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# **Absorbing social shocks, protecting children and reducing poverty**

the role of basic social services

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## Executive Summary

The 1990s saw a recovery from the previous ‘lost’ decade of the development. It also witnessed a quasi universal ratification of the Convention on the Rights of the Child. Nevertheless, progress for children has not kept pace with promises. Among the many reasons for the shortfall, one stands out: under-investment in basic social services. Without universal access to these services, children’s rights cannot be guaranteed and poverty will not be reduced. If robust economic growth in places as far apart as South Asia, Latin America and the United States cannot narrow disparities and reduce poverty, there is a strong case for public action to complement market outcomes. The paper highlights several lines of argument about the need for public action and social policy.

First, given the distribution of income, assets, skills and capabilities, globalisation is benefiting the ‘haves’ more than the ‘have-nots’, resulting in widening disparities and deepening poverty. Priority must focus on creating basic human capabilities through universal access to basic social services. The paper shows that budget and aid allocations are too low in most countries to ensure universal coverage of quality services.

Second, public spending on social services is often iniquitous and inefficient. Enough experience has been collected to formulate principles and good practices for social policy in different contexts. One of the lessons learned is the importance of the synergy among services, as exemplified by the ‘education vaccine’ against AIDS, reported in this paper.

Third, the forces that lead to greater income inequality also result in the ‘Matthew effect’ by which the benefits of public spending disproportionately accrue to the middle and upper classes, at the expense of the poor. The good news is that expenditures on basic social services are less regressive than those on post-primary services. The only way in which the poor will gain access to basic social services is by making them universally available. The paper makes the analogy with ‘queuing’ for public services, and shows that the poor usually find themselves at the end of the line. The paper questions the practicality of narrow targeting as a means to help the poor jump the queue.

Fourth, the evidence gathered by numerous surveys shows that markets will not, on their own, yield equitable outcomes, nor will they achieve universal coverage of basic social services. Mimicking the market through fees and user charges for basic public services has proven to be detrimental in terms of children’s rights and poverty reduction.

Throughout, the paper illustrates how national averages can lead to misleading interpretations about social progress. It argues that analysis needs to go beyond averages. The ‘average’ is nothing more than a concept, a convenience created to help us understand things. An average country or an average child, however, does not exist in reality, only in our mind. Hence the need to avoid the ‘fallacy of the mean’ when describing the real world. The paper also questions the validity of the international benchmark of \$1-a-day as a universal norm for monitoring or comparing poverty levels.

Finally, the paper makes the point that universal access to basic social services of good quality is within the reach of all nations. Countries that do not equip their people to face the turbulence associated with globalisation will be at a serious disadvantage. Universal access to these services offers a ‘social shock-absorber’ for travelling the bumpy road to a globalised economy. It will enable and empower the poor to participate in and benefit from economic growth — thereby making market outcomes more equitable and globalisation more inclusive and sustainable.

## Résumé

Les années 90 ont marqué une reprise par rapport à la décennie précédente qui avait été 'perdue' en termes de développement. Elles ont également vu la ratification quasi universelle de la Convention relative aux droits de l'enfant. Néanmoins, le développement social est bien en deçà des objectifs fixés. Bien que les raisons pour lesquelles l'amélioration de la situation des enfants ne répond pas aux promesses sont souvent propres à tel ou tel pays, il en est une qui vaut pour tous : le sous investissement dans les services sociaux essentiels. Faute d'accès universel à ces services, il est impossible de garantir les droits de l'enfant ou d'éliminer la pauvreté. Si une croissance économique robuste dans des zones aussi éloignées que l'Asie du Sud, l'Amérique latine et les Etats Unis ne parvient pas à réduire les disparités et à atténuer la pauvreté, il incombe aux pouvoirs publics d'intervenir pour compléter les résultats obtenus par le marché. Le document de travail met en évidence plusieurs arguments en faveur de la nécessité d'une action publique et de politiques sociales.

En premier lieu, du fait de la répartition des revenus, des compétences et des capacités, la mondialisation bénéficie plus largement les nantis que ceux qui sont démunis, ce qui entraîne une aggravation des disparités, sans aucune atténuation de la pauvreté. Il convient donc de créer des capacités humaines fondamentales grâce à la prestation de services sociaux de base. Le rapport montre que les allocations budgétaires et les aides sont trop faibles pour garantir une couverture universelle par des services de qualité.

En deuxième lieu, les dépenses publiques consacrées aux services sociaux sont dans de nombreux cas d'une injustice flagrante et sont souvent d'une faible efficacité. On a acquis une expérience suffisante pour formuler des politiques sociales efficaces dans différents contextes. L'une d'entre elles est la synergie entre ces services, comme l'illustre le "vaccin éducatif" contre le sida, décrit dans ce document de travail.

En troisième lieu, les mêmes forces qui entraînent une plus grande inégalité des revenus se traduisent également par 'l'effet Matthieu', en vertu duquel les dépenses publiques bénéficient de façon disproportionnée aux classes moyennes et supérieures, au détriment des pauvres. Sur le plan positif, les dépenses consacrées aux services sociaux essentiels sont nettement plus progressives que celles qui sont destinées aux services sociaux supérieurs. Le seul moyen de permettre aux pauvres d'avoir accès aux services sociaux de base consiste à rendre ces services universellement disponibles. Le rapport établit une analogie avec une 'file d'attente' pour des services publics, et montre que les pauvres se trouvent généralement en fin de file. Le document de travail s'interroge sur la possibilité d'un ciblage plus précis afin d'aider les pauvres à avancer dans la file.

En quatrième lieu, les éléments d'information tirés de différentes enquêtes montrent que les marchés ne donneront pas d'eux-mêmes des résultats équitables et qu'ils ne permettront pas la couverture universelle des services sociaux de base. L'imposition de redevances et des charges d'utilisation pour les services publics de base à la manière du marché s'est faite au détriment des droits de l'enfant et de la réduction de la pauvreté.

Le rapport illustre comment les moyennes nationales peuvent conduire à des interprétations fallacieuses du progrès social. Il indique que l'analyse doit aller au-delà des moyennes pour éviter de tomber dans le piège des valeurs fictives. La moyenne est un concept inventé pour mieux comprendre la réalité. Néanmoins, il faut se rappeler qu'un pays moyen ou un enfant moyen n'existe pas, que c'est une idée qui réside seulement dans l'esprit. Le document de travail met en doute la validité de la norme internationale fixée à un dollar par jour pour suivre ou comparer les niveaux de pauvreté.

Enfin, le document de travail fait observer qu'un accès universel aux services sociaux essentiels de bonne qualité est à la portée de toutes les nations. Les pays qui ne dotent pas leur population des moyens de faire face aux turbulences découlant de la mondialisation seront sérieusement désavantagés. L'accès universel aux services sociaux de base constitue un 'amortisseur social' sur la route semée d'embûches qui mène à une économie mondialisée. Il augmentera les chances offertes aux démunis de participer à la croissance économique et d'en bénéficier, rendant ainsi la mondialisation plus ouverte et viable.

