Summit Level Group of Developing Countries

GROUP OF FIFTEEN

The Challenge of Poverty in G-15 Countries – and some Success Stories

Working Paper Series, Volume 3
January 2008

Disclaimer: This is a working paper, and hence it represents research in progress. It is not meant to represent the official position or opinions of the Group of Fifteen or its members.

The Challenge of Poverty in G-15 Countries – and some Success Stories

Introduction

1. The subject of Poverty has found mention in nearly all the Summit Meetings of the Group of Fifteen, reflective of a chronic problem faced by member countries and the larger family of developing countries. In the 2nd G-15 Summit, Heads of State and Government affirmed, *"The battle against poverty… should in the future be the main focus of attention of…international cooperation for development."* [1] The 7th Summit reiterated, *"The struggle against poverty is a responsibility that must be shared by all countries. We, in the G-15, will take our share of that responsibility by intensifying our respective national programmes to alleviate poverty and by working together and sharing insights in this vital endeavour."*[2] More recently, in the 13th Summit, the G-15 Heads of State and Government declared, " *We recognize that the elimination of poverty is a challenge and a fundamental priority in achieving collective well-being and the development of our countries."*[3]

2. Over the years, G-15 countries have been intensifying their efforts for poverty eradication with varying degrees of success. A few member countries have successfully achieved an economic transformation that has taken the bulk of their poor above the poverty line. Several others are making inroads into the problem, with the proportion of the poor in the population gradually declining. Some G-15 countries on the other hand, have actually experienced a rise in poverty incidence in recent times. In general, as the following section will show, the problem of poverty continues to be a matter of serious concern in many countries of the Group in spite of their ongoing efforts to mitigate it.

Performance of G-15 countries under MDG 1

3. All G-15 countries are signatories to the Millennium Development Goals (MDGs), a development agenda concluded at the United Nations Millennium Summit convened in 2000 and agreed to by all leading international development institutions. The first of eight MDGs (MDG 1 – or the 'Poverty Goal') is important to the subject of this paper as under it, countries agreed to reduce by half, extreme poverty[4] (and hunger) between 1990 and 2015. An assessment of the progress made thus far under MDG 1 will therefore give a good indication of how far the G-15 countries have been successful in their recent efforts to combat poverty, in particular, extreme poverty.

4. Table 1 shows the list of G-15 countries along with recent assessments on their likelihood of achieving MDG 1 by the target year 2015.

---

[1] Joint Communiqué of the Second Meeting of the Summit Level Group for South-South Consultation and Cooperation (Group of 15), Caracas, 27-29 November 1991, Paragraph 20.
[2] Joint Communiqué of the VII Summit of the Heads of State and Government of the G-15, Kuala Lumpur, 5 November 1997, Paragraph 26.
[3] Joint Communiqué of the 13th Summit of the Heads of State and Government of the G-15, Havana, 14 September 2006, Paragraph 2.
[4] A person living on income below $1 per day (PPP) is defined as living in extreme poverty.

Table 1
Progress in reducing Extreme Poverty in G-15 countries

	Likelihood of achieving MDG 1
Algeria	Very likely, On Track
Argentina	Possible, if some policy changes are made
Brazil	Very Likely, On Track
Chile	Achieved
Egypt	Very Likely, On Track
India	Possible, if some policy changes are made
Indonesia	Possible, if some policy changes are made
Iran	Achieved
Jamaica	Very Likely, On Track
Kenya	Uncertain by current trends
Malaysia	Achieved
Mexico	Very Likely, On Track
Nigeria	Uncertain by current trends
Peru	Possible, if some policy changes are made
Senegal	Possible, if some policy changes are made
Sri Lanka	Possible, if some policy changes are made
Venezuela	Possible, if some policy changes are made
Zimbabwe	Uncertain by current trends

Source: National MDG Report (2004) for Jamaica, Nigeria and Zimbabwe; National MDG Report (2005) for Algeria, Indonesia, Kenya & Venezuela; UNDP MDG Monitor 2007 for the rest.

