst youth (IEG, 2013). Box 13 provides an example from the Tunisian context.

Box 13: High youth unemployment despite increased access to education in Tunisia

The last decade saw a significant increase in enrolment in higher education of around 8.5% per annum. In this respect, women in particular benefitted from the increased access to tertiary education. However, growth in the highly skilled labour force was coupled with a decline in the yearly growth rate of new job creation. This partly explains the continuous rise in unemployment amongst university graduates. Additional reasons are the deteriorating quality of university teaching, which does not adequately prepare students for the labour market. In total, the unemployment rate amongst university graduates rose from around 18% in 2007 to almost 31% in 2010 and thus is an important contributing factor to Tunisia's high youth unemployment rate and thus a driver of 'new' poverty. This also affects women, whose participation in the labour force had previously been increasing.

Source: Mouley (2013)

In lower MICs, poor labour market participants cannot afford to be economically idle. As a direct result, they often engage in informal labour activities and frequently perform multiple jobs due to the lack of formal full time work opportunities. In Indonesia, Pakistan and Nicaragua, for example, around 50% of the working poor combine wage labour with self-employment undertakings. Hence, in upper MICs the policy impetus is on creation of sufficient high productivity jobs, whereas in lower MICs it is on graduating the labour force from very low-productivity to somewhat higher productivity sectors. Viet Nam during the 1990s, for example, experienced a growth in labour productivity of almost 5% annually, which is significantly higher than its total employment growth rate of less than 3% per annum. The story is similar for Indonesia during the economic boom between 1987 and 1996 (Ernst et al., 2009).

The private sector is the biggest engine for job creation. However, governments can influence the demand for and supply of labour by the chronically poor by improving the institutional framework that shapes labour markets. The provision of public health and education are important human capital investments that help the chronic poor to supply higher-skilled and thus more productive labour (see section 3). Even people with primary school completion have an advantage over those without. Sound macroeconomic policies instil a business environment that is conducive to economic growth and labour demand. In China, Indonesia, Thailand, Tunisia and Viet Nam, the development of labour-intensive export sectors has been a significant driver of economic growth. These sectors were important for poverty reduction in the newly industrialising countries because employment creation was high, given the high output-employment elasticity. Moreover, there were improvements in productivity as industries moved up the value chain, leading to growth in income and accelerating poverty reduction (Ernst et al., 2009).

Decent work and labour law enforcement

A good institutional framework is also required to ensure an equitable share of the gains of economic growth for the chronic poor. Labour market regulations set the rules that govern labour markets by not only formalising relationships and practices between employers and employees, but also by remedying disadvantageous distributions of bargaining power. They can ensure that work

relationships, in particular in terms of hiring and firing, meet conditions that are considered as free, equal, secure, and not harmful to the individual. In this respect, ILO's Decent Work¹² agenda describes internationally defined minimum standards in terms of labour market regulations.

There is evidence that a clear regulatory framework has a positive employment effect. Upon re-democratisation in 1990, Chile strengthened labour market regulations, which contributed to rising incomes amongst low-waged workers, with positive knock-on effects on aggregate demand within the economy. However, the case of China also shows that over-regulation can be harmful, in which case labour market liberalisation can increase employment. Following economic liberalisation, China curbed employment protections by introducing more flexible labour laws, among others with regards to hiring and firing. These policies were important in promoting industrial employment growth, especially in the SME sector, entailing a positive employment effect (Ernst et al., 2009).

The effectiveness of labour market regulations hinges on enforcement. Corruption and lack of political commitment, financial resources and status often prevent labour departments in middle-income countries from establishing effective systems of labour inspections on the ground (Deshingkar, 2009).

As part of its efforts to implement the Decent Work agenda, Brazil strengthened labour inspectorates. In 1989, it ratified the ILO Convention on Labour Inspection and then increased staffing of labour departments. In 2005, the country had about 3,000 labour inspectors who were recruited through a competitive process. Amongst others, a university degree was a qualification requirement. Labour inspectors check compliance with the National Labour Laws on hiring and firing, the number of hours worked, as well as rest periods. They also monitor policies on discrimination, moral harassment, and child labour (de Lourdes Moure, 2005). In 2004, labour inspectors were able to enforce formal employment contracts in more than 700,000 cases, to free slave labourers in more than 2,700 cases and child labourers in more than 4,000 cases (de Lourdes Moure, 2005). Additional political commitment is required to further strengthen labour departments in most MICs. This is particularly of importance given the expansion in flexible, precarious and insecure forms of work that have gained more momentum in many global value chains (Barrientos, 2002).

Formalising the informal economy top-down

Informal jobs, whether held in formal economic sectors (and also extra-legal or criminalised economy, e.g. drugs), informal firms, or households constitute a large share of employment opportunities for the chronic poor, even in MICs. They are usually beyond the influence of labour inspectors and other regulators (e.g. health and safety). More than 700 million informal workers survive on less than USD 1.25 a day (OECD, 2009). They typically do not contribute to social security systems and thus are not protected from the risks of ill health, disability, unemployment and old age. Informally employed workers do not benefit from statutory protections that regulate conditions of work or from social security.

Efforts at formalisation have so far focused on small and medium enterprises (SMEs), under the assumption that the unfavourable ratio of costs and benefits of going formal is what prevents SMEs from formalising. The main disincentives to formalisation typically are the many permissions required to operate and paying taxes. In Thailand for example, in 1999 a new business had to complete 9 procedures, wait around 35 days, and incur costs of around 6% of GDP per capita to get registered, whereas in Viet Nam a start-up faced 16 procedures, a waiting time of 123 days, and official registration costs of more than 133% of GDP per capita (Djankov et al., 2002). In 2010, still 42% of Thai labour market participants were employed in informal non-agricultural jobs, the corresponding

¹² The Decent Work concept was formulated by the ILO's constituents – governments and employers and workers –and it is based on the understanding that work is a source of personal dignity, family stability, peace in the community, democracies that deliver for people, and economic growth that expands opportunities for productive jobs and enterprise development.

figure was around 68% in 2009 for Viet Nam (ILO Department of Statistics, 2011). These examples suggest a correlation between the size of the informal economy and burdensome formal market entry regulations (Djankov et al., 2002).

To increase tax revenue and reduce the culture of informality in labour markets, many governments have undertaken reforms to lower the opportunity costs of going formal. Benefits of formalisation for business include access to formal banking services, including credit; government procurement and matching grants; and less harassment from government officials. Despite these reforms, however, formalisation rates have not increased significantly, which suggests that either opportunity costs must be more significantly reduced or the benefits of being formalised must be substantially increased (Klapper and Love, 2010). Altering the incentive structure for firms in the sense of increasing both the costs of working informally and the benefits of working formally should be or remain on the policy agenda. Otherwise, developing countries will continue to suffer from low levels of tax revenues, and unfair competition for formal enterprises (Chen, 2007; Perry et al., 2007).

Brazil's experience suggests that local authority inspections are a particularly effective strategy to support formalisation (see Box 14). However, even if MICs were to strengthen their capacities to implement inspections of informal firms, SMEs formalisation may not automatically result in waged jobs making the same transition, as employers may convert formal jobs into informal jobs (Chen, 2007). This is particularly likely to be the case in MICs that still face informal economies of around a third or more of GDP (Bruhn et al., 2013). Going formal is associated with costs and benefits for wage labourers and own-account workers too. While taxation is the main cost, benefits for them include secure contracts, worker benefits, and social protection (Chen, 2007). In these countries, top-down efforts at formalisation should be accompanied by bottom-up interventions that target workers directly.

Box 14: What governments can do to formalise firms

In 1996, Brazil reformed firm registration procedures by introducing the SIMPLES tax system, which consolidated multiple taxes and contributions into a single payment as well as lowering tax burden for small firms. In 2008, it created the *Minas Fácil* offices where enterprises can receive all municipal, state, and federal tax registrations instead of having to obtain these from separate offices. That way, it was possible to simplify the registration process from 63 days in 1999 to around 7 days now. Against the background that these steps failed in reducing informality, a pilot was conducted to test additional measures. They included the provision of information on the registration process, the removal of registration fees, and control visits by municipality inspectors. The first two again did not manage to increase formalisation rates, which strongly suggest that the benefits of going formal do not outweigh its costs for many SMEs. This result confirms evidence from similar studies from other countries. According to this experiment, only inspection visits appeared to be an effective intervention to make informal firms go formal.

Source: Andrade et al. (2012)

Voice and representation of formal and informal workers

Governments looking to improve employment conditions can also strengthen the bargaining power of the working poor not only in the formal but also in informal labour markets. Both can positively influence labour productivity and thus growth as the case of Indonesia shows (Box 15).

Box 15: Tackling collective action problems amongst the chronic poor in Indonesia

As part of its constitutional reform process between 1999 and 2002, Indonesia ratified the ILO Convention No. 87 on Freedom of Association and Protection of the Right to Organise in 1998. As a direct consequence, the number of trade unions proliferated from one trade union at the national level and around 1000 unions at the enterprise level in 1997, to around 87 trades union federations

registered nationally and more than 11,000 enterprise level unions registered in 2006. Despite this rapid increase of trade unions, economic growth continued unabated in Indonesia. After a short recession due to the financial crisis of 1997, Indonesia reached annual growth rates of almost 5% in 2000, which continued to rise to more than 6% in 2010. Furthermore, economic growth was accompanied by a drop in poverty from almost 29% in 2002 to around 18% in 2010.

Source: Palmer et al. (2009), World Bank (No date).