## Resumen

En los años 1990 se notó una recuperación en comparación con el anterior, llamado el ‘decenio perdido’ del desarrollo. También se observó la ratificación casi universal de la Convención sobre los Derechos del Niño. Sin embargo, los niños no disfrutaban de los avances prometidos. Hay muchas razones por las que esta falta de progreso ocurre, pero una de ellas se destaca entre las demás: la insuficiencia de las inversiones en servicios sociales básicos. Sin acceso universal a estos servicios, no se pueden garantizar los derechos del niño y no se reducirá la pobreza. Si el crecimiento económico robusto en lugares tan dispares como el Asia meridional, América Latina y los Estados Unidos no puede disminuir las disparidades y reducir la pobreza, entonces hay buenas razones para adoptar medidas públicas a fin de complementar los resultados del mercado. En este trabajo se destacan varios argumentos en pro de la necesidad de adoptar medidas públicas y de las políticas sociales.

En primer lugar, habida cuenta de la distribución del ingreso, conocimientos y capacidades, la globalización está beneficiando más a los ‘que tienen’ que a los ‘que no tienen’, lo que redundará en el aumento de las disparidades y en la profundización de la pobreza. En consecuencia, es necesario crear capacidades humanas básicas invirtiendo en los servicios sociales básicos. En el informe se demuestra que las asignaciones presupuestales y de la asistencia son muy reducidas para garantizar la cobertura universal de servicios de calidad.

En segundo término, los gastos públicos en servicios sociales a menudo son inequitativos e poco eficientes. Se cuenta con suficiente experiencia acumulada para formular buenas políticas sociales, tanto en lo relativo a las estrategias generales como a las intervenciones concretas en diferentes contextos. Entre ellas se puede mencionar la sinergia entre esos servicios, y en el documento de trabajo se menciona como ejemplo la ‘vacuna de la educación’ contra el SIDA.

En tercer lugar, las mismas fuerzas que provocan una mayor desigualdad de ingresos también producen el ‘efecto de Mateo’, según el cual los beneficios del gasto público recaen desproporcionadamente en las clases media y alta, relegando a los pobres. Un aspecto positivo es que los gastos en servicios sociales básicos son mucho más progresivos que los realizados en servicios no básicos. La única manera en que los pobres puedan tener acceso a los servicios sociales básicos es que éstos sean de acceso universal. En el documento de trabajo se hace una analogía con la espera de un turno para recibir un servicio público, y se demuestra que normalmente los pobres son los que se encuentran al final de la lista. En el informe se cuestiona que sea práctico utilizar mecanismos de focalización del gasto para ayudar a que los pobres puedan “saltar el turno”.

En cuarto término, los resultados obtenidos en numerosas investigaciones demuestran que por sí mismos los mercados no producen resultados equitativos ni tampoco se logrará con ellos el acceso universal a los servicios sociales básicos. La imitación del mercado, mediante tarifas y cargos para los usuarios de los servicios públicos básicos, ha demostrado no ser efectiva para los derechos del niño y la reducción de la pobreza.

En toda el informe se ilustra de qué manera los promedios nacionales pueden llevar a interpretaciones equivocadas sobre el progreso social. Se argumenta que el análisis debe ir más allá de los valores promedios. El ‘promedio’ no es más que un concepto, un elemento conveniente para ayudarnos a entender el mundo. Pero en el mundo real, el país o el niño ‘promedio’ no existen, sólo existen en nuestra mente. Por eso es necesario evitar la ‘falacia de la media’ cuando describimos el mundo real. También se cuestiona la validez del criterio internacional de un dólar por día como norma universal para comparar los niveles de pobreza.

Por último, en el documento se señala que el acceso universal a los servicios sociales básicos de buena calidad está al alcance de todas las naciones. Los países que no equipan a su población para enfrentar la turbulencia conexas a la globalización se encontrarán en gran desventaja. El acceso universal a esos servicios actúa como ‘amortiguador social’ en el agitado viaje hacia la economía globalizada. Ese acceso permitirá a los pobres tener más oportunidades de participar en el crecimiento económico y beneficiarse con él, con lo cual la globalización será más inclusiva y sostenible.



*“The association of poverty with progress is the great enigma of our times.  
From it come the clouds that overhang the future of most nations.  
It is the riddle which the Sphinx of Fate puts to our civilization,  
and which not to answer is to be destroyed.”*

Henry George (New York, 1882)

## 1. A sad story<sup>1</sup>

In August 1999, two ordinary teenagers aged 14 and 15 boarded a flight from Conakry to Brussels. They were found dead upon arrival. They had stowed away in the undercarriage of the plane, hoping to escape to a better life. A letter was found on their bodies that revealed that the two boys were fully aware of the risks they were taking, but they wanted to bring the plight of their continent to the attention of the world. They wrote “we need your help to fight against poverty and bring war to an end in Africa. *However, our greatest need is education.*”<sup>2</sup> (italics added).

## 2. Protecting children’s rights

The desperate flight of these two boys illustrates that the promise to give every child a good start in life remains unfulfilled, in spite of the unprecedented wealth in the global economy and the almost universal ratification of the Convention on the Rights of the Child. As the boys wrote for their country, education is a priority for most developing countries. It is indeed a sorry distinction of today’s world that, at the dawn of the Information Age, 1 in 3 children in developing countries does not complete 5 years of education — a minimum required for basic literacy. Millions more are being taught by untrained and under-paid teachers in over-crowded and poorly equipped classrooms. Obviously, their social and economic rights are being denied.

Several reasons account for the unsatisfactory progress towards the global goals for social development, and many are country-specific. But one reason stands out: most countries under-invest in basic social services. In addition, goals are frequently pursued through a sectoral approach that fails to exploit the complementarities and synergies that characterise basic social services. The 20/20 initiative seeks to respond to these two shortcomings.<sup>3</sup>

This paper starts by briefly summarising the global poverty trends in developing countries. They show that — apart from East Asia — little or no progress has been made since 1990. It also questions the validity of the \$1-a-day norm for comparing poverty levels across countries or for monitoring poverty trends over time. The money-metric norm has severe limitations both in

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<sup>1</sup> I am grateful to Enrique Delamonica for his excellent research support, as well as to colleagues for their comments on separate parts of this paper, including Joanne Csete, Eva Jespersen, Santosh Mehrotra, Alberto Minujin, Ashok Nigam and David Parker. The usual disclaimers apply.

<sup>2</sup> The English version of the letter was published by the International Council on Social Welfare (ICSW) in the September 1999 issue of *Social Development Review* (Volume 3, Number 3).

<sup>3</sup> As a concrete example of partnership between developing and industrialised countries, the 20/20 initiative calls for the allocation of an indicative 20 per cent of the national budget in developing countries and 20 per cent of donor aid to basic social services — including basic education, primary health, reproductive health, water and sanitation, and nutrition. The extra resources will need to be complemented by reforms to make spending more equitable and efficient. The main purpose of 20/20 is to ensure that an integrated package of basic social services of good quality becomes accessible to all within the foreseeable future.

terms of estimating poverty trends and for interpreting the link between economic growth and poverty reduction.

We believe that poverty reduction must begin with children, not only because they are hardest hit when poverty strikes, but because poverty causes permanent damage to their minds and bodies. The paper argues that the provision of basic social services of good quality to all children is one of the most direct and least expensive ways of reducing poverty.