5. The table reveals a mixed picture of progress made by G-15 countries in reducing extreme poverty. It shows that three countries, viz. Chile, Malaysia and the Islamic Republic of Iran have already achieved the goal of halving extreme poverty, well before the target year. Another five countries, namely, Algeria, Brazil, Egypt, Jamaica and Mexico are on track to achieve the goal by 2015. In seven countries, viz. Argentina, India, Indonesia, Peru, Senegal, Sri Lanka and Venezuela, experts are optimistic that the goal will be achieved, subject to appropriate policy initiatives. By current trends, it is uncertain if the goal can be achieved on time in Kenya, Nigeria and Zimbabwe. In sum, notwithstanding the outstanding success achieved by a few member countries, much work still remains to be done to reduce extreme poverty in the Group as a whole. Given this background, we now turn to some success stories in poverty alleviation with a view to examine if any possibilities exist for experience- sharing among G-15 countries.

BEST PRACTICES IN POVERTY REDUCTION FROM SOME G -15 COUNTRIES

6. National efforts undertaken by G-15 countries to alleviate poverty contain several success stories. This section attempts to highlight some of them with a view to inform readers about innovative programmes that have worked well in one country and could add value to the efforts of other member countries. Four Best Practices drawn from different regions of the Group, one each from Africa, Latin America, Southwest Asia and Southeast Asia are briefly presented in the following pages. Best Practice I is a successful initiative in reducing rural poverty in Kenya, while Best Practice II represents an innovative strategy used by Peru to tackle urban poverty *per se*. Best Practices III and IV describe strategies that have

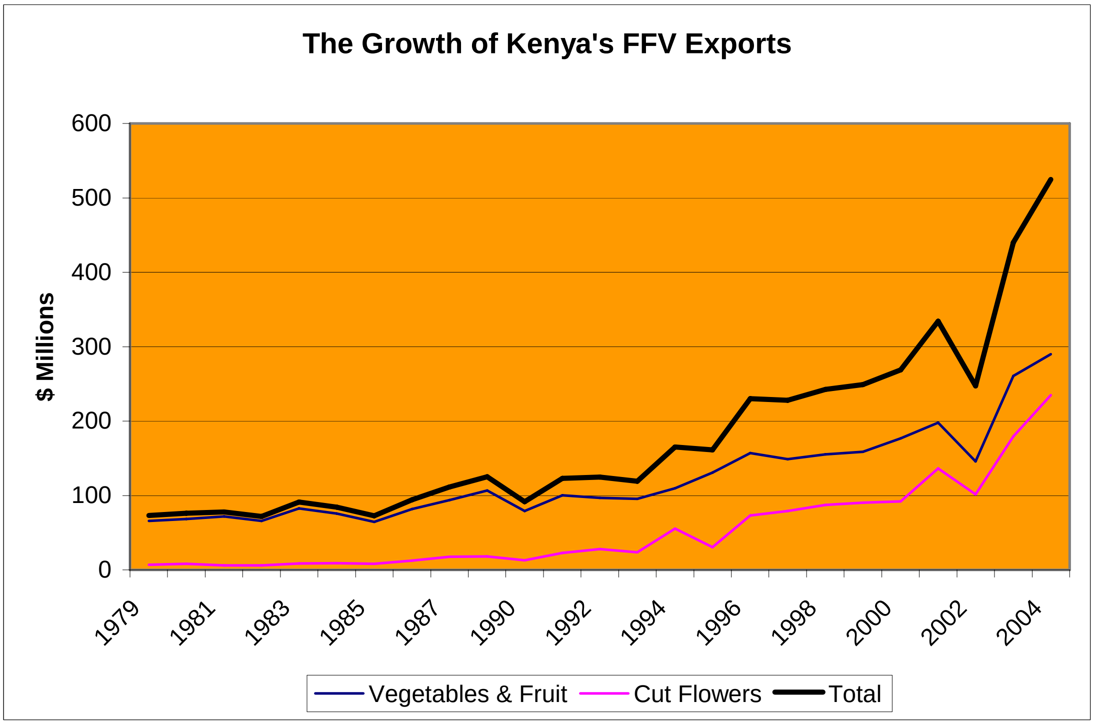
successfully reduced poverty nationwide in the Islamic Republic of Iran and Malaysia respectively. Each is noteworthy on account of the dramatic impact it has had in improving the economic condition of the country's poor.

BEST PRACTICE I – KENYA

PRO-POOR GROWTH THROUGH HORTICULTURAL EXPORTS

7. The central highlands around Nairobi are amongst the most fertile regions in Kenya where a nascent horticulture farming industry existed even prior to the country' independence in 1962. Realizing the potential of the sector, the Government of Kenya established a Horticulture Crops Development Agency soon after independence in 1967 to improve farm output and exports. Importantly, however, the government remained a facilitator, allowing the private sector to take the initiative, innovate and shoulder the commercial risk. By the mid-seventies, Kenyan flowers, fruits and vegetables (FFV) exports had taken off, rising continuously to gross half a billion dollars in revenues by 2004 (see Figure 1).