Evidence speaks against the common assumption that trade unions are an obstacle for economic growth. An econometric cross-country study on the effects of trade union rights and democracy on exports, for the 1993 to 1999 period in 162 countries, found a robust relationship between stronger trade union rights and higher total manufacturing exports. This study and Indonesia's experience (see Box 15) suggest that stronger freedom of association and collective bargaining within labour markets enhance export competitiveness and thus may contribute to economic growth. The positive relationship can be explained by the fact that freedom of association allows greater participation of wage-dependent workers in the overall social dialogue, and may even help to channel the voice of poor informally employed workers (Kucera et al., 2006). Overall, this contributes to a reduction of social tensions and a more predictable economic environment.

However, achieving organisation and collective bargaining among wage-dependent informal workers is difficult. Collective action demands the ability to split the costs of organising among all those who benefit from the outcome of representation. However, the more binding the administrative and participation costs of organising, the higher is the incentive for the individual to free-ride on efforts of others. If most informal workers choose to do so, this may ultimately prevent collective action and the production of the associated shared benefits. The collective action problem may be particularly of significance for the chronic poor, given their low income and highly insecure jobs.

There are a number of actions that governments can undertake to increase informal workers' ability to have their interests represented and eventually even formalise. First, governments can formally recognise the different informal job types, so that informal job holders fall under the legal framework that governs labour markets. This would guarantee their right to freedom of association and collective bargaining. While opening legal and civic space for voice and representation, government recognition may instil a feeling of identity that further promotes workers movements. In Brazil for example, domestic work has been recognised by national labour laws since at least 1973. This official recognition might have spurred the formation of associations and unions of domestic workers in the wake of the country's democratisation and the re-established freedom of association. The result was the creation of 45 unions in different regions of the country and umbrella organisations at the national level in the decades after the transition (Moreira Gomes et al., 2010, Cornwall et al., 2013). In Cape Verde, domestic and other informally employed workers were also included in social security including health insurance provisions, and employers have been encouraged by government to subscribe to these and support their workers' contributions.¹³

The Brazilian case indicates that voice and representation of the working poor within the informal economy is often rooted in grassroots associations that eventually forge networks and umbrella organisations, reaching national level decision making. Being formally recognised and using the civic space to engage with other civil society organisations, domestic workers were able to influence the reform of the Brazilian constitution that took shape in 1988. The new constitution provided domestic workers with new labour rights such as a minimum wage, maternity leave, or a fixed set of paid leave days (Cornwall et al., 2013).

¹³ Interview with Adesida Olugbenga, 21/2/13

Formal recognition of informal jobs is often preceded by an acknowledgement of these jobs by policymakers and the public. Including informal jobs into the official labour market statistics (derived from national labour force surveys) can help to create this awareness amongst policymakers. Due to the increasing share of informal employment in the national economy, in Moldova the ILO developed a project to provide statistical information to policymakers. The project helped to address misunderstandings about the nature of informality and its activities. For example, the Bureau of Statistics organised seminars for all stakeholders to brief them on the statistics behind informal employment (Chen et al., 2005).

External assistance in the form of both capacity building and financial support can also promote collective action, though civil society organisations or trades unions may be better placed than the government to do it. Capacity building often focuses on strengthening the organisational capacities by providing training in areas such as management, planning, communications, monitoring and evaluation and networking. Financial support addresses the scarce resource base many organisations for the poor face, given low abilities to raise membership fees from their members (Chen et al., 2005). An example from India shows how external organisations can reduce the barriers of collective action faced by the poor (Box 16).

Box 16: Tackling collective action problems amongst the chronic poor in India

In India, a common vehicle of bringing development to rural communities is through self-help groups (SHGs) that promote group savings and joint-liability lending and frequently target women. However, achieving these goals requires coordination of the members, which imposes a typical collective action problem on SHGs. This organisational challenge is further exacerbated by women's low income, unstable work arrangements, domestic obligations, and low level of education. As part of a social experiment on the impact of SHGs on the socio-economic well-being of the members, India's well-known Self-Employed Women's Association (SEWA) was one of many civil society organisations that supported the formation of the SHGs. In terms of organisational development, SEWA provided training on how to interact with local government officials and leadership. It also provided management support for the implementation of electing SHG leaders and group governance. This ensured that women were able to work together towards a common goal and avert the problem of free-riding.

Source: Desai et al. (2012)

The case of the Movement of Rural Landless Workers (MST) in Brazil may serve as an example of an organisation benefiting from both internal and external sources of funding. The organisation was founded in 1984 to advocate agrarian reform for the benefit of landless rural farm worker households. The movement's members contribute at least 2% of their income to the MST, but the state governments, the Catholic Church and the European Union, amongst others, also provided financial resources. These financial resources also allowed the activists of the organisation to assist more than 800,000 families to register for land and around 350,000 households to successfully occupy previously unused land (Eckstein and Crowley, 2003; Wolford, 2010).

Overall, the experience of India and Brazil suggests that hybrid organisations that combine local initiative with external support may be a promising model to facilitate collective action by the poor.¹⁴

3.3 Agriculture

Agriculture and rural development are fundamental to addressing chronic poverty in MICs, since the poorest are still largely rurally based and the majority rely on agricultural activities for some part of

¹⁴ See Booth (2012) for a discussion of the issue in reference to Africa.

their income. Pro-poorest economic transitions away from a dependence on agriculture have not been achieved by abandoning the sector but rather by strengthening its capacities through resource conservation, information and technology extension; by maximising its benefits through market and value chain developments; and by diversification beyond primary commodities into value-added supply chains and non-farm rural industries. Once considered a sector unworthy of investment owing to low returns; increasing efficiencies in agriculture are now understood to enable broader benefits to food security, employment creation and the lifting of rural wages. The result of progress in these areas also has the paradoxical effect of reducing dependence on agriculture as rural economies diversify and rural workers migrate to urban employment opportunities (Timmer, 2005).

Strategies to increase agricultural productivity need to include small farmers and landless people if they are to be pro-poor. Agricultural liberalisation, a common transformative strategy used to enter global markets and attract investment, is unlikely to improve the incomes of the poorest if access to human capital and physical infrastructures do not accompany this transition (Ravallion, 2006).

Poorer households on their own are not positioned to take advantage of newly opened markets where the uptake costs are prohibitive. In Senegal and possibly other countries, smallholders who have not been able to remain independent producers in demanding global value chains have found supplementary and relatively well paid work on the farms of those who do remain (Maertens et al, 2009). Public investments in rural roads are needed to reduce transport costs; communication channels need to be developed to extend market information to remote areas and social capital development for producers' organisations may be needed to enhance smaller producers' bargaining positions in the face of expanding global value chains (OECD, 2006). These transformations require a closer look at agricultural labour markets, since one third of the world's workers are now found in agriculture. Among this emerging labour force are some of the most marginalised and insecure workers, many of them women or children. Regulations on farm workers' conditions and terms of employment are needed, as is education on farmers' rights and enforcement of child labour laws (Shepherd et. al, 2012).

Whereas the case of China demonstrates a pro-active decentralisation and liberalisation agricultural strategy (Box 17), Senegal shows the implications of an inactive one. On the heels of drought and economic failures in the 1980s, the Senegalese government retreated from the sector. Up until that point, like China, the state had tightly managed the farming sector by sponsoring and managing state cooperatives. Upon retreat public resources were withdrawn, and though initially these were replaced by international aid, a change of government in 1990 refocused the sector towards international investment and trade, neglecting infrastructure investment (Hrabanski, 2010).

As a result of this retreat, the agricultural sector in Senegal has lagged behind other sectors in productivity gains. What gains in labour productivity have been made have primarily been from agricultural labour moving to more profitable activities (Berthélemy, Seck & Vourc'h, 1996).

Box 17: The political economy of agricultural investment in China

China's period of remarkable poverty reduction after the 1980s is largely attributed to growth in the agricultural sector, which also provided more equitable income effects than growth in urban sectors (Ravallion & Chen, 2007).

The turning point for this rural transformation occurred in 1978 with the introduction of individual ownership over farm outputs through the Household Responsibility System, which incentivised longer-term private investments. Responsive regional investments occurred through a fiscal decentralisation strategy that tied regional economic growth to local governments' performance evaluations, thus creating incentives for local governments to facilitate rural growth (Heady, Kanbur & Zhang, 2008). Supportive rural investments in China have included: irrigation, rural roads and fertiliser production; science and technology research; diversification from staple grains to satisfy demand for higher value

goods; the promotion of off-farm employment through the development of village and small-town enterprises; and human capital investments in education and farmer extension services (OECD, 2010).

This broad-based agricultural policy reform was partly a response to crisis. Having experienced famine only a decade earlier, when China's economy faced near collapse at the end of the Cultural Revolution in the 1970's; local and national policymakers were aware that a failure to act would result in a renewed food shortage crisis (Headey, Kanbur & Zhang, 2009).

Early policy responses took the form of direct investments, subsidies and price controls to build the resilience of the agricultural sector. However in later stages, progress towards the elimination of rural poverty have been linked to diversification and support for rural non-farm industries to integrate rural economies into the gains of broader economic growth (Timmer, 2005).

Box 18: Agricultural labour legislation reform, Brazil

Until 1988, labour law in Brazil distinguished between agricultural and non-agricultural workers. In 1963 a separate statute was enacted to recognise farm labourers, but these rights were limited and fell short of those granted to workers in other sectors. In 1988 a constitutional reform granted equal rights to urban and rural workers. This guaranteed protection against unfair dismissal, minimum wage, maximum working hours, annual paid leave, social security, safe working conditions and collective bargaining rights (Cotula, 2002).