The paper also highlights the main results of 30 country studies that examined the level, equity and efficiency of public spending on basic social services [Unicef and Undp, 1998]. It then raises some relevant issues of social policy, such as targeting, 'queuing' for primary education, charging for basic social services, the 'education vaccine' against AIDS, and the inherent unequalising nature of globalisation. It argues that a broad-based 'social shock-absorber'<sup>4</sup> will help sustain globalisation by making market outcomes more equitable and inclusive. Ex-post social safety nets are often inadequate in times of crisis.

In the belief that a picture is worth a thousand words, this paper makes extensive use of diagrams.

### **3. Poverty reduction begins with children**

Children are often hardest hit by poverty. No other age-group is as vulnerable to poverty as children are. Moreover, child poverty causes life-long damage to their minds and bodies; so that they are likely to pass poverty on to their children — thereby perpetuating the poverty cycle. Thus, poverty reduction must begin with children. Providing basic social services of good quality to all children is key to building their basic capabilities to live in dignity. Ensuring universal access to an integrated package of basic social services is one of the most efficient and cost-effective contributions to poverty reduction.<sup>5</sup>

Poverty has many faces; and because poverty means very different things to people, there is no universally accepted definition or indicator. A family can be considered as poor because of inadequate income or due to unmet basic needs or both. Should a family with an income above the poverty line but without a school for its children to go to be considered as poor? The answer will depend on the interpretation of poverty. According to a money-metric interpretation, this family would not rank among the poor, while a basic-needs interpretation would consider this family as poor.

Poverty reduction has become the main objective of development co-operation. In 1996, development ministers and heads of aid agencies in donor countries agreed on a specific and time-bound goal for halving the proportion of people living in extreme poverty between 1990 and 2015 poverty [OECD/DAC, 1996]. Achieving this ambitious goal, however, would still

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<sup>4</sup> The use of the term 'shock-absorber' in this context is borrowed from Sanjay Reddy of Harvard University.

<sup>5</sup> In addition to spending more and spending better on basic social services, poverty reduction will also require a steep reduction in the debt burden of poor countries, a reversal of the declining ODA trends, and a narrowing of the income gap between rich and poor people (see *infra*).

leave approximately one billion people in income-poverty (below \$1 per day) in developing countries by the year 2015, down from an estimated 1.3 billion in 1990. Over a period of 25 years, this would translate in an average reduction in the number of income-poor by a relatively modest 1 per cent per year.

#### 4. Estimating poverty

Contrary to common belief, poverty is not easy to quantify. Most analysts and policy-makers now accept that poverty has many dimensions, which includes income and basic-needs elements and embraces 'non-measurable' attributes such as the right to dignity, non-discrimination and social inclusion. Nevertheless, the tendency to interpret poverty in terms of income remains entrenched. As Keynes observed in the 1930s, the "difficulty lies, not in new ideas, but in escaping from old ones". Indeed, the global debate on poverty remains dominated by an interpretation of poverty in money-metric terms.

According to the latest World Bank estimates, the proportion of people living below \$1 per day in developing and transitional economies declined from 28.3 per cent in 1987 to 24.0 per cent in 1998 [World Bank, 1999].<sup>6</sup>

Diagram 1 shows that between 1990 and 1998, the average headcount index in developing countries fell from 32 per cent to 26 per cent. The simple extrapolation of this trend to the year 2015 results in a headcount index of about 17 per cent — indicating that the world is on track to reaching the global goal set by the donor community of halving the proportion of people living in extreme poverty between 1990 and 2015.

Most of the progress, however, occurred in East Asia — a region where the incidence of income-poverty was nearly halved during the 1990s. When excluding East Asia, the diagram shows that the proportion of income-poor in developing countries declined in a less dramatic way — to 33 per cent in 1998, down from 35 per cent in 1990. At this pace, poverty will not be halved by 2015, but reduced by a fifth.

The number of income-poor in developing countries was estimated at 1.2 billion in 1998. We estimate that children represent at least half of the income-poor.<sup>7</sup> Using the above estimates, it means that at least 600 million children under the age of 18 years struggle every day to survive on less than \$1. They represent a staggering 40 per cent of all children in developing countries. No other age group is more vulnerable to poverty than children are.

The number of income-poor has remained relatively stable throughout the 1990s; in contrast to projected trends (Diagram 2). The World Development Report of 1990 projected that the number of income-poor in developing countries would decline by some 2 per cent per annum between 1985 and 2000. The projection was based on the assumptions that economic growth in

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<sup>6</sup> The use of a decimal point may give a false impression that these estimates are relatively accurate. This paper will use rounded estimates. We will also replace the designation 'living below \$1 per day' by 'struggling to survive on less than \$1-a-day', which is likely to be a more precise description of the daily reality faced by poor people.

<sup>7</sup> Survey after survey shows that income-poor families generally have more children than non-poor families.

industrialised countries would be about 3 per cent a year, that real interest rates would decline, that commodity prices would rise, and that the Uruguay round of trade negotiations would be concluded successfully. Apart from the usual booms and busts in commodity prices during the 1990s, most of these assumptions have been satisfied. Nevertheless, the ranks of the income-poor in developing countries did not decline between 1987 and 1998.

The number of income-poor in East Asia is estimated to have fallen from 418 million in 1987 to 278 million in 1998. When excluding East Asia, the number of people in developing countries struggling to survive on less than \$1-a-day increased continuously since 1987. Diagram 2 indicates that their ranks increased by an average 12 million people per year — an annual increase of 1.5 per cent. In other words, little or no progress has been made in reducing poverty — in spite of the economic recovery in several parts of the developing world and the surge in international trade and private capital flows during the 1990s.<sup>8</sup>

The 1990s saw a strong economic recovery in Latin America, so that average per-capita income increased by one-sixth between 1990 and 1998. The Chief Economist of the World Bank noted that the region “followed our advice and carried out some of the most successful macroeconomic stabilization programs the world has ever seen” [Stiglitz, 1998]. Nevertheless, the ranks of the income-poor increased by 6 per cent over that period, as is shown in Diagram 3. Hence, a decade of sustained reforms and economic liberalisation has resulted in a meagre harvest in terms of social progress and equitable growth.

Unfortunately, Latin America is not alone. Despite an even faster growth in the average per-capita income in South Asia — by a respectable one-third between 1990-98 — the income-poor continued to increase in number (Diagram 3). Clearly, social equity has been the missing link between economic growth and poverty reduction.<sup>9</sup>

## 5. Questioning the validity of the poverty norm

The poverty line of \$1 per day is the international benchmark for defining the extent of poverty in developing countries. It is based on studies conducted during the 1980s in 10 low-income countries — such as Bangladesh, India, Kenya and Tanzania. Analysts found that the cost of a minimum basket of goods and services was about equivalent to \$1 per day per person, when expressed in purchasing power parity of 1985.<sup>10</sup> As such, the international poverty line of \$1 per day expressed in PPP of 1985 has little in common with the current value of a one-dollar bill, although the public often equate — incorrectly — the poverty line with \$1 in today’s value.

<sup>8</sup> GDP growth in developing countries averaged 5 per cent per year during the 1990s, compared with 3 per cent during the 1980s. Net long-term private resource flows to developing countries soared from less than \$50 billion in 1990 to nearly \$300 billion in 1997 [World Bank, 1999].