Figure 1



Source: TSF chart based on statistics provided by the United Nation's COMTRADE database

8. Kenya's exports have traditionally been dominated by tea and coffee. Today, however, horticultural exports have surpassed coffee to become the country's second largest merchandise exports, after tea. According to the World Bank[5], Kenya is the second largest exporter of horticulture produce in Sub-Saharan Africa (after South Africa), the second largest developing country exporter of flowers in the world (after Colombia), and the second

[5] "Kenya: Exporting out of Africa", World Bank Case Study, The World Bank (2004).

largest developing country supplier of vegetables to the European Union (after Morocco). Total horticultural exports were estimated to be worth $700 m in 2006.

9. The fact that the horticultural exports sector directly supports half a million rural workers, small farmers and their families makes it a major pro-poor initiative for Kenya. It also indirectly provides full or part-time employment to thousands more in the packaging industry, including many women (see photo on following page). Even though 50% of the produce now comes from large farms, the labor-intensive nature of the production process means that these farms provide employment to thousands of landless wage labourers. Household surveys undertaken explicitly to compare the incomes of households involved in export horticulture with those that were not have found clear evidence that the former are better off.[6]

10. The success of Kenya's horticultural exports can be attributed to several factors. A relatively liberal approach to foreign investment played a major role, with British, American and Danish global horticulture firms establishing joint ventures with local firms. Kenya has had flexible labor laws that make the dismissal of redundant employees almost costless and these have complemented low labour and land costs to make contract farming a viable proposition for both foreign and domestic investors. Apart from providing finance and technology, such tie-ups also took care of marketing the produce for European consumers as well as their food safety concerns. Secondly, international prices for coffee and tea had been experiencing sharp fluctuations in the seventies so that Kenyan farmers were on the look out for alternatives. Coincidentally, a surge in demand for out-of-season temperate produce took place just then in the EU, stemming from a growing awareness of the health benefits of fresh fruits and vegetables. This was further boosted by a demand for Asian vegetables from South Asian expatriates in the UK displaced from Uganda. Kenya could cater to this demand as it had the experience of growing Asian vegetables for its own Asian community. Finally, the growth of tourism in Kenya since the seventies and the consequent frequency of flights to Europe greatly facilitated the transshipment of the perishable horticultural produce.

11. Many G-15 countries are endowed with cheap land and labor resources and also possess geographical and climatic conditions that favour the growth of a variety of fresh flowers, fruits and vegetables. In many such countries, small farmers face the threat of steadily falling real incomes from traditional crops. Whatever horticultural farming exists is constrained by the absence of an assured market, with much of the produce perishing due to erratic off-take. The average farmer is therefore caught in a low-income trap due to lack of alternatives to traditional farming. The Kenyan horticultural exports story provides one alternate path out of rural poverty for farmers in such G-15 countries.

[6] McCulloch N. & Masako Ota, "Export Horticulture and Poverty in Kenya", Working Paper 174, Institute of Development Studies, Sussex (2002)