Brazil has seen real wages increase, particularly at the lower end of the wage distribution, and corresponding reductions in inequality since the 1990s. Income from work explains 70% of poverty reduction in Brazil between 2001 and 2008, and minimum wages account for 36% of the decline in inequality (Arnal & Förster, 2010).

Agriculture, rural markets and farm labourers should not be segregated from national progress since growing rural/urban inequities are inefficient, raise social tensions, and are regressive towards poverty reduction efforts. Rural development has spill over benefits beyond raising farm incomes: sustainable production of primary goods helps maintain national food security; rural roads encourage spatial integration and benefit trade in other sectors; and small town development relieves urban pressures, thus mitigating risks associated with rapid urbanisation. Agricultural development is therefore a fundamental step to a more comprehensive and well-managed growth strategy.

3.4 Addressing spatial poverty traps through regional development

Chronic poverty has a strong spatial dimension. Even where countries succeed in growing their way out of poverty, some regions may be left behind for a variety of reasons – geographical isolation, agro-ecological disadvantage, or historical-political discrimination against minorities, and the result of policies of neglect, or a combination of these factors. Sometimes these regions are sites of persistent conflict. Spatial poverty traps should be taken seriously by policymakers. Most household surveys indicate that there is a strong regional dimension to poverty and inequality. The numbers of people in spatial poverty traps are significant. They experience compound disadvantages – they are multi-dimensionally poor, and unlikely to escape poverty without significant changes to their socio-economic environment – the 'bad neighbourhood' effect (Bird et al., 2010).

Even in many of the country case studies considered in this guide the chronically poor people are concentrated in the most deprived regions – Brazil's and Thailand's northeast; Cape Verde's outlying islands; China's western region; Tunisia's northwest for example. However, these countries have also had strong regional programmes and/or have devolved power to regions and localities. These

measures have contributed to social cohesion and pro-poorest growth, and reduced the likelihood of inter-regional conflict.

According to the 2009 *World Development Report*, spatial inequality is beneficial for development, as fast growth in one region has positive spill-over effects on the rest of the country. The implication is that governments should restrain from trying to produce even development across regions, as this would be either useless, or have unintended negative consequences. However, there is a significant danger that spatial unevenness gets firmly embedded in a country's pattern of development, and it is hard to root out, with damaging consequences for people's wellbeing and rights. Entrenched bi-modal patterns of development are especially likely in countries where development agglomerations occur around one or more mega-cities. The larger danger is to social cohesion.

Successful policy responses to spatial poverty traps combine macro- or enabling, sectoral and household targeted measures in a layered approach (CPRC, 2008). Policy frameworks (national development plans, Poverty Reduction Strategies) do very often recognise spatial inequality as a problem. (Interestingly, donor policy frameworks do not.) Enabling internal (and external) migration is a key enabling policy, so that private transfers can even up income earning at least to a degree. Cape Verde is a country that has created a good institutional framework initially for emigrants who remitted to the islands, then for migrants between its islands, and now for in-migrants too. Thailand's policies have enabled migrants to take advantage of social services wherever they are, unlike the situation in China or India, which put barriers to inclusion in front of migrants to urban areas (China) or between states (India). Equalisation grants may be needed to provide the additional resources required to run services to adequate standards in remote regions. These are the kinds of macro- enabling factors that are important.

Sectoral programmes can take account of spatial differences. For example, *Progresas/Oportunidades* in Mexico was originally targeted to the poorest districts and gradually expanded outwards from that initial targeting. Education initiatives for the poorest areas can help to provide incentives to attract good teachers and create a good infrastructure.

There are many examples of successful local or regional development programmes. Box 19 gives the example of Viet Nam's Programme 135, which contributed to poverty reduction, although it was not sufficient to prevent an increase in inter-ethnic inequality (Baulch and Hoang Dat, 2011).

Box 19: Viet Nam's Programme 135

As part of a larger effort to address issues of persistent poverty, the Government of Viet Nam (GoV) initiated the Programme for Socioeconomic Development in Communes Faced with Extreme Difficulties (also known as Programme 135 or P135) to address some of the challenges facing disadvantaged areas. The first phase of the programme (1999-2004) reached 2,374 communes (MOLISA and UNDP, 2004). Communes targeted were in ethnic minority and mountainous areas. These areas were geographically remote, experienced harsh agro-ecological and climatic conditions and had few opportunities to participate in and contribute to Viet Nam's economic growth (Thuat and Quan, 2008).

Programme management was decentralised to the commune level. Funding came largely from the central government, although some provinces provided funding too. Funds were allocated equally to each 'poor' district and disbursed to each commune. Investment focused on five areas: i) Infrastructure at the village and commune level (e.g. roads, health centres, schools, irrigation systems, water supply systems and markets); ii) Infrastructure at commune-cluster level (e.g. inter-commune roads, clinics and markets); iii) Settlement of ethnic minorities; iv) Agricultural and forestry extension programmes; v) Training of commune-level cadres (MOLISA and UNDP, 2004).

The programme allocated roughly 95.5% of funds to infrastructure at either the village and commune level (76.4%) or the commune-cluster level (19.1%). As a result, most local authorities treated the P135 as a channel for receiving central government investment in commune infrastructure (MOLISA and UNDP, 2004).

Between 1999 and 2004, P135 supported more than 20,000 small infrastructure projects and training for over 155,000 community staff. The programme is credited with making important contributions to poverty reduction in targeted regions. Indeed, between 2002 and 2006, the Central Highlands experienced an annual 5.8% reduction in poverty and the North West region experienced an annual 4.8% reduction in poverty (Thuat and Quan 2008).

Qualitative analysis of the effectiveness of P135 infrastructure programmes confirms this positive assessment. In a study conducted by the Ministry of Labour, Invalids and Social Affairs (MOLISA) and the UN Development Programme (UNDP), 85% of respondents said road construction under P135 had a 'significantly positive impact on their lives,' whereas roughly 75% noted that irrigation projects had a 'significantly positive impact on their agricultural production' (MOLISA and UNDP 2004). In both cases, the main reason given for a lack of satisfaction was poor quality.

The real value in P135 seems to have come from the sheer quantity of its investments and the focus on better connecting remote communities to services and national growth processes. The MOLISA/UNDP study concluded that improvements could be made to the second phase of P135 by increasing the focus on capacity building to enable further decentralisation, which was thought to be crucial to meeting local needs and ensuring that P135 targeted poor people, rather than wealthier people, living in 'poor' communes (Higgins et al., 2010).

3.5 Conclusions and recommendations

The enabling factors for pro-poorest economic growth can be developed from the more generic agenda for pro-poor economic growth. For the poorest there needs to be more policy emphasis on employment, agriculture and regional policies which provide incentives for pro-poorest action. Underlying power structures and institutional dynamics will be essential in determining whether such policies are prioritised.

On employment, the main policy recommendations are the following:

1. Create a macro-economic environment that is conducive to business development.
2. Complement these business policies with labour market regulations that ensure decent work.
3. Extend this legal framework to informal workers both in the formal and the informal economies. A starting point is to formally recognise the different informal job types held by the working poor.
4. Strengthen the statistical capacities and data collection within the informal sector to determine both scope and composition of the informal sector. This helps to identify the different informal job types held by the working poor.
5. Provide direct support to those member-based organisations that represent collective-bargaining interests of the working poor in both the formal and informal economy. External support must comprise of both capacity building and financial aid. The former helps to solve the collective action problem by establishing well-functioning operational and management procedures. The latter addresses the financial constraints that member-based organisations of the poor face.

6. Build up administrative capacities to ensure systematic and sufficient labour inspections in both the formal and the informal sector.

On agriculture and rural development:

1. Facilitating rural development is necessary to integrate poorer rural residents into broader economic growth and to minimise rural-urban inequities as national incomes rise.
2. Market liberalisation must be accompanied by adequate rural infrastructure and human capital investments to ensure sustained market participation among the asset-poor.
3. As agricultural wage markets become more prevalent, labour rights already guaranteed in other sectors should be extended to farm workers, where necessary also accounting for their distinct vulnerabilities.

On spatial poverty traps:

1. Recognise spatial inequality as a problem in national development plans and include regional development as an objective of the development strategy.
2. Implement initiatives in the most deprived regions which target the most deprived groups (e.g. ethnic groups) and the different dimensions of the deprivation they face. This involves investing in transport infrastructure, access to services, and generating incentives for teachers and doctors to relocate to these areas.
3. Implement macro and sectoral programmes that take account of spatial differences, enable internal and external migration.
4. Activate specific funding mechanisms such as equalisation grants. Fiscal devolution can also be of help if local authorities have the sufficient administration capacities and can guarantee a minimum of accountability to the centre and to the citizens.

4. Social Policy

Sustained poverty reduction requires more than getting economic policies right. Complementary social policies which allow the chronic poor to obtain a more equal share of the gains of economic growth that many MICs have experienced are required. The most crucial policies in this respect relate to education, health and social protection investments. This section outlines the main aspects of strategies to foster social development and thereby address chronic poverty within each sector; looking at the experience of the ten country case studies. It concludes by building the case for a multi-sectoral approach which combines education, health, and social protection interventions within an overall strategy towards social development.

4.1. Education

This sub-section draws upon the CPAN Education Policy Guide (Hossain et al., 2012), which illustrates recent actions and debates on the relationship between education and chronic poverty. The key policy actions identified are: widening the focus of education policymaking to go beyond primary education to include early childhood and post-primary education; as well as the creation of clear links with the labour market. This pro-poor education strategy is singled out as one of the best policy options to address long-term poverty.