<sup>9</sup> The figures for the Middle East and North Africa tell a different story. The region did hardly see any growth in per-capita income during the 1990s, yet the number of income-poor remained unchanged. Poverty estimates for that region seem less reliable than for others, partly because the surveys on which they are based cover only half the region’s population. Also, the World Bank recently revised the regional headcount index for 1998 from 7.3 per cent to 1.9 per cent — indicating that the reliability of these estimates is problematic.

<sup>10</sup> PPP-values take into consideration the differences in the real purchasing power of the equivalence of \$1 in local currency — e.g. the equivalence of \$1 buys more tomatoes in Lagos or Lahore than in Lima or London.

However, the difficulty with the poverty norm goes beyond the technical issue of PPP-values. The question is whether the norm of \$1-a-day actually measures poverty or whether it simply measures how many people are struggling to survive every day on less than \$1. In most countries, these two concepts are not identical. Indeed, the \$1-a-day norm violates the standard definition of income-poverty according to which a person is to be considered as poor when he/she does not reach the minimum level of economic well-being set by society. The poverty line can thus not be totally alien to the average standard of living of the group.<sup>11</sup> As countries become wealthier, societies gradually adopt higher minimum levels of economic well-being. Hence, for the purpose of measuring poverty over time or for comparing poverty across countries, the norm cannot be kept static and applied uniformly to all societies. As a country reaches higher levels of development, the conceptual relevance of \$1-a-day for measuring poverty is gradually eroded.

The fact that income-poverty has decreased from say 30 per cent to 10 per cent — as was the case, for instance, in Indonesia between 1980 and 1995 — cannot be equated with the interpretation that poverty has fallen by a similar degree; simply because the minimum norm set by that society is likely to have risen over time due to the increase in national prosperity. To continue with the same example, Indonesia's average per-capita income level more than doubled since 1980, so that the application of a static poverty norm will — almost per definition — yield a steep reduction in income-poverty as a result of rapid economic growth. China present a similar case: per-capita income increased by a dazzling factor of 2.7 between 1987 and 1998 so that the number of income-poor declined steeply — reportedly by nearly one-third.<sup>12</sup>

Poverty estimates based on the \$1-a-day norm are not only likely to underestimate the number of people living in poverty, they are also likely to reinforce the perception that economic growth is the best — and often the sole — strategy for reducing poverty. Indeed, the static poverty norm can lead to a tautological interpretation of the link between economic growth and poverty reduction. Even though Diagram 4 shows that the incidence of income-poverty (headcount index) and per-capita GDP (expressed in PPP-values) are closely correlated,<sup>13</sup> the correlation does not necessarily reflect causation because the measure for income-poverty is not independent from the level of per-capita income.

The correlation between income-poverty and economic growth is a tautology. The concept of poverty and the norm of \$1-a-day are two different things. In societies with rapidly growing economies, the latter is not a valid norm for monitoring poverty trends over long periods of time. Therefore, the use of the static poverty norm of \$1-a-day can lead to circular reasoning between poverty reduction and economic growth.

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<sup>11</sup> Ravallion and Bidani point out that the incidence of poverty in Indonesia and the United States were at a similar level in 1990. Obviously, the poverty lines were very different, based on the prevailing situation in these two countries. [Ravallion and Badani, 1994].

<sup>12</sup> In addition, poverty estimates often assume a constant distribution of income, based on the weak statistical relationship found between economic growth and changes in inequity. Nonetheless, analysts point out that there have been as many growth episodes in recent decades when the income distribution improved as there have been when the distribution deteriorated [Deininger and Squire, 1996]. In other words, income distribution is not constant. Assuming that it will remain constant defies the compelling evidence that disparities are widening around the globe.

<sup>13</sup> The logarithmic regression is fitted on 31 country observations. The slope coefficient is statistically significant (t-value=-4.4, df=30, R<sup>2</sup>=0.40).

In short, the widespread use of the \$1-a-day norm has led the world community to internalise two incorrect lessons regarding poverty reduction, namely that: (i) gradual — albeit modest — progress is being made with regard to reducing poverty, and (ii) rapid economic growth — driven by trade and financial globalisation — is the best avenue for reducing it further. The international community needs to reconsider these conclusions. It must also enhance the understanding about the limitations of the global poverty indicators that are currently used — and misused.

## **6. Budget spending on basic social services and external debt**

It was indicated earlier that investing in children is one of the least expensive and direct ways for reducing poverty. It is, therefore, relevant to examine how much governments allocate to basic social services. Even though developing countries differ substantially in their budget allocation to these services, they all seem to under-invest compared with what would be required for reaching the global goals for social development by the agreed target date.

In most of the 30 countries surveyed, basic social services absorb between 12 per cent and 14 per cent of the national budget. Few countries spend less than 10 per cent on basic social services; fewer still spend close to 20 per cent. Diagram 5 illustrates the regional averages for 12 countries in sub-Saharan Africa, 12 in Latin America and the Caribbean, and 6 in Asia. It shows that public spending on basic social services is primarily directed to basic education — absorbing nearly two-thirds on average — followed by basic health, water and sanitation, and nutrition.

One of the reasons why governments under-invest in basic social services is due to the crippling weight of the external debt burden on the national budget. Two-thirds of the countries surveyed spend more on external debt servicing than on basic social services. Some countries spend three to five times more on debt. Diagram 6 shows that in several countries, debt payments absorb a third or more of the national budget. In sub-Saharan Africa, governments spend about twice as much on complying with their financial obligations vis-à-vis external creditors than on complying with their fundamental social obligations vis-à-vis their people.

To spend more on external debt than on basic social services — when hundreds of millions of children lack access to basic education, primary health, adequate food and safe drinking water — is not only morally wrong, it is also economically senseless. Hunger, disease and ignorance have never been a foundation for rapid and sustained economic growth.

The Heavily Indebted Poor Countries (HIPC) initiative remains the best hope for solving the debt crisis. Launched in 1996, it was the first comprehensive attempt to address the debt issue as it covered all types of external debt — including loans and credits of the IMF and the World Bank which, until then, were never part of debt relief measures. However, HIPC's implementation has been painfully slow — with only two countries receiving debt relief in the first three years of HIPC operations (Bolivia and Uganda). A review of the initiative in 1999 showed broad support for its expansion and acceleration.

A joint Unicef/Oxfam proposal suggests that the revised HIPC initiative must take into account the fiscal burden when determining whether a country's debt situation is sustainable or not

[Unicef, 1999]. It also calls for the shortening of the waiting period from 6 years to maximum 2 years before debt relief takes effect. It proposes a 'debt-for-development plan' to reinforce the link between debt relief and poverty reduction. Several of these points have been incorporated in the 'enhanced' HIPC initiative — adopted in late 1999. Participating countries in the new HIPC initiative will be expected to give priority to poverty reduction. It is encouraging, in this regard, that Uganda — the first country to receive HIPC support — is spending most of the debt dividend on primary education.

However, the fiscal criterion for defining debt sustainability has not yet been included. Eligibility for debt relief remains based on export ratios, not on the basis of the budgetary weight of debt servicing. The choice of eligibility criteria obviously influences the selection of HIPC countries. This can be illustrated by comparing Bolivia with Ecuador. Diagram 7 shows that the former spends 27 per cent of its export earnings on debt servicing, which makes the country eligible for HIPC debt relief. Ecuador's debt service ratio is 'only' about 20 per cent, which is below the benchmark for HIPC eligibility. Nevertheless, Ecuador's debt burden is higher than Bolivia's, both vis-à-vis the national income and the national budget. In Ecuador, external debt servicing claims a third of the national budget, against a tenth in Bolivia. Thus, Ecuador's relatively good export performance becomes a liability when it comes to HIPC eligibility.<sup>14</sup> Other countries find themselves in a similar position as Ecuador. Further analysis and revisions of the HIPC initiative are thus in order.