Packing cut flowers for export in Naivasha, Kenya

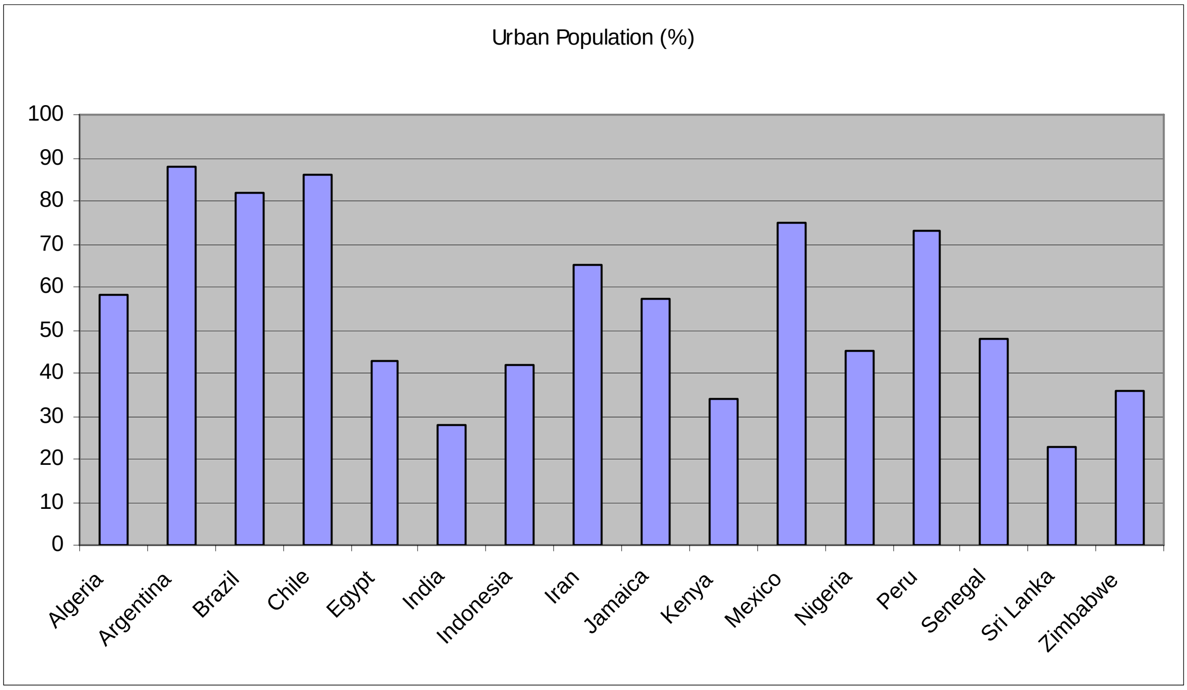
Photograph-courtesy Pranab Mukhopadhay

BEST PRACTICE II –PERU

TACKLING URBAN POVERTY THROUGH LAND TITLING

12. The growth of urban slums is a problem familiar to governments in all developing countries. The problem is particularly severe in Latin America, which, due to continuous rural-urban migration since World War II, has experienced a 40% surge in urban population between 1960-2000, making it the most urbanized region of the G-15 (see Figure 2) and of the entire developing world. Variously known as *favelas*, *barridas*, *colonias* or *barrios*, these pockets of poverty comprise mostly of squatter settlements by people illegally occupying the land they live on. Governments have usually followed one of two strategies to tackle such illegal urban settlements. In most cases, local urban authorities have attempted to repress these settlements, initially by imposing fines and then by acting to demolish the illegal structures and evicting the settlers. In other instances, the government has tried to resettle the squatters in a different location while adopting policies aimed at reversing the rural-urban migration pattern. In nearly all instances, these methods have been unsuccessful, with the squatters resurfacing in defiance of the law.

Figure 2
Urbanization in selected G-15 Countries (2001 estimates)



Source: TSF chart based on country statistics of the United Nations Human Settlements Program, available at www.unhabitat.org (data on Malaysia and Venezuela not provided)

13. In 1996, the Government of Peru reversed its long-standing policy of repressing illegal urban settlements, which by then covered more than one million properties in eight of the country's largest cities. Accepting that squatting was an inevitable part of the urbanization process, it began to implement a new initiative of regularizing extra-legal settlements on government or private land as well as irregular use of agricultural land for urban development. The existing 14 agencies that dealt with property formalization were merged into a single autonomous body, the *Comision de Formalizacion de la Propieddad Informal,* which was charged with the responsibility of simplifying the process as well as reducing transaction costs for users. As a result, the time taken for the formalization process was reduced from 3-20 years to less than six weeks and average costs reduced from $2,200 to $50 per case. Implemented with the consensus of all political parties and the active participation of civil society, the Informal Real Estate Property Formalization Programme, as the scheme is known, had regularized over 1.3 million properties between 1996-2003.

14. The scheme had originally been proposed by Hernando de Soto, a Peruvian economist, who in a landmark publication had argued that grant of property rights was necessary to improve the economic condition of the urban poor as it provided them a legal basis for obtaining credit, infrastructure and other public services.[7] Ownership also increased the value of the properties and developed a real estate market. He further argued that lack of titles constrained the urban economy in many ways. Businesses that operated from unauthorized premises lived in constant fear of government detection and extortion from corrupt officials. Consequently, they were forced to split their production facilities between many locations, thereby missing out on scale-economies. Grant of titles also helped women and children who were often responsible for constantly keeping a watch for possible evictors or usurpers. Such women could now look for regular employment elsewhere and children

[7] Hernando de Soto, "The Other Path: The Invisible Revolution in the Third World", Harper Collins (1989).

could study for more hours. Thus, land titling unleashed much productive activity from property that was otherwise dormant in economic terms.