Widening the Policy Focus beyond Primary Education

In the recent past, many MICs have made substantial advancements towards universal primary education. However, in order to avoid the middle-income trap, MIC governments must also widen their policy focus and look beyond primary education. Other areas such as early childhood development or vocational and professional training make significant contributions towards a successful transition of the chronic poor into labour markets (Hossain et al., 2012).

In particular, Early Childhood Development interventions (ECD) that support children during their most intensive period of brain development are considered to be very promising. Ideally, comprehensive early child development programmes include pre-school enrolment, parenting, nutrition and health components. Evaluations of ECD interventions show very satisfactory benefit-to-cost ratios as large as 17.6 to 1 on a global average (Engle et al., 2011). An illustrative country example is Ecuador's *Educa tu Hijo* (Educate your Child) programme, whose participants achieved moderately but consistently higher cognitive scores than a control group (Tinajero, 2010). The high availability of television and radio in MICs helps to increase outreach of ECDs. Countries like Indonesia used interactive radio instructions (IRIs) to improve the quality of the preschool teaching. Children that are subject to IRIs attain better learning results than a control group (Ho et al., 2009).

MICs can undertake interventions that help the working poor make a better transition into the labour market. The demand for employees with post-primary qualifications, and especially tertiary education, is growing due to skill-demanding technological change in many economies (World Bank, 2006).

Additional relevant interventions for the chronic poor are technical and vocational training, second chance schemes and life skill development programmes (Hossain, et al., 2012). These often constitute an important component of active labour market interventions that aim at helping unemployed people to find work. In several middle-income economies, half of the youth labour force is without jobs. Youth unemployment should be a major concern for policymakers, not only for its economic but also for its social consequences. The 2011 riots in Tunisia and Egypt show that youth unemployment can undermine social cohesion. An effective action that policymakers can take is to design programmes that are best attuned to the educational needs of the target group (IEG, 2013).

Box 20 illustrates three examples of educational labour market programmes in middle-income countries.

Box 20: Three examples of employment skill programmes: Tunisia, China and Colombia

Facing high unemployment rates amongst graduates, the Tunisian government launched an employment programme to foster self-employment and entrepreneurship amongst university graduates in 2009. Instead of writing a university thesis, students could participate in an entrepreneurship track that required the development of a professional business plan. In order to do so, they were supported through business courses (*Formation Création d'Entreprise et Formation des Entrepreneurs*) at local employment offices and personalised mentoring by their university professors. As the last step of the entrepreneurship track, students had to defend their business plans in front of a panel and could participate in a national competition. The best plans were awarded with start-up capital of between USD 2000 to 10,000. Results suggest that the programme led to a partial substitution of self-employment in place of wage employment for beneficiaries.

China systematically evaluated a retraining programme for workers laid off due to reforms of state owned enterprises in the cities of Shenyang and Wuhan. The results suggest that retraining can increase both employment and real wages for those who find jobs. However, those effects vary across the two locations. In Shenyang, participation did not increase employability but delivered a positive effect on earnings for those that managed to find jobs. In Wuhan, participants were more likely to find employment while not experiencing any wage effect. The differing results are not only explained by differences in design (with the training programme having a more practical content in Wuhan), but also by the overall business environment in both cities.

Colombia subsidised vocational training (*Jóvenes en Acción*) for disadvantaged adolescents. Training consisted of three months of classroom training and provided necessary skill sets for occupations in office administration, IT jobs, or in tradesmanship. After completion of the course, participants moved on to an internship at local firms to obtain practical experience in their new professions. Evidence suggests a significant impact on formal employment and real wages for both men and women. However, the latter benefitted significantly more.

In general, educational labour market interventions can have a significant impact on employment, particularly if the skill levels of beneficiaries are low to start with. However, careful design and targeting is required to attain any positive effect on real wages and employment: for instance, training must have a practical content, ideally designed in close collaboration with potential employers. In more developed formal economies, complementary support services such as job search assistance is necessary to obtain sustained effects over time.

Sources: Attanasio et al. (2011), Bidani et al. (2009), Premand et al. (2012).

Making education facilities more pro-poor

Social development is not only a matter of choosing the right policies but also of effective service delivery. In this respect, it is fundamental to expand access to education options while improving their quality (Heckman et al., 2003, Hossain et al., 2012). Senegal, for example, has made great strides towards universal primary enrolment since the 1990s (9th best performance among MICs), but simultaneously suffered from a decline in quality (Niane, 2004).

Reforms to expand access to education while maintaining a sufficient level of quality require adequate funding. Adequate funding levels are a function of many country-specific variables such as current levels of education infrastructure, which makes generalised recommendations difficult. However, a simple comparison of public expenditures on education might provide a general guideline on what is required to address the middle-income trap. In 2008, high-income countries spent around 5.2% of

their GDP on education (i.e. primary, secondary, and tertiary) on average compared to 3.76% by lower middle-income countries, and 4.61% by upper middle-income countries.¹⁵ These data suggest that graduation towards the high-income category would require an increase in spending on education from both lower and upper middle-income countries. In addition there is a need to make sure that poor regions and localities have additional funds to cope with the additional educational disadvantages they face. Local government equalisation grants are often not adequate to the task

With adequate funding, governments can increase the supply of adequate education materials and infrastructure, improve teacher training and support, curb class sizes to moderate levels, as well as establish teaching in appropriate language (Hossain et al., 2012). Diversifying the language of instruction and sensitising teachers towards culture-based differences can be an effective step towards making educational systems more inclusive of ethnic minorities (Tayyaba, 2010).

The direct and indirect costs of schooling are major deterrents for chronically poor families. In this respect, interventions such as scholarships and cash transfers have worked well to protect against economic shocks and reduce dropout and erratic attendance for at-risk groups (Hossain et al., 2012). In particular, conditional cash transfers (CCTs) have become a well-established tool to address chronic poverty.

Box 21: Brazil: a success story in improving school quality and education access

In 1995, the Brazilian government took action to improve the performance of the education sector with a set of innovative policies. A reform in the financing system guaranteed a national minimum level of spending per student in primary education to all schools. This entailed a significant rise in school resources, especially in the traditionally disadvantaged regions of Brazil's northeast. To achieve this minimum spending level, a funding system (FUNDEF) that redistributed funds across states through a common pool was established. The funds were topped up by supplementary federal resources and it was possible to mobilise resources necessary for complementary interventions such as increase in teacher salaries or higher quality teacher training programmes. The direct outcome was a significant increase in basic education spending from around 2% of GDP in 1995 to approximately 4% in 2008.

Additionally, Brazil built one of the world's most effective systems for education results measurement. Its transformation to a census-based testing tool allows standardised tracking of learning improvements over time, and also constitutes an important source of public information on school and sector performance, strengthening accountability to both policymakers and parents.

Brazil also introduced a conditional cash transfer programme (*Bolsa Escola*) in 2002, which positively influenced education-seeking behaviour of low-income groups. Conditional upon regular school attendance and health check-ups of their children, families obtained monthly payments. This significantly decreased the opportunity costs of sending their children to school for the chronic poor. In 2003 the programme was scaled up and eventually reached around 12 million households throughout the country.

Source: World Bank (2010a)

Whereas the first generation of CCTs often relied on proxy means tests to screen target groups, some countries started administering gender-targeted CCTs to explicitly address intra-family disparities in terms of human capital development. For example, the Government of Punjab, Pakistan, launched a gender-targeted CCT, the Female Secondary School Stipend Programme (FSSP), to address low levels of school attendance amongst women, especially in rural areas. Evaluations suggest a statistically significant effect on school attendance of around 9%, which also evened out school-

¹⁵ World Development Indicators

attendance across the wealth distribution. In terms of long term impact, beneficiaries are much more likely to complete middle school as well as to delay marriage and to have fewer children (Chaudhury et al., 2008; World Bank, 2010b).

The FSSP is a promising example of tackling gender-based discrimination in school access. Gender discrimination is more common in low-income households, and interlocks with and reinforces other disadvantages common among the long-term poor. Evidence from a large-scale survey in Senegal shows not only that poorer children drop out more than richer ones, but also that girls drop out more often than boys (Niane, 2004). Investing in women's education can strengthen their social, economic and political rights and eventually result in many positive second-round effects such as better early childhood development and increased participation in labour markets and in the socio-political sphere (Hossain et al., 2012). One effective tool to promote female education is the employment of young women as teachers. In primary schools that employ women in Pakistan, the female enrolment rates are around 50% compared to around 20% of those schools without female teachers (Gazdar, 2013).

Brazil's education reform, which started around 1995, illustrates the importance of financial measures, quality assurance, and accountability in order to improve learning outcomes. Brazil's transition towards democracy was earmarked with a new constitution that gives legal recognition to many rights and guarantees, including the right to education. It also mandated that all states, municipalities and the national government had to spend 25% of their revenues on public education. This naturally disadvantaged poorer communities with lower levels of taxes and transfers and also explains the persistence of inequality in educational levels. Nonetheless, the numerous reforms introduced to improve the education sector (see Box 21), turned the country from one of the worst performing education systems of any middle-income economy to one that achieved remarkable success in improving both school quality and expansion. While in 1993, a child with parents of poor educational background on average completed no more than four years of schooling; in 2010 children completed between 9 to 11 years of schooling regardless of their parents' educational background (World Bank, 2010a). Even though its PISA test scores stay well below the OECD average, they have been improving significantly over the course of the years (OECD, 2010).