A critical success factor for the new HIPC initiative will be whether industrialised countries and international financial institutions will assign additional resources for debt relief. The enhanced HIPC initiative must be funded by new money, and cannot be financed from the already low level of ODA.

The Jubilee 2000 Campaign won an important victory in 1999, but winning the war on the debt issue of poor countries remains a challenge. The funding of the enhanced HIPC initiative remains uncertain, the criteria for eligibility are the same (albeit that benchmarks have been lowered), and the principal gatekeeper of the initiative has not changed. Nevertheless, HIPC countries are being asked to front-load their investment in terms of preparing Poverty Reduction Strategy Papers (PRSPs), which will absorb scarce capacity and resources. The IMF and World Bank are issuing new guidelines for preparing PRSPs at break-neck speed. Developing countries are being asked — once again — to invest time and efforts in processes and documents that may not result in tangible benefits. Such documents and processes should not be allowed to become substitutes for immediate and practical action in favour of the poor.

## **7. Donor spending on basic social services**

Since the early 1980s, the aid effort has been drifting farther from the UN target of 0.7 per cent. Far from spending 0.7 per cent of national income on ODA, the majority of DAC countries spend less than 0.7 per cent of their national budget on aid.

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<sup>14</sup> Ecuador was recently forced to declare a unilateral moratorium on its Brady-bonds debt.

Diagram 8 indicates that in 1997, ODA hit a historic low of 0.22 per cent of the combined GNP. Even though 1998 showed a recovery, it is likely to be a hesitant one because the increase was essentially due to the exceptional and short-term support in the wake of the Asian crisis. The upturn in 1998 was also related to the timing of some large bilateral contributions to international financial institutions.

Concerns about aid efficiency have risen in recent years, at a time when ODA has been falling. A series of studies on the subject has been published, one of which concludes that “aid is being diverted from countries in which the poverty problem is soluble, to those in which, given policy, it is insoluble” [Collier and Dollar, 1999]. The authors estimate that an efficient aid allocation could lift 82 million people out of poverty each year, against 30 million with the present aid allocation. Quantifications of this nature — which are at risk of overrunning the data on which they are based — can easily be interpreted by legislators as a justification for cutting aid budgets.

And this is exactly what happened in recent years. Real ODA has declined by more than a fifth between 1992 and 1997, before recovering in 1998. The decline has been steepest in the large donor countries, whose ODA fell by almost 30 per cent between 1992 and 1997 — but recovered about half of the losses in 1998. Diagram 9 shows that none of the G7 countries increased their relative aid effort in the 1990s. Compared with the UN aid target of 0.7 per cent of GNP, ODA is falling short by about \$100 billion per year — enough to cover the financing gap for guaranteeing universal access to basic social services in all developing countries. In other words, the concern about aid efficiency — much to be welcomed — has generated a greater acceptance among donor countries to become less generous in terms of ODA.

Moreover, Diagram 10 shows that the countries hardest hit by the cuts in aid budgets are those with high levels of income-poverty and child mortality and low access to primary education and safe drinking water [OECD/DAC, 1999]. Thus, the decline in ODA has been accompanied by a lesser focus on the poorest countries and the children in greatest need, which is inconsistent with the DAC goals of halving poverty, reducing under-five mortality by two-thirds, and ensuring universal access to primary education by 2015 [OECD/DAC, 1996]. Not only are the poorest countries by-passed by private capital flows, they also seem to be crowded out with regard to aid flows.

OECD/DAC reports sectoral breakdowns of aid. Diagram 11 shows that education and health together account for a relatively stable share of ODA (about 16 per cent), but that basic education and basic health combined represent less than 5 per cent of total ODA. Moreover, the share allocated to these basic services — which began in 1994 — does not show any sign of increase.

However, data from recipient countries suggest that aggregate data reported to the OECD/DAC Secretariat do not capture all donor support for basic social services. The 20/20 studies show that the ODA share directed to basic social services varies greatly between countries, as well as over time (Diagrams 12 and 13). This makes it extremely difficult to estimate the average share donors spend on these services. It is safe, however, to estimate that about 10 per cent of total ODA is currently being allocated to basic social services. Only a few developing countries receive 20 per cent of their aid in support of basic social services.

Basic social services usually does not involve high-level technical advice or technologically sophisticated equipment. Therefore, international co-operation in support of basic social services normally takes the form of direct budget support, instead of stand-alone projects. The relative neglect of basic social services in the allocation of ODA money can be explained by the preference among donors for supporting investment projects that are capital and foreign exchange intensive, and that are dependent on their expertise, technical assistance and training. Hence, many donors prefer the conventional project approach to the provision of direct budget support.

Even though the primary source for financing basic social services should be the national budget,<sup>15</sup> ODA can play a critical role in overcoming some of the obstacles in the transitory phase — since budget restructuring is never an easy task. However, aid-fatigue is undermining the political support for ODA. Surveys and polls consistently show that public support for international co-operation remains strong; nevertheless legislators have been nibbling away at the aid budget in recent years. In order to reverse ODA trends, legislators and policy-makers in donor countries must be shown that development co-operation makes a real difference in the lives of people — irrespective of whether studies conclude that ODA has had an impact on economic growth or not. Improving access to primary health care, basic education, water and sanitation — or enhancing their quality — are precisely the areas where parliamentarians can see how aid has a tangible impact on people's lives. Hence, we believe that a greater focus of aid on basic social services will contribute to reversing the decline in ODA.

## 8. Spending equitably

The 20/20 country reports also examine how equitably public resources are used. Incidence studies of budget expenditure in 20 countries indicate that health and education spending often by-pass the poor. They suggest that the top quintile of the population benefit, on average, about twice as much from public spending on education and health than the bottom quintile (Diagram 14). We refer to this phenomenon as the 'Matthew effect' — an allusion to the following verse in the gospel of Matthew: "For whoever has, to him shall be given and he shall have more abundance; but whoever has not, from him shall be taken away even that he has."<sup>16</sup>

The 'Matthew effect' is particularly strong for public spending at the university level. While the top quintile capture more than half the subsidies for tertiary education, the poorest quintile receive less than 5 per cent (Diagram 15). At the primary level, by contrast, the bottom quintile receives more benefits than the richest quintile. Indeed, spending on basic social services is much less regressive than spending on secondary and tertiary services. This means that spending one extra rupee, shilling, franc or peso on basic social services will have more impact on key social outcome indicators — such as primary enrolment ratios or under-five mortality rates — as when

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<sup>15</sup> Diagram 21 illustrates that the bulk of the investment in basic social services originates from the national budget. Only an estimated one-tenth of the existing financing gap for universal coverage will come from ODA sources.