15. The economic consequences of Peru's land titling programme have been significant. According to estimates, nearly 380,000 firms that were operating inefficiently in the black market had managed to enter the formal economy following the initiative. As titling gathered momentum, bank credit in Peru also grew rapidly, increasing from $249 m to $367 m between 2000 and 2003. Researchers found that previously illegal squatter-households who were provided with title deeds were more likely to secure a loan from government banks and paid lower interest rates on loans from commercial banks.[8] In fact, World Bank studies indicate that mortgages worth $136 m were approved in 2003 compared with just $66 m in 2000.[9] UNDP poverty estimates also showed that between 1995 and 2004, quality of life indicators for Peru improved significantly, with the impact being especially felt in urban areas. Peru's Human Poverty Index, which includes indicators like access to safe drinking water, improved from 22.8 to 11.6 during this period, ranking it 28th among 108 developing countries for which estimates were calculated.

16. The UN Human Settlements Program defines slums as " heavily populated urban areas characterized by substandard housing and squalor and lacking in security of tenure." Based on these criteria, the UN has estimated that in several developing countries, including G-15 countries like Nigeria, Senegal, Kenya, Peru and India, the proportion of urban residents that live in slums is significant. In Argentina, Brazil, Egypt, Iran and Jamaica too, the slum population has been found to comprise more than one-third of the total urban population.

17. While precise data on property ownership is not available, it is safe to presume that a high proportion of slum dwellers do not possess title deeds of the property they live on. For these countries, therefore, the urban land-titling programme of Peru could represent an innovative and pragmatic solution to urban poverty by releasing the latent economic and financial capital trapped in extra-legal urban settlements.

BEST PRACTICE III – ISLAMIC REPUBLIC OF IRAN

USING SOCIAL SAFETY NETS TO REDUCE POVERTY

18. Welfare economists have long maintained that efficient social security systems offer not just a cushion to individuals against economic uncertainty, but also generate economy-wide benefits. For instance, substantial medical insurance schemes encourage patients to see a doctor early, leading to faster diagnosis and recovery, thereby reducing the number of man-days lost to the economy due to sickness. Similarly, well-run child-care programmes encourage women to enter the job-market, thereby increasing the size of the labor force. Successive governments in Iran have had the foresight to recognize these twin benefits of social security.

---

[8] Erica Field and Maximo Torero, "Do property titles increase credit access among the urban poor?" quoted in article titled "The Mystery of Capital Deepens", in the *Economist*, August 24, 2007.
[9] *ibid*

19. Since 1975 when the country's first major social security legislation was enacted, the Islamic Republic of Iran has erected an extensive and comprehensive social safety net that follows a two-track approach under which formal frameworks of social protection (insurance, pensions and similar transfer payments) are supplemented by comprehensive social welfare programmes that provide low-cost healthcare, education and housing to large sections of the population.

20. Iran's formal social security system has some 28 social insurance, social assistance and disaster relief programmes that include disability, old age and survivorship pensions, health and unemployment insurance, financial assistance for training and job-search and for family functions like marriage and burials. According to one estimate, more than 60% of the work force is eligible for government pensions[10], while the World Bank believes that half the poor in Iran, or about 4.5 million people, benefit from coverage by the government's social security schemes and those of charity institutions and other non-profit organizations[11].

21. Well-targeted public health and adult education programmes complement the above schemes of financial assistance, while national subsidies make basic food, housing and energy accessible to nearly the entire population of 70 million people. A Master Health Plan has been implemented since the eighties that has accorded priority to basic curative and preventive services as opposed to sophisticated hospital-based tertiary care. Using simple techniques, over 16,000 'health houses' provide vaccines, care for respiratory infections, diarrheal diseases, family planning and contraception information and pre-natal care. According to the World Bank, the effective delivery of quality primary health care has resulted in rural health indicators being almost equal to those in urban areas of Iran. A similar initiative for adult education was implemented under a programme called the Literary Movement Organization, which established over 2,000 community-learning centres across the country, employed some 55,000 instructors and distributed 300 easy-to-read books.[12] The adult education programme is credited with reducing illiteracy from 52 percent in1976 to just 6 percent in 2002.