4.2. Health

We have already seen (section 1.3) that countries successful in addressing chronic poverty have done least well on health outcomes. This is largely because health service investments typically lag behind educational and other infrastructure investments. And yet, poor health deprives people of the ability to learn, earn, and exert influence. The impoverishment caused by the direct costs and income losses resulting from ill health and unnecessary death has been widely documented (Chowdhury et al., 2011). In order to address this 'medical poverty trap', MICs need to improve the provision of effective health services to the poorest – the quality of health services being one of the determinants of health. At the policy level, this requires bringing preventive, curative and rehabilitative health care into a balance that ensures inclusiveness as well as cost-effectiveness of the system.

Towards Universal Coverage

As with the delivery of education services to the poor and the general population, a pro-poor health care system requires sound financing. An increasing number of middle-income countries are advancing towards universal health coverage by pooling contributions from formal workers and better off people into a mandatory health insurance scheme. These contributions are then used to subsidise the premiums paid by poor and informal workers to the same scheme (Gottret and Schieber, 2006). Viet Nam's health finance development exemplifies a fast-paced but successful transition from a low-quality and underfunded health care system into a modern health sector that combines these elements (Box 22).

Box 22: From public expenditure to health user fees and exemptions: the case of Viet Nam

Prior to its economic reforms (*Do Moi*) in 1986, Viet Nam's publicly funded health care system suffered from deteriorating quality, such as the lack of qualified personnel and necessary medicine. To address these issues, Viet Nam introduced user charges at government health centres, opened up health care to for-profit providers, and established health insurance for formal sector employees, which constituted less than 10% of the population.

To mitigate the resulting inequity in health access, user fees were coupled with exemptions granted to households below the official poverty line, ethnic minorities, and residents of communes classified as socio-economically disadvantaged. User fee exemptions increased the poor's utilisation of public health care and correspondingly reduced their usage of private health care and self-treatment. This did not only decrease the risk of catastrophic out-of-pocket spending (i.e. health shocks) but also helped to reduce total expenditure on health care by the poor.

However, a system that was based on user-fee exemptions at the level of frontline service providers did not only turn out to be administratively challenging but also prone to incidences of discrimination and exclusion. In 2005 the system of user fee exemptions was abolished. Instead all the poor were enrolled in Viet Nam's compulsory health insurance with government funds subsidising their premiums. Estimates in 2010 suggest a coverage rate amongst the chronic poor of almost 97%.

Source: Axelson et al. (2009), Castel (2009), Huong et al. (2007), Lieberman and Wagstaff (2009), Segall et al. (2002), Thanh (2010 & 2012), Wagstaff (2007), WHO (2011).

Thanks to this successful transition, 97% of the poor are covered by Viet Nam's universal health coverage (Lieberman and Wagstaff, 2009; see Box 22). However, reaching the last few percent - that is reaching the poorest people - may require additional specific interventions. Brazil provides examples of how to solve the last-mile problem of universal health care delivery. In a country with large disparities, the Brazilian *Sistema Unico de Saude* (SUS) - the Unified Health System - has proved to be an equalising tool and health outcomes have globally improved. For instance, in the 1990s the programme was reformed following claims made by black and indigenous groups that the system did not adequately address their specific needs. Flexibility, access and coverage were improved. The reform contributed to major improvements in health indicators for indigenous people. Despite institutional fragilities and management problems, the case of SUS demonstrates the benefits of fine-tuning health systems to the specificities of certain disadvantaged groups in order to achieve equity in health care access (Coelho and Shankland, 2011).

Quality in health care

The effectiveness of pro-poor health service delivery ultimately depends upon equity in access, and quality and range of the services provided. Health care faces the same sort of implementation challenges as education. Besides ensuring equity in access, the quality of health care accessed by low income households must be at a sufficient level to attract them. This can entail both supply-side and demand-side interventions. The former includes adequate training of health care staff, appropriate equipment or the provision of necessary good quality medicine. The latter includes measures to empower low-income service users by strengthening accountability of service providers on their performance towards the chronic poor or by increasing the control of the poor on the service they can access. Box 23 summarizes the results of a pilot that combined both supply- and demand-side interventions to improve the quality of sexual and reproductive health services.

Box 23: Competition and its impact on perceived quality of reproductive care

Nicaragua has the highest adolescent fertility rate of Latin America, which is associated with high rates of unwanted pregnancy and high maternal mortality rates as well as with poverty and poor

educational attainment. Factors contributing to this problem are lack of access to information about sexual and reproductive health (SRH) and general low quality of the health care system.

In order to increase accessibility and quality of SRH care to the poor, a pilot voucher programme was introduced by the government. Between 2000 and 2001, almost 30,000 vouchers were distributed to young women and men aged between 12 and 20 in chronically poor areas. The vouchers entitled free-of-charge access to SRH care in any of the public, five private, and NGO clinics located in the project area. The facilities received reimbursement for treatment. Medical personnel completed training sessions on adolescent friendliness, counselling, adolescence and sexuality, contraceptives, and sexual abuse. Quality was monitored by review of medical forms, and interviews with both doctors and beneficiaries.

A quasi-experimental evaluation of user satisfaction revealed that the vouchers increased the self-confidence of the participants, since it empowered them to seek SRH without having to rely on other family members for information on clinics or coverage of user fees. Furthermore, user surveys revealed high levels of service quality. Clinic staff were trained in receiving adolescents and respecting their privacy. The competitive nature of the programme allowed adolescents to select a clinic with a good reputation and which made them feel comfortable, which prompted providers to improve the quality of services to attract more voucher bearers.

Source: Meuwissen et al. (2006)

4.3. Social protection

In addition to investments in education and health, sustained poverty reduction requires interventions that help the chronically poor to cope with the social, economic, political shocks and other negative events that may occur over the course of their lives. The poor hardly have access to appropriate risk-coping tools and thus are particularly prone to suffer from the negative consequences of natural disasters, economic crises, unemployment, or life-cycle events such as divorce or widowhood. To protect both the poor and the vulnerable from risk-related poverty traps, many middle-income countries have introduced social protection (SP) measures to support communities, households and individuals in achieving secure livelihoods.

Implications of the heterogeneity of poverty

The chronic poor are a heterogeneous group, which calls for more systematic and nuanced policies to support each of the sub-groups in their risk-management capacities. In China, for example, traditional poverty reduction efforts which aimed at boosting agricultural production of the active poor have often not reached impoverished people with disabilities. Disabled people are often not able to respond to these types of measures because of the physical constraints imposed by their impairments, as well as by the constraints resulting from social prejudices. The Government of China launched specific policies tailored to their needs, including both in-kind support (i.e. food and clothing) as well as technical training in agricultural production. These efforts, undertaken by the central government, local governments, and the China Disabled Persons' Federation, resulted in reduction of the number of absolutely poor people with disabilities from 20 million in 1992 to 11 million by 2007 (Dongmei, 2009).

The Chinese example demonstrates that effective social protection requires addressing the specific needs of different categories of chronic poor, employing a wide range of policy options. This in turn requires a thorough understanding of the profile of the chronic poor. The information needed can be provided by rigorous poverty assessments. For instance, poverty assessments undertaken in Pakistan identified poor women as the largest vulnerable group. Accordingly, the Benazir Income Support Programme (BISP), which was launched in 2008 by the newly elected Pakistan People's Party (PPP) government, chose women as the programme's target group. As this was the new

flagship of the government's efforts to fight poverty, it was agreed to conduct several pilots to refine the programme's overall design before nation-wide roll-out. These field tests improved the beneficiary selection procedures and the overall targeting of the programme, especially in comparison to Pakistan's previous social assistance programmes (Shanza et al., 2010).

Another example of modification in the design of social protection programmes to address the specific needs of the poor is provided by Ecuador's *Bono de Desarrollo Humano* (BDH). In 2003, the Ecuadorian government streamlined its social assistance programmes to not only extend its coverage to the poor but also to put in place a design that was more effective in addressing common sources of poverty: lack of human capital accumulation and access to or use of health care. An impact evaluation of the BDH in 2004 revealed an increase in school enrolment by 10% and a drop in child labour of 17%. A cost-benefit analysis suggested that the educational benefits alone were sufficient to justify the intervention. In fact, the increment in future earnings for children as a result of the increased years of schooling were found to outweigh the programme costs, even at the very modest growth rates achieved by the Ecuadorian economy (Grosh et al., 2008 ; Schady et al., 2006).

4.4. Conclusion and Recommendations

Social development requires massive human capital investments in various sectors, most crucially in education, health, and social protection. Interventions in these sectors are complementary and supportive of each other. A holistic approach to social policies is needed to align and fine tune each of these interventions towards the overarching goal of better managing the risks the chronic poor are exposed to. Key elements of this approach are:

1. **Take advantage of the synergies between social protection, education and health:** an integrated approach should replace the predominant strategy of starting with education and investing in wide coverage health and social protection only when there is violent protest or the threat of it.
2. **Pursue it early on:** social development of the chronic poor and vulnerable can be pursued much earlier in a development policy sequence than has typically been the case, as an essential part of a national poverty reduction and development strategy, and it is possible to construct a convincing political narrative for this.
3. **Make the right policy choices:** within each sector, policymakers need to choose the right combination of interventions. In education, evidence suggests large returns to investments in pre- and post-primary education, in particular in early childhood development, and in supporting the poorest children through the system. Similarly in health, a policy focus on preventive care seems to pay off economically and socially. However, this has to be balanced with the need for access to quality curative, maternal and child, and sexual and reproductive health services; all of which are critical to prevent impoverishment, unnecessary deaths and prolonged illness or disability. In order to choose the best options, not only within sectors but across sectors, social interventions require a well-informed and rigorous understanding of their target groups and their specific needs. For example, in choosing the right set of education reforms, MICs must consider the state of their education systems and how well it meets the needs of children in getting prepared for life and labour markets.
4. **Get the policies right:** social policy effectiveness often hinges upon careful design and implementation. Corrective measures might be necessary to attain high levels of quality in service delivery. For example, Nicaragua's Sexual and Reproductive Health voucher programme was complemented by additional measures to boost the quality of the services provided. Proper field testing before scaling up helps to refine designs, something that China does consistently across sectors. Rigorous quality measurement, as exemplified by Brazil's

census-based school performance test, are necessary to track sector performance in particular with regards to the poor.