<sup>16</sup> The 'Matthew effect' occurs in many markets. For example, of the 1,223 new drugs licensed worldwide between 1975 and 1997, only 13 were for tropical diseases. Of those 13, two were slight modifications of existing drugs, two were produced by the US military, and five were the result of veterinary research. Thus, private drug companies came up with only four new drugs specifically for tropical diseases in the past two decades.

that extra rupee, shilling, franc or peso were spent on non-basic services. Indeed, more equity means greater efficiency in the case of basic social services.<sup>17</sup>

Averages mask important gender differences. In general, girls have less access to basic social services than boys do. The reasons why girls are disadvantaged in public health and education are not totally clear. It may be partly due to the failure of the delivery system to avoid gender stereotypes or to take account of the specific needs of women and girls. Other factors — such as social values, household preferences and higher opportunity costs of female time — frequently deny women and girls access to health facilities or primary school. It has been observed that poor households make different health and education choices for males than for females, which may explain in part why subsidies are not as progressive as anticipated.

To make a bad situation worse, the gender gap often widens as poverty deepens. In Côte d'Ivoire, for instance, the gender gap in primary enrolment widened between 1985 and 1988, but it widened more for the income-poor (by one half) than for the non-poor (by one third). The primary enrolment ratio for girls from income-poor households actually decreased (from 22 in 1985 to 17 in 1988), whereas it continued to increase for their non-poor counterparts (from 54 to 58 respectively).<sup>18</sup>

## 9. Spending efficiently

It is beyond dispute that wastage in public spending on social services is considerable. Efficiency can be improved through appropriate policy reforms. Even though no consensus exists on the appropriate set of policy measures, the following list highlights areas for potential improvements in the impact of public spending on social outcomes:

- programmes of early childhood care and development;
- female teachers, toilet facilities and elimination of gender stereotypes in educational materials to retain girls in schools;
- adequate budget allocations for essential drugs, spare parts for hand pumps, teaching materials and textbooks;
- procurement of generic drugs;
- more reliance on nurses and other medical staff than on physicians;
- elimination of school and health fees for basic services, and minimising other out-of-pocket costs for users (e.g. uniforms);
- automatic promotion in primary education, provided quality is maintained;

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<sup>17</sup> Poor families have more children than rich ones, so the poorest quintile account for more than a fifth of the school-age children, which partly explains the apparent progressivity in public spending on primary education. A similar point can be made for the health needs of the poor, but relevant information is not readily available to quantify it. Evidence from industrialised countries suggests that factors such as low self-esteem, insecurity and unemployment — all characteristics of poverty — are associated with higher morbidity and premature death. Sparse evidence from developing countries confirm that the poor often die young.

<sup>18</sup> This example illustrates how national averages can hide widening disparities between socio-economic groups. Côte d'Ivoire's national enrolment ratio remained unchanged in the second half of the 1980s, despite a marked decline in the enrolment ratio for children of poor families, particularly girls. Data are based on LSMS surveys.

- use the mother tongue, especially in the early years;
- multi-grade teaching and multiple shifts in low-density areas; and
- accelerated learning programmes for over-age pupils.

Irrespective of the policy reforms that are eventually selected, they never substitute for adequate budgetary allocations. A minimum level of spending is always required to provide services of good quality. Fiscal austerity frequently leads to insufficient allocations for either wages, inputs, maintenance or infrastructure. Insufficient inputs in one of these areas will undermine the efficiency of total social spending. For example, when 95 per cent or more of the budget for primary education is needed to pay teacher salaries — a basic expense — there will be little scope for improving the quality of education. Reducing the number of teachers or lowering their salary are seldom viable options because classrooms are overcrowded and teachers' pay already falls below the minimum living wage. Extra resources for basic social services will, therefore, frequently enhance the efficiency of public spending. Those who focus the attention on inefficiencies seldom make the point that insufficiencies often aggravate inefficiencies.

## **10. Targeting basic social services**

A holistic human rights approach to development can be overwhelming, even for the most committed and least resources-constrained government. Therefore, narrowly targeted programmes are increasingly prescribed for reasons of efficiency and flexibility. Such programmes claim to minimise leakage to the non-poor and create opportunities for rapid response. We caution against an excessive reliance on narrow targeting, particularly in the area of basic social services.

Obviously, the relative advantages of targeting depend on the type of goods and services. The merits of a narrowly targeted fertiliser subsidy or micro-credit scheme, for instance, are very different from those of targeted vouchers for primary education. Generalisations about targeting, therefore, are of little use. With respect to basic social services, we believe that narrow targeting cannot be relied upon as the mainstay for ensuring universal access. Narrow targeting has important hidden costs, five of which deserve to be highlighted:

- costs of mis-targeting, due to the difficulty in identifying the poor and/or vulnerable groups;
- costs of failing to reach the poorest, as the non-poor seldom accept to be by-passed by special subsidies;
- administrative costs of narrow targeting, which are at least twice as high as for untargeted programmes. They also create opportunities for mismanagement so that extra outlays for oversight and control add to the costs;
- out-of-pocket costs: narrow targeting frequently requires beneficiaries to document their eligibility, which involves expenses such as bus fares and other costs. They can easily exclude the poorest — who already resent the social stigma associated with means testing and are less informed about special programmes; and
- cost of non-sustainability: once the non-poor cease to have a stake in narrowly targeted programmes, the political commitment to sustain their scope and quality is at risk. The

voice of the poor is usually too weak to maintain strong support. Benefits are often allowed to erode over time by not adjusting their nominal value for inflation.<sup>19</sup>

## 11. 'Queuing' for basic education

All too often, access to social services becomes a reality for the poorest only when all other socio-economic groups got access to them. Gaining access to basic social services can be compared with 'queuing'; and the poor are often at the end of the line. Diagrams 16 through 18 attempt to illustrate this point for primary education, based on the results of Demographic and Health Surveys [Filmer and Pritchett, 1999].<sup>20</sup>

The comparison between Mali and Morocco in Diagram 16 is instructive. Although the proportion of children not completing 5 years of education drops from 80 per cent in Mali to 50 per cent in Morocco, the proportion for poor children (i.e. those belonging to families in the lowest 40 per cent) is not very different in the two countries. It is thus the non-poor who benefit first from the increased availability of services.

This comparison illustrates the 'fallacy of the mean'. Based on national averages, it is obvious that access to education is better in Morocco than in Mali, but the average hides the fact that the situation of the poor in both countries is not very different. Indeed, national averages can give misleading impressions. Too much attention is often given to obtaining national averages and too little attention is paid to examining their underlying socio-economic composition.

As primary education becomes more widely accessible — as is illustrated in Diagram 16 by the situations in Colombia and the Philippines where the proportion of children not completing grade 5 falls to 20 and 10 per cent respectively — poor children gradually share in the benefits. Nevertheless, the poor are always among the last to gain access to social services. In Mali, children from families in the bottom 40 per cent account for about 40 per cent of those who fail to complete grade 5. Their share increases to 60 per cent in Morocco, 70 per cent in Colombia, and 75 per cent in the Philippines. This evidence confirms the existence of the 'Matthew effect' in the distribution of public spending.

The same picture emerges when changes over time are examined. Diagram 17 indicates that recent improvements in this particular education indicator for Bangladesh benefited foremost children from families in the middle 40 per cent. As a result, the poor represented a growing proportion of the children who do not complete 5 years of education between 1994 and 1997. In Peru — where access to education appears to have worsened in the 1990s — it were the poor who bore the cost, whereas the non-poor were not affected. The share of the poor in the

<sup>19</sup> Likewise, privatisation of some public services in cities around the world has made it possible for people with higher incomes to insulate themselves from urban problems, whereas in the past they would have pushed for improved city-wide services.