22. The indirect consequence of Iran's formal and informal social safety nets on poverty has been extraordinary. Healthcare and female literacy have combined with insurance and pensions to dramatically reduce the country's pace of population growth.[13] The fertility rate has fallen from 6 per female in the 1980s to under 2 per female in the present decade, an unprecedented achievement in the developing world. With population under control, the incidence of extreme poverty has declined from 2.24 percent in 1995 to 0.62 percent at the last count. As table 1 showed, the Islamic Republic of Iran has already achieved the goal of halving extreme poverty well before the target year 2015. Iran's experience illustrates how the building of an effective social security system can trigger off responses in other sectors of the economy that bring broad benefits to the country as a whole.

23. It can be argued that with subsidies alone amounting to 15 percent of GNP, Iran's social security strategy is costly, so that the use of similar strategies may not be sustainable in developing countries with smaller disposable incomes. This is not necessarily true. A relatively recent empirical analysis carried out by the University of Sussex on the effects of

---

[10] US Library of Congress, Federal Research Division, Iran Country Profile, March 2006.
[11] Iran Country Brief, http://web.worldbank.org
[12] This information was obtained from www.unfpa.org/countryfocus/iran/women.htm
[13] Demographers stress that one motivating factor for having large families in developing countries is anxiety about care in old age. A public pension scheme significantly reduces pressure on this account.

socio-economic security schemes on India's economic performance between 1973 and 1999 showed that even India's comparatively weaker social safety net has been an important endogenous variable to both the reduction of poverty and economic growth in India[14]. Iran's vivid demonstration of how social security can reduce poverty is clearly a Best Practice worthy of emulation by other developing countries.

BEST PRACTICE IV – MALAYSIA

REDUCING POVERTY THROUGH AFFIRMATIVE ACTION

24. During 1970-2000, Malaysia underwent an astonishing economic transformation from a poor country to an upper-middle income one, by dramatically shrinking poverty in a short period of three decades. In just 15 years from 1970, when more than half the population was poor, Malaysia reduced the incidence of poverty by 50 percent. In another 15 years from the mid-eighties, Malaysia again more than halved the number of absolute poor so that the percentage of population below the income poverty line ($2 a day) fell below 10 percent by the early part of the present decade. If this trend continues, Malaysia is forecast to eliminate extreme poverty by around 2010, which would make it the first G-15 country with such an achievement.

25. Much of Malaysia's success was driven by rapid economic growth that was fueled by exports, foreign direct investment and astute macroeconomic management. However, instead of depending on the trickle-down effects of economic growth, Malaysia focused on utilizing its resources for pulling its poor above the poverty line. It's efforts in this regard were unique, as one of the most effective instruments of its poverty eradication policy was affirmative action in favour of specific ethnic groups, in particular the *Bumiputeras*, or ethnic Malays and other indigenous groups, who constitute the majority of the population and formed the bulk of the poor.

26. In 1970, ethnic Malays, constituting 51 percent of the population were employed mainly in rural occupations like rice cultivation, fishing and rubber tapping. Approximately two-thirds of them were living in poverty. Between 1970 and 2000, under its two major development plans, the New Economic Policy (NEP, 1970-1990) and the National Development Policy (NDP, 1991-2000), the Government of Malaysia implemented several schemes of affirmative action for the Bumiputeras. By 2002, the poverty rate for ethnic Malays had come down to just 7.3 percent.

The main instruments of Malaysia's affirmative action programme were:

- A scheme was launched to promote Malay entrepreneurs and their participation in the non-agricultural sectors. Its success can be gauged from the fact that total Malay employment in manufacturing increased from 6 percent in 1970 to 26.3 percent in 2000.
- Any manufacturing company with a paid up capital of RM 2.5 million or more, that was planning to increase the size of its capital, had to offer 30% of the new shares to Malay investors.

[14] Patricia Justino, " Social Security in Developing Countries: Myth or Necessity? Evidence from India", Working Paper 20, Poverty Research Unit, University of Sussex, (2003).