5. **Ensure coverage:** services must be or become universally accessible, and strategies are required to achieve this – it can be progressively more difficult to go the last mile and reach the unreached. Eligible individuals, households, or communities must be able to access services and benefits they require to build up resilience towards risks they are exposed to. As the case of universal health policies in Brazil shows, however, universal access policies still require additional targeted interventions that are attuned to the characteristics, cultures and geographies of the least protected groups such as ethnic minorities, or women, to attain full coverage.
6. **Foster coalition-building to overcome obstacles to pro-poor reform:** in order to build a consensus behind the massive investments that are required in these social sectors, and the sometimes challenging reforms required to include the poorest, cross-state and civil society coalitions will be enormously helpful. On certain issues, including private sector leaders would also be critical for the formulation of better policies – for example to progress towards the reduction of harmful child labour, or the development of meaningful links between education and labour markets.

5. Conclusion and recommendations

The analysis carried out in this Guide delivers a clear policy message concerning the route followed by countries that have successfully tackled poverty in a context of economic growth.¹⁶

A strong nation-building project, driven by a far-sighted but also responsive leadership, lies behind the success stories that we have examined. This expresses itself most often as an economic project – focused on economic growth, structural transformation, and aspirations to be a fully developed or industrialised country. That project is always supported by substantial public investment in education – and beyond basic levels. It sometimes includes health objectives and gradually expanding social protection (e.g. Tunisia, Cape Verde), but often these aspects of nation building come later, in response to protest, crises (China), or political movements and regime change (Thailand, Pakistan).

The economic content of successful countries' chronic poverty strategies focuses on labour. This implies firstly, the strategic adoption of labour intensive manufacturing or services development as a complement to continued strong investment in agriculture, where most of the chronically poor continue to be based. Secondly, labour upgrading through investment in workers' and farm households' capabilities and the creation of a business environment in which labour productivity and job quality issues are addressed. Agriculture remains an important sector, and even structurally transformed countries continue to invest in this. Where the poorest people are very dependent on self-employment in agriculture, and especially in the agriculture-dependent regions that are often the most deprived, supporting them in agriculture is an important part of the picture. Building the rural non-farm sector is equally important, as it will provide jobs and self-employment opportunities which will help to raise agricultural wage rates.

Having established the route followed by successful countries, the question becomes whether and how other countries can follow the same route. The following sections provide elements to answer this question in two ways. Firstly, on the grounds of the experience of the ten country case-studies examined in the previous chapters, policy recommendations are drawn by country learning group, following the classification proposed in Chapter 1. Secondly, considerations are made on the political trajectories followed by the countries case-studies, and the possibility for other countries to follow the same. On the grounds of this analysis, recommendations are also made for donors.

5.1 Recommendations by country learning groups

Lessons for MICs

In Chapter 1, middle-income countries were classified according to the degree of their structural transformation. This was measured by three indicators: share of GDP from agriculture (an indicator of economic transformation), the dependency ratio (for social transformation) and urbanisation (measuring spatial transformation). The analysis produced five categories: i) a largely 'Latin American' category – urbanised, diversified from agriculture with medium dependency ratio - Brazil featured in this category as the most successful country in reducing chronic poverty; ii) a group of countries with low dependency ratio less economically diversified and urbanised than the previous category (e.g.

¹⁶ Not surprisingly, given our focus on chronic poverty, this analysis differs from that of the generic studies of successful development highlighted in Section 1. In common with the Human Development Reports, there is a strong policy focus on human development. Unlike either the HDRs or the UNU-WIDER analysis there is also a strong focus on wage labour and improving the share of income going to wage labour.

Indonesia and Tunisia); iii) a medium transformation category with relatively low dependency ratios and substantial urbanisation, but without strong diversification from agriculture, with the exception of Cape Verde and its diversification into tourism; iv) an Asian group (including China and India) with lower but fast evolving levels of urbanisation and dependency ratio; v) a low transformation category led by Pakistan, Senegal and Nicaragua.

On the grounds of the lessons learnt from the ten case studies analysed in this Policy Guide, Table 5 outlines the policy priorities for each of these five categories, also indicating the political factors that can enable or constrain their implementation.

Table 5: Policy priorities by MIC country category

<i>Country category</i>	<i>Priority policies</i>	<i>Why? And the politics</i>
<p>‘Latin American’ group</p> <p>+ Lebanon, Jordan</p> <p>+Gabon, Congo Rep.</p>	<p>Comprehensive social policies (including social protection and gender equality measures) which exploit the synergies between them.</p> <p>Efforts to ‘go the last mile’ in reaching the unreached in social services.</p> <p>Sound macro-economic policies supporting growth and containing inflation.</p> <p>Investment in knowledge based economy, and providing educational leg-ups (CCT, TVET, second chance) for young people from the poorest backgrounds.</p> <p>Smallholder-focused approach in agriculture wherever feasible.</p>	<p>These countries are relatively unequal, with excluded minorities (but no data on ++ countries).</p> <p>The redistributive approach rooted in maturing democracies characterising the ‘Latin American’ group may be difficult to replicate in the other countries in this category.</p>
<p>Southeast Asia (Malaysia, Fiji Indonesia) and ‘Mediterranean’ group (Tunisia, Algeria, Morocco)</p> <p>+ Mongolia</p> <p>+ Costa Rica & Cuba</p>	<p>Investment in health and/or social protection to match earlier investment in education, or balance the three as early as possible. Don’t wait for riots to prompt this.</p> <p>Creation of more space for civil society organisations, with a focus on hard to reach groups and difficult socio-cultural issues; allow evolution from service delivery to advocacy.</p> <p>Measures to support transition from labour intensive to labour upgrading economy: active labour market policies, massive investment in post-basic education, strategic attraction of higher productivity industries, infrastructure and R&D - with the objective of generating more high productivity jobs especially for youth.</p> <p>Continued public investment in agriculture, including assets for poor smallholders, better agricultural labour conditions, and support for frameworks for pro-poor markets.</p>	<p>This group, which started out relatively equal, has become more unequal, and is characterised by highly varied political trajectories.</p> <p>A major concern for this groups should be to ensure employment and education opportunities keep up with demand (the Arab Spring is a warning of the possible consequences of failure to do this).</p>

<p>Medium transformation</p> <p>Cape Verde, El Salvador, Philippines as progress countries</p>		<p>This is an extremely diverse group, where recommendations probably need to be developed separately for each country.</p>
<p>Less urbanised Asia</p> <p>Thailand, Viet Nam, Bhutan, China, India, Sri Lanka</p>	<p>Adoption of a thorough trajectory to universal health coverage (Viet Nam/Thailand models).</p> <p>Strengthening measures against gender inequality, especially among the poor.</p> <p>Maintaining strong smallholder agricultural investment programmes and giving strong recognition to agricultural labour.</p> <p>Giving official recognition to informally employed workers, and extending coverage of labour legislation and protection.</p> <p>State encouragement/CSOs given space to support poorest workers' and farmers' organisations.</p>	<p>China and Viet Nam had the Communist political legacy to build on in transition to the market. India and Sri Lanka are mature democracies which will probably follow much more of a 'Latino' and/or populist political route to addressing chronic poverty.</p>
<p>Low transformation, less diversified countries</p> <p>Nicaragua, Pakistan, Senegal + sub-Saharan African countries</p>	<p>Select sectors for labour intensive diversification.</p> <p>Focus on enabling conditions for pro-poor growth – political stability, macro-economic management, agriculture, regional development (where relevant).</p> <p>Strong and balanced social policies, reaching the poorest.</p> <p>Reshape politics to generate a stronger role for civil society in alliance with the state, including hard-to-reach groups and difficult socio-cultural issues.</p>	<p>These countries need to engage in a process of political debate and choice of strategy for long-term progress. This can occur as part of the electoral process, or as part of a social dialogue across major social groups, or both.</p>

Two general points also deserve emphasis. First, structural transformation does not *necessarily* mean that chronic poverty has been or will be addressed. There are substantial numbers of chronically poor people in all of the five categories, so *all* countries should consider how to achieve pro-poor public policy. The good news is that a low level of structural transformation does not prevent progress in poverty reduction: cases of success are found in all five categories of structural transformation. The trick is aligning the country's politics with the needed policy and programmes.

Second, the challenge for MICs heading for HIC status is achieving fast rates of economic growth while maintaining investment in social policies. This is going to be more difficult than it was for Taiwan and South Korea because the possibilities of entry into manufacturing are more constrained today, with the dominance of the Asian powerhouses, than they were in previous decades. Without fast manufacturing growth it will be difficult to increase productivity and create jobs (the basis of shared

prosperity) at the same time. Industrial policy must be given particular care to achieve the double objective of increasing growth and reducing poverty.