<sup>20</sup> DHS surveys do not collect income or consumption data, but their information allows to cross-tabulate social indicators by socio-economic groups. The authors grouped households in three categories (lowest 40%, middle 40% and top 20%) based on their assets such as a bicycle, radio, size of the dwelling, type of construction materials, and source of drinking water. Assets-based distributions give a socio-economic picture that is at least as reliable as those based on reported income or consumption.

‘education queue’ went up by 3 percentage points in Peru and by 4 percentage points in Bangladesh in the respective periods.

In other words, children from poor families represent a growing share of the ‘education queue’ as countries move towards universal access to basic education. Based on 44 observations, Diagram 18 shows that poor children become more predominant among those who fail to complete 5 years of education as the national completion rate improves.<sup>21</sup> This confirms that the poor find themselves often at the end of the queue. Thus, all indications are that the last child to complete 5 years of schooling is very likely to be from a poor family.

Similar socio-economic disparities persist regarding the completion of primary education in Latin America, in spite of the region’s strides towards full primary enrolment. Data for 12 countries — that account for about three-quarters of the region’s population — show that, on average (weighted), 94 per cent of the children belonging to the top income decile complete primary education. However, this share falls to two-thirds for the middle decile and drops below 40 per cent for the bottom decile (Diagram 19). Studies in Indonesia also found that the decline in school enrolment was highest among the poorest households. The enrolment ratio dropped 6 percentage points in 1998 for the 7-12 age group in the lowest income-quartile [Frankenberg et al. 1999].

In sum, the evidence strongly suggests that it is only when access to basic social services becomes universal that children from the poorest families will be reached. This raises the question whether narrow targeting can be an effective way of helping the poorest to gain access. As far as basic social services are concerned, we do not believe in the efficacy of such shortcuts. In real life, those who are ahead in the queue usually resent when someone tries to jump the queue, and they often do not allow it to happen. The same is likely to be happen when socio-economic groups queue for basic social services.

The human rights approach dictates that the principle of universality takes priority over that of selectivity when it comes to basic social services. Moreover, high-achieving countries such as Costa Rica, the state of Kerala (India), the Republic of Korea, Mauritius, Sri Lanka and others have all applied broad targeting in the past [Mehrotra and Jolly, 1997]. None of them relied on shortcuts through narrow targeting.

## 12. Charging for basic social services

Universality is often dismissed as unrealistic, based on the argument that the costs are simply not affordable for low-income countries. User fees for basic social services have been introduced in many developing countries, but remain controversial. They are often justified on the ground of pragmatism, in that owing to budgetary constraints, user fees are the only way to expand the coverage and improve the quality of social services. To reject user fees in the name of principle, the argument continues, would mean that large segments of the population would remain unserved for the foreseeable future.

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<sup>21</sup> A linear regression yields a slope coefficient that is significantly different from zero (t-value=4.9, df=43, R<sup>2</sup>=0.37).

Proponents of user fees argue that the policy of providing free social services has failed to meet efficiency, effectiveness and equity targets.<sup>22</sup> However, some powerful criticisms have been raised against the policy of user financing. In particular, the negative impact of user fees on utilisation is now well documented. Malawi's positive experience, for instance, illustrates that fees can be a formidable obstacle for poor families to make use of public services. Diagram 20 shows that in the wake of the elimination of a modest school fee and school uniforms in 1994, primary enrolment soared by about 50 per cent almost overnight — from 1.9 million to 2.9 million pupils [Government of Malawi and Unicef, 1998]. Needless to add that girls were the main beneficiaries of this policy reform. The country has been able to maintain quasi-full enrolment since 1994.<sup>23</sup>

Another shortcoming of user financing is that its impact on the quality of services is usually limited. Seldom are user fees invested in quality-enhancing interventions. Most often, they substitute for funding from the central ministry. To be successful and sustainable, cost sharing must lead to immediate and measurable improvements in the access and/or quality of services. However, this has been the exception rather than the rule.

The growing attention paid to social and economic rights has reopened the debate on user fees. We undertook a review of the theoretical arguments and empirical evidence regarding user financing of basic social services [Reddy and Vandemoortele, 1996]. The following conclusions emerged:

- user fees do not guarantee greater efficiency and effectiveness because basic social services are public goods that have strong synergies and positive externalities;
- basic social services are subject to principal-agent interactions and asymmetrical information so that price signals will not automatically lead to optimal demand;
- user fees collect very modest amounts of money compared with the budgetary resources allocated to basic social services;
- user fees lead to a reduction in the utilisation of services, particularly among the poor;
- protecting the poor is difficult because exemption schemes seldom perform well and are costly to administer; and
- user fees tend to aggravate gender biases, seasonal variations and regional disparities.

In some cases, a second-best option of cost sharing with users and communities will need to be contemplated in the short-term because of severe budgetary constraints.<sup>24</sup> In those rare cases, attention should be paid to the guiding principles contained in the Addis Ababa Consensus, which offers a concrete model for preparing a set of good practices of social policy [ECA, Unicef and World Bank, 1998].

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<sup>22</sup> Social services are never free in the sense that users always incur out-of-pocket costs. The meaning of 'free' refers here to the absence of any official contribution for using the service.

<sup>23</sup> Admittedly, the quality of education is unlikely to have improved after 1994, but the fact that primary enrolment continued to increase in subsequent years would suggest that its quality did not worsen significantly, if at all.

<sup>24</sup> A gradual approach has often been followed. In Sri Lanka, for instance, tuition fees were eliminated in 1945, free textbooks and free lunches were introduced in the 1950s, and a policy of free school uniform came into effect in 1991. In Botswana, enrolment received a major boost following the halving of fees in 1973, which were totally eliminated in 1980. [Mehrotra and Jolly, 1997]

In short, broad targeting should not be dismissed on the basis of non-affordability. In the field of basic social services, narrow targeting is likely to yield savings that are ‘penny-wise but pound-foolish’.

### **13. Lack of resources or weak commitment?**

The financial cost of achieving universal coverage is modest, whereas the benefits that beckon are enormous. We estimate that the global shortfall in public spending to ensure universal coverage of a minimum package of basic social services is equivalent to about one-third of current spending — or about \$80 billion per year (at 1995 prices).<sup>25</sup> We also estimate that the full implementation of the 20/20 initiative would generate enough resources to guarantee universal access (Diagram 21).

Although large in absolute terms, the gap of \$80 billion represents about one quarter of 1 per cent of global annual income. Indeed, achieving universal access is as much about setting priorities as it is about the mobilising resources. It is often strong political commitment that has been the missing ingredient. Experience shows that universal access to basic social services can be achieved by all countries, even by those with low levels of per-capita income.

### **14. The ‘education vaccine’ against AIDS**

To the individual as well as to society, access to basic social services can make a huge difference. Recent evidence indicates, for instance, that HIV infection is becoming more prevalent among illiterate people than among those with primary and post-primary education. This suggests that education is the best protection against HIV infection. Indeed, the ‘education vaccine’ against AIDS is likely to be the only one available for the foreseeable future.