- Malays were provided with interest-free loans to purchase shares in a unit trust scheme that held shares of companies listed on the Kuala Lumpur stock exchange. This not only provided a new source of income to the poor but also gave them a sense of participation in the modern sector of the economy.
- Priority was given to Malays in contracts and projects from the government, as well as in jobs and places in public universities.
- The landless poor and those with uneconomical holdings in rural areas were resettled in new rubber and oil palm plantations to work in and eventually own the plantations. Each family was provided with a single unit house with basic amenities such as electricity, piped water and approach road.
- The focus of affirmative action was more on the distribution of new wealth. As no group was deprived of its existing assets, the policy did not exacerbate inter-ethnic conflict.

27. According to available statistics, the federal government spent 19.1 percent of total development expenditure on rural development and poverty reduction programmes under the NEP[15]. This went up to 22.5 percent under the NDP. Rapid economic growth throughout this period ensured that the government was not financially constrained while implementing its pro-poor schemes. Malaysia's annual GDP growth for the period 1970-1985 averaged 7.2 percent and remained an impressive 6.7 percent over the next fifteen years despite a serious financial crisis in 1997-98. Significantly, Malaysian policies favouring ethnic Malays were accompanied by programmes aimed at reducing poverty among the ethnic Chinese and ethnic Indian communities. The proportion of poor in these communities dropped from 26 percent and 39.2 percent in 1970 to 1.5 percent and 1.9 percent by 2002, respectively[16].

28. Many countries of the G-15 such as Indonesia, Kenya, Sri Lanka, India, Zimbabwe, Brazil and other Latin American member countries have multiracial, multi-ethnic and multi-cultural societies where for reasons such as geography, colonial history, culture, race or caste, economic power is unevenly distributed among various constituent groups. In all these countries, governments have been facing the daunting challenge of integrating those groups living on the periphery into the national economic mainstream. For them, Malaysia's successful experiment with affirmative action provides an example of how to empower the economically deprived sections of society while simultaneously reducing overall poverty, by sharing the benefits of economic growth in a plural society.

Concluding Remarks

29. Clearly, the development experience of G-15 countries is rich in success stories of poverty alleviation which makes it an area of immense potential for experience sharing and, perhaps, future G-15 South-South cooperation projects. The success stories described in this paper also give rise to an important point about policy choice in developing countries. They tend to prove that the best panacea for overcoming the challenge of poverty in the developing world is a pragmatic pro-poor policy of selective government intervention, based on national needs, circumstances or comparative advantage, *free from standardized policy prescriptions*. For example, private entrepreneurs and foreign investors were encouraged to develop Kenya's horticultural exports sector, at a time when the economic policy framework was avowedly 'import-substitution'. Malaysia's affirmative action programme was similarly

[15] Economic Planning Unit, Prime Minister's Office, Government of Malaysia.
[16] National Progress Report on MDGs 2005, UNDP Malaysia Office

based on pragmatism (and the peculiar economic situation of its ethnic majority) rather than driven by any dogmatic belief in government intervention. In Peru, on the other hand, the government intervened on behalf of the urban poor after 1995, despite the fact that its economy was otherwise undergoing structural adjustment of the classic neo-liberal variety prescribed by the IMF-World Bank, which implied minimal government intervention in the economy.

30. An important lesson to be drawn from this study is the need to complement national efforts at combating poverty with substantial support from the international community, as has been re-iterated by G-15 Heads of State and Government in their several Summits. In the light of the prevailing worldwide momentum for fighting poverty, galvanized by the commitment of the international community to the attainment of the time-bound poverty reduction targets of the Millennium Development Goals, G-15 countries should continue to press, with more vigor and in concert, for the required technical, financial and institutional international support for the various poverty mitigation programmes in the developing countries.

*****

Note: *Considerations of time and space prevent a more detailed presentation of the Best Practices outlined in this paper. Delegates and readers interested in further details on these success stories are invited to consult the following:*

Best Practice 1
1. Kenya: Exporting Out of Africa – Kenya's Horticulture Success Story (World Bank case study, 2004);
2. Can Horticulture be a success story for India? (ICREAR Working Paper 197, August 2007).

Best Practice 2
1. Peru's Urban Land Titling Program (Fernando Cantuarias and Miguel Delgado, World Bank case study, 2004)

Best Practice 3
1. Section on Iran in "Social Security Programs throughout the World" (SSPTW), 2007 volume published by the U.S. Social Security Administration.

Best Practice 4
1. Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony (Case study prepared by the Economic Planning Unit, Prime Minister's Department, Malaysia, 2004)
2. Chapter on MDG 1 in MDG Progress Report, 2005 (Prepared by UNDP's Malaysia office).