Lessons for LICs

In Chapter 2, the structural characteristics today of low income countries aspiring to become MICs were compared with those of the ten MICs case studies in the 1990s. This led to the creation of three plus one additional categories, for which specific policy recommendations are illustrated in Table 6. There is ground for both pessimism and optimism.

Pessimism is motivated by the existence of a numerous ‘no transformation’ category, entirely composed of conflict-affected African countries (with the exception of Benin, which should probably be in the ‘low transformation’ group). Necessarily, the recommendation for this group is to end conflict, sustain peace, and rebuild economies and societies paying attention to the horizontal (inter-ethnic/racial/religious) inequalities.¹⁷

Concerns also exist for the ‘low transformation’ group, because of the presence there of 1990s Pakistan. By 2010, Pakistan had urbanised, but remained economically undiversified with a high dependency ratio and a disputed performance in poverty reduction (Gazdar, 2013). This should worry this group of countries, because it suggests that a low degree of structural transformation can hamper improvements in economic and human development. Nevertheless, Pakistan also has some achievements to its credit, having recently improved gender equality and basic education. Urbanisation has probably facilitated these improvements. Achieving diversification may be more difficult especially for the large number of land locked and/or semi-arid or arid countries in this group, though some, like Rwanda, are making strong efforts.

Finally, optimism is motivated by the two partially transformed groups of LICs (Africa 1, and Asia + Ethiopia and Burundi in Table 6), which contain plenty of good role models to learn from.

Table 6: Policy priorities by LIC country category

<i>Country category</i>	<i>Priority policies</i>	<i>Why? And the politics</i>
Africa 1 (The Gambia, Mauritania, Zimbabwe) Economically transforming, socially lagging	Strong social policies, especially maternal and child health. Measures on gender equality.	These are strange cases where relatively transformed economies and societies retain high levels of fertility. Tunisia and Cape Verde indicate what can be done through early investment in universal health services, and maternal and child health in particular.
Asia + Ethiopia and Burundi	Massive investments in basic and then post-basic education. Progressive improvements in public health services, leading to universal coverage schemes. Generate more diversified and	Economies remain untransformed, but political willingness to massively invest in human development exists. The challenge is to progress the so far limited economic transformation.

¹⁷ Policy recommendations for fragile states are beyond the scopes of this Policy Guide. For a more detailed treatment, see Shepherd et al. (2014).

	liberalised economies to promote formal and informal non-farm work.	Nepal, Bangladesh and Ethiopia are all making valiant attempts to include the poorest through policies and/or civil society action.
Africa 2 (Africa + Afghanistan)	Focus on enhancing social and spatial transformation first and the agenda of this Guide second, as transformation progresses.	Strategies for economic diversification are not easily found, leading frequently to mineral dependence. A very diverse group of countries for which individual sets of policy recommendations will be needed.
Conflict affected African countries	Peace, stability, inclusive politics and policies.	Peace and stability first, but the settlement bringing peace and the post-peace recovery should be inclusive, especially of ethnic groups and minorities whose exclusion has been part of the cause of conflict.

5.2 The politics of poverty reduction: lessons from the political trajectories of successful MICs

As discussed in Chapter 2, achieving pro-poor public policy and pro-poor development is largely a matter of politics. Looking at the ten MICs case studies, it was possible to identify at least three political trajectories that have led to pro-poor outcomes. These trajectories provide lessons for other countries seeking similar improvements.

The 'maturing democracy' trajectory is characterised by a redistributionist model of inclusive development including investment in health, education and social protection. It was found in Latin American countries governed by left-wing coalitions (Brazil, Ecuador, Bolivia, Nicaragua) and in Cape Verde. Cape Verde's presence can be of genuine inspiration for other countries, as recognised by the African Development Bank (African Development Bank, 2012a). It is one of the few countries to have graduated from LDC status, managing to maintain inclusive policy and political continuity despite two changes of party in power since 1991. Brazil's progress in getting to zero while maintaining a pro-growth policy environment is a model for all countries with the sufficient political commitment to implement comprehensive and far-reaching reforms.

The political trajectories found in Asia are more strongly characterised by an elite-driven, growth-based approach, where concessions are made to human development as a requirement of economic growth, and are also driven by crises, political change and the threat of social conflict. Two variants were identified: one in communist or post-communist countries, and one in authoritarian or post-authoritarian regimes.

It is plausible to expect that the redistributive approach to addressing chronic poverty, backed by a 'maturing democracy' trajectory, will be progressively adopted by the countries found in the 'Latin American' group (Table 5), thanks to the conditions created by their high level of structural transformation. In fact, this approach is probably only possible once a country reaches a certain threshold of economic development and reduced economic vulnerability. Economic vulnerability poses considerable constraints to the long term financial commitments which are necessary to build an inclusive national health service and provide long term social guarantees. Graduating from Least Developed Country status, which includes an indicator of reduced economic vulnerability, may provide a good threshold beyond which it should be theoretically possible to begin making such

investments. However, whether a redistributive approach is politically possible, will ultimately depend on the elite's commitment to it.

A populist, elite-based political approach to addressing chronic poverty is instead to be expected by the wealthy oil-rich African and Israel-periphery Middle Eastern countries, where democratic evolutions driven by left-wing coalitions are currently unlikely. In the Republic of Congo, for example, the reinstatement of a French style constitution in 2002 suggests that further developments will depend on the incumbent's political vision and philosophy, as well as the evolution of the currently ruling Congo Labour Party. In this sense, the political parallel could be with Cape Verde. However, the domination of oil in the economy puts Congo, Gabon and other oil rich economies in a separate category, where redistribution is in principle feasible, but politically extremely challenging because of the incentives to use oil revenues to pay rents and reinforce clientelistic networks, in the attempt to ensure political stability. This issue deserves a separate analysis and policy guide.

Paradoxically, it may be easier for the low transformation countries to choose a development route and the underlying political trajectory, provided they engage in a political and public debate on what should be the features of their national-building project. This can be strongly growth-oriented (as in China or Viet Nam), in which case a responsive government is critical so that health and social protection investments are made when they are politically needed (if not before). Or it can be more redistribution-oriented (as in Brazil and Ecuador), if the political alliances allow it; or it can follow a combination of the above (as in Cape Verde, Thailand and Tunisia), learning the lessons of design, sequence and implementation of specific policies, as well as looking at the combinations and synergies from investments in education, health and social protection.

The politically unstable, fragile, conflict-affected MICs, which account for 11% of the world's poor (Sumner, 2012),¹⁸ require separate considerations. Political instability is clearly negative for progress in addressing chronic poverty as well as progress in general – witness the transformations that can occur when political stability is created, as in Ecuador – and conflict is highly impoverishing and a major obstacle to escaping poverty. Almost by definition, top priorities in these countries are building policy consistency, peace and state capacity to include excluded groups. A recent example of a fragile country that managed to increase social and political inclusion is Nepal, which has re-oriented many policies in favour of excluded ethnic groups and regions since the civil war began (Arauco Paz et al 2014).

In conclusion, the generic recommendation that can be made on the strength of this analysis is that countries today should focus their political and policy discussion to the choice of the most appropriate routes to address chronic poverty, on the grounds of their aspirations for structural transformation. Successful MICs and LICs can provide useful examples and models, and each country can draw its own lessons from the successes of others (some countries have identified 'mentors': for example Ghana has had Malaysia), however this must not become a mechanistic exercise. Much can be learnt from others in terms of policies and strategies, and quality of governance, but every country has its unique geographical and historical characteristics, which may make policy transfer difficult. Each country will have to work hard and engage in public debate to identify how to adapt the learnt lessons to its specific context. More importantly, 'choosing' a development route is a highly political and path dependent exercise – few governments are in a position to exercise much choice on such issues for long, but there are moments when such choices can be made – around elections, leadership changes, responses to crises, responses to public debate and gathering evidence on issues. Governments, elites and civil society must make the most of these moments when they occur, if they want to achieve change.

¹⁸ Angola, Sudan, Zimbabwe are on several lists of fragile and conflict affected states; Cameroon, Congo Rep, Djibouti, The Gambia, Iraq, Nigeria, Pakistan, Papua New Guinea, Sudan, Timor-Leste are on one or another list.

5.3 Recommendations for Donors

This section starts with a cautionary note: transformative processes must be driven from within, so donors need to be humble and realistic about what they can achieve. They can facilitate processes of change, but not engineer them from the outside in the absence of domestic forces committed to such change. Understanding contexts, opportunities and constraints is instrumental to change, and action must be grounded on this understanding, rather than on the basis of idealised models (for example, models of governance).

For donors committed to the eradication of extreme poverty, the main recommendation is to remain engaged with LMICs at least over the next decade or so. They can support countries' efforts to tackle poverty by maintaining predictable financial and technical co-operation. Donors can help countries by engaging in a frank dialogue that aims at identifying their policy options. The dialogue must be grounded in a solid understanding of the country context and lead to policy options which are feasible and realistic. External financing should be linked to internal revenue generation and allocation, to guarantee that aid is consistent with domestic policies. Actions aimed at building state capacities could usefully be re-oriented towards those state functions which have a direct effect on the government effectiveness experienced by the poorest people. Donors could also look into creating and sustaining the pro-poorest coalitions across states, civil society and the private sector.

Since many political economies produce growth strategies that include major commitments to public education, but lesser commitments to health and social protection, it makes sense for donors to focus on these last two, though extending the focus to 'beyond primary' education. Clearly, what is needed is systems, rather than pilot projects. Systems depend on commitments of tax revenue, however, so donor engagement on these issues should be as much political as technical. Vertical health funds, which have been a feature of the past, are unlikely to make a long term impact on health-associated poverty. Donor education support needs to broaden out from an almost exclusive focus on primary enrolment, and more recently quality; to encompass pre-school, post-primary and connections to the labour market, especially for the poorest, who probably need guarantees of at least 10 years of education to help their households out of future poverty.

Donors have rightly made much of pro-poor growth during the last decade, but these concerns have not yet percolated strongly into many national growth strategies. This debate needs to be deepened and continued, with strong focuses on how more and higher quality employment can be generated, how the agriculture sector can be strengthened, and how poor regions can be better included in processes of development. Donors could also support civil society organisations that focus on chronically poor wage labourers to improve working conditions and pay.

South-south co-operation at policy and political levels will also be helpful to demystify the success stories. Brazil, China and India are already active; there is another tier of UMICs which could also get active in this respect (Thailand, Tunisia), as well as successful LMICs like Cape Verde.

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Annex 1

Table 7: Across-the-board Chronically Deprived Countries

Across-the-board Chronically Deprived countries - 10 MICs
Angola, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of Congo, Eritrea, Ethiopia, The Gambia, Guinea, Iraq, Kenya, Liberia, Madagascar, Malawi, Mozambique, Niger, Papua New Guinea, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Yemen, Zambia, Zimbabwe
Partially Chronically Deprived countries - 29 MICs
Azerbaijan, Bangladesh, Benin, Bolivia, Botswana, Burkina Faso, Dominican Republic, Ecuador, Gabon, Ghana, Guatemala, Guinea-Bissau, Haiti, Honduras, India, Jamaica, Kazakhstan, Democratic Republic of Korea, Kyrgyz Republic, Lao PDR, Lesotho, Mali, Mauritania, Moldova, Mongolia, Myanmar, Namibia, Nepal, Nicaragua, Nigeria, Pakistan, Panama, Paraguay, Philippines, Saudi Arabia, South Africa, Sri Lanka, Tajikistan, Thailand, Trinidad and Tobago, Turkmenistan, Uganda, Uzbekistan, Venezuela

Annex 2

Countries shaded in orange are the country cases selected for investigation in the guide. Countries shaded in green are countries that reported a decline on the selected indicator rather than progress (source of data: World Development Indicators).

Table 8: Full country rankings

	Severe poverty headcount (<\$0.75) change	Share of income to bottom 20% change	HDI Education score change	HDI Health score change	Global hunger Index score change	Gender Index score change
1	Thailand	Senegal	Yemen	Lao PDR	Ghana	Libya
2	Bhutan	Nicaragua	Morocco	Timor-Leste	Colombia	Maldives
3	Fiji	Ecuador	Algeria	Angola	Viet Nam	Lao PDR
4	Nicaragua	Swaziland	El Salvador	Bhutan	Iran	Honduras
5	Pakistan	El Salvador	Iran	Maldives	Congo, Rep.	Guyana
6	Brazil	Timor-Leste	Tunisia	Solomon Islands	Guyana	Tunisia
7	Namibia	Brazil	Pakistan	Sudan	Egypt	Jordan
8	Viet Nam	Jordan	Libya	Iran	Mexico	Morocco
9	Cape Verde	Iran	Senegal	Egypt	Peru	Mauritius
10	Sri Lanka	Pakistan	Sudan	Turkey	Morocco	Pakistan
11	Argentina	Chile	Congo, Rep.	Yemen	Thailand	Turkey
12	Guyana	Zambia	Papua New Guinea	Nigeria	Brazil	Ecuador
13	China	Mexico	Cameroon	Marshall Islands	Nicaragua	Peru
14	Philippines	Thailand	Indonesia	Peru	Ecuador	Cuba
15	Timor-Leste	Nigeria	Egypt	Palau	Angola	Uruguay
16	Tunisia	Belize	Guatemala	Nicaragua	El Salvador	China
17	Indonesia	Dominican Rep.	Venezuela	Guyana	China	Chile
18	El Salvador	Egypt	Nicaragua	Viet Nam	Honduras	Costa Rica

19	Mexico	Guyana	Thailand	Guatemala	Malaysia	Nicaragua
20	Syria	Cameroon	China	Cape Verde	Algeria	Malaysia
21	Botswana	Costa Rica	Iraq	Bolivia	Syria	Venezuela
22	Uruguay	Philippines	Turkey	Papua New Guinea	Jamaica	Viet Nam
23	Senegal	Tunisia	Lao PDR	Ghana	Philippines	Iran
24	Dominican Rep.	Morocco	Honduras	Mongolia	Fiji	Dominican Rep.
25	Sudan	Turkey	India	Vanuatu	Gabon	Paraguay
26	Costa Rica	Guatemala	Ghana	Kiribati	Indonesia	Sudan
27	Guatemala	Malaysia	Mexico	Morocco	Namibia	Thailand
28	Iran	Yemen	Botswana	India	Nigeria	Brazil
29	Chile	Mongolia	Paraguay	Senegal	Paraguay	Colombia
30	Iraq	India	Malaysia	Indonesia	Mauritius	Indonesia
31	Swaziland	Viet Nam	Brazil	Samoa	Lao PDR	Senegal
32	Congo, Rep.	Jamaica	Gabon	Brazil	Sri Lanka	Philippines
33	Lao PDR	South Africa	Jamaica	Libya	Turkey	Argentina
34	India	Indonesia	Viet Nam	Honduras	Dominican Rep.	El Salvador
35	Ghana	Argentina	Jordan	Grenada	Djibouti	Yemen
36	Honduras	Uruguay	Cote d'Ivoire	Tuvalu	Mongolia	Iraq
37	Ecuador	Venezuela	Angola	Ecuador	Bolivia	Syria
38	St. Lucia	Colombia	Swaziland	El Salvador	Senegal	Mexico
39	Djibouti	Lao PDR	Mauritius	Tunisia	Sudan	Sri Lanka
40	Suriname	Peru	Maldives	Mexico	India	India
41	Lesotho	Sri Lanka	Cuba	Dominican Republic	Pakistan	Algeria
42	Angola	Cote d'Ivoire	Syria	Pakistan	Cameroon	Gabon
43	Micronesia	Ghana	Mongolia	Colombia	Suriname	Cameroon
44	West Bank & Gaza	Honduras	Bolivia	Chile	Guatemala	Namibia

45	Cote d'Ivoire	China	Dominican Republic	Syria	Yemen	Cote d'Ivoire
46	Venezuela	Paraguay	South Africa	Paraguay	Zambia	Ghana
47	Papua New G.	Bolivia	Costa Rica	Sao Tome and Principe	Lesotho	South Africa
48	Yemen		Guyana	Argentina	Venezuela	Guatemala
49	Gabon		Uruguay	Cuba	Libya	Lesotho
50	Nigeria		Peru	Uruguay	Tunisia	Swaziland
51	Zambia		Argentina	Fiji	Chile	Jamaica
52	Belize		Philippines	Malaysia	Cuba	Zambia
53	Egypt		Zambia	China	Argentina	Congo, Rep.
54	Morocco		Namibia	Lebanon	Lebanon	Botswana
55	Algeria		Chile	Antigua /Barbuda	Costa Rica	Papua New G.
56	Peru		Lesotho	Mauritius	Jordan	Belize
57	Paraguay		Fiji	Philippines	Botswana	Mongolia
58			Sri Lanka	Sri Lanka	South Africa	
59			Ecuador	St. Lucia	Cote d'Ivoire	
60	Omitted		Tonga	Djibouti	Swaziland	
61	<i>Turkmenistan</i>		Moldova	Belize		
62	<i>Russia</i>		Belize	Cote d'Ivoire		
63	<i>Ukraine</i>		Cape Verde	Costa Rica		
64	<i>Azerbaijan</i>		Nigeria	Venezuela		
65	<i>Latvia</i>			Suriname		
66	<i>Kazakhstan</i>			Seychelles		
67	<i>Macedonia</i>			St. Vincent/Grenadines		
68	<i>Bulgaria</i>			Jordan		
69	<i>Armenia</i>			Micronesia		

70	<i>Montenegro</i>			Tonga		
71	<i>Moldova</i>			Jamaica		
72	<i>Albania</i>			Zambia		
73	<i>Georgia</i>			Namibia		
74	<i>Bosnia & Herz.</i>			Thailand		
75	<i>Romania</i>			Gabon		
76	<i>Serbia</i>			Iraq		
77	<i>Lithuania</i>			Congo, Rep.		
78	<i>Uzbekistan</i>			Dominica		
79				Cameroon		
80				South Africa		
81				Botswana		
82				Swaziland		
83				Lesotho		

Annex 3

List of panel surveys used for chronic poverty estimates

Senegal: Enquête de Suivi de la Pauvrete, Vulnerabilities et Pauvrete Chronique au Senegal

Ethiopia: Ethiopian Rural Household Survey (ERHS)

India: India National Council for Applied Economic Research (NCAER) panel

Indonesia: Indonesia National Socio-Economic Survey (Susenas)

South Africa: KwaZulu-Natal Income Dynamics Study (KIDS); South Africa's National Income Dynamics Study (NIDS)

Mexico: Mexican National Rural Household Survey (ENHRUM)

Pakistan: Pakistan Rural Household Survey

Philippines: Philippines Family Income and Expenditure Survey (FIES)

Vietnam: Vietnam Household Living Standards Survey (VHLSS).