During the initial stages of the AIDS pandemic in the 1980s, the more educated, mobile and better-off members of society were often most vulnerable. With increased information, knowledge and awareness, however, their behaviour started to change in the 1990s, whereas that of the illiterate people did not see a similar change.

Since the early 1990s, DHS surveys have regularly incorporated AIDS-related questions. There are now 32 countries for which comparable information exists. Their results indicate that women without education are, on average, 5 times more likely to lack minimum knowledge about AIDS than women with post-primary education. Their belief that there is no way to avoiding AIDS is about 4 times higher than for their educated counterparts. The proportion of women who do not know that the HIV virus can be transmitted from mother to child is, on average, 3 times higher for uneducated women than for those with post-primary schooling. Illiterate women are also 3 times more likely to think that a healthy-looking person cannot be sero-positive, compared with

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<sup>25</sup> Estimating the cost of quality improvements and the benefits from efficiency gains is extremely difficult, if not impossible. The calculus of the financing gap is based on the assumption that efficiency gains will fund the costs associated with improving the quality of basic social services.

those with post-primary education. Diagram 22 summarises the results of the 32 DHS surveys.<sup>26</sup> All countries show a uniform pattern: a person's ignorance about the various aspects of HIV/AIDS decreases as her/his education level increases.

The selective impact of the AIDS pandemic according to level of education is also reflected in changes in the under-five mortality rate (U5MR). Recent surveys have begun to show that U5MR is on the rise in some sub-Saharan African countries. In Kenya, for instance, the national U5MR increased from 91 to 105 per 1,000 live births between the 1989 and 1998.<sup>27</sup> For years, DHS surveys have shown that maternal education protects young children against premature death. This seem to remain valid today. Diagram 23 shows that in the midst of the worsening situation in Kenya, U5MR continued to decline for children whose mother had attained post-primary education (from 64 to 60 respectively). After decades of steady decline, the reversal in U5MR trends is likely to be related to the spread of AIDS. If so, the above evidence points indirectly toward the growing effectiveness of the 'education vaccine' against AIDS.

But DHS surveys do not report HIV infection rates; they only indicate the person's knowledge about AIDS and maternal education of children who die before their fifth birthday. They provide suggestive but not compelling evidence about the 'education vaccine' against AIDS. To obtain additional and more convincing evidence, we examined the results of some small-scale surveys that report the education level of HIV sero-positive people. Relevant data of such surveys in Zambia and Uganda are reported below.

A sentinel surveillance of HIV in Zambia shows a positive correlation between sero-prevalence and education for pregnant women [Fylkesnes et. al. 1997]. This was particularly true for the age group 25-29. Although at face value, this positive correlation might contradict our argument about the 'education vaccine', it must be recalled that the women who belonged to the age group 25-29 in 1994 — the year of the survey — became sexually active in the early 1980s when little was known about HIV/AIDS. The positive correlation confirms that the educated and better-off people were actually more vulnerable to HIV infection in the 1980s than illiterate people.

However, the correlation between sero-prevalence and education was no longer observed for the age group 15-19 — the group who became sexually active a decade later when information regarding the pandemic was more widespread. Diagram 24 suggests that educated women started to change their behaviour in the 1990s — based on information and knowledge. In both urban and rural Zambia, a steep reduction in the average infection rate was observed for women with primary and post-primary schooling. The infection rate among women without any formal education, by contrast, remained relatively constant.<sup>28</sup>

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<sup>26</sup> The differences between the (unweighted) averages for three education groups — no education, primary and post-primary — are all statistically significant.

<sup>27</sup> DHS surveys report the average under-five mortality rate for the ten-year period preceding the survey.

<sup>28</sup> It could be argued that the difference between the two age groups does not necessarily suggest a change in behaviour, but is simply due to a lower level of sexual activity among the 15-19 age group. However, the 1996 DHS survey for Zambia shows that the majority of girls become sexually active before age 18.

Another sentinel survey of child-bearing women — this time in a town in Western Uganda — provides further evidence of the changing socio-economic profile of the AIDS pandemic [Kilian et. al. 1999]. Diagram 25 shows that in the period 1991-94, young women (age 15-24) with secondary education were more likely to be infected than their illiterate counterparts. But this was no longer the case in 1995-97. The bar chart illustrates how the relationship between the level of education and the rate of HIV infection has reversed direction due to behavioural change among educated women. Their infection rate decreased dramatically — dropping by almost half — whereas it fell much less and remained high for women without any formal schooling.

The ‘education-vaccine’ against AIDS does not necessarily originate from the information about the disease that is given at school. The way it is likely to work is that education equips and empowers a person — especially young women — to capture and internalise relevant information and to transform it into behavioural change. The spread of education also changes the community environment in which such behavioural changes become socially more acceptable — primarily through greater gender equity and the gradual emancipation of women.

Even though further research is required to examine in greater detail the workings of the ‘education vaccine’ against AIDS, the changing socio-economic profile of the AIDS pandemic adds a powerful argument for renewed efforts to reach universal coverage of primary education and other basic social services within the shortest possible target date. Girls education is an absolute priority in this regard, because recent studies in Africa show that teenage girls are five to six times more likely to be infected by the HIV virus than boys their age [UNAIDS, 1999].

## 15. Learning lessons for social policy

Several principles of good social policy emerge from the experience of countries that have made rapid social progress compared with their level of economic development. We distil the following principles and good practices of social policy from a study of the so-called ‘high-achieving countries’ [Mehrotra and Jolly, 1997]:<sup>29</sup>

- ❑ they simultaneously addressed economic and social rights; they did not pursue economic growth first, while keeping social development in abeyance;
- ❑ they considered universal access to basic social services as a public sector priority — none of them relied on the free play of the market, on ‘trickle down’ or on narrowly targeted programmes as the mainstay for achieving universal coverage;
- ❑ they spent more on basic social services;
- ❑ they also spent better by (i) reaching the poorest (equity); (ii) improving the impact of social spending (efficiency); and (iii) providing an integrated package of basic social services so that their combined impact was greater than the sum of the parts; and finally
- ❑ they protected the budget for basic social services during periods of crisis and austerity, because these investment have relatively long gestation periods.

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<sup>29</sup> The countries studied include Barbados, Botswana, Costa Rica, Cuba, state of Kerala (India), Republic of Korea, Malaysia, Mauritius, Sri Lanka and Zimbabwe.

## 16. Globalising disparities

If globalisation holds the promise of fast economic growth and steep reductions in poverty — as its proponents argue — why is it mired in so much controversy? Part of the answer is that globalisation seems to be inherently unequalising; so much so that economic integration at the international level can lead to social disintegration at the national and local levels.

Globalisation and liberalisation aims at accelerating economic growth by improving the efficient use of resources. It is not difficult to understand that those who possess productive assets and resources (the ‘haves’) will see their income increase faster than those with few or no assets (the ‘have-nots’). In other words, the rich will capture the lion’s share of the benefits, whereas the poor are likely to bear the brunt of the cost. Thus, the paradoxical trend whereby renewed growth is accompanied by widening disparities and deepening poverty can be interpreted as the logical outcome of ‘successful’ globalisation. The development of a two-tier global economy is the result of the inherently unequalising nature of liberalisation and globalisation. To use a cliché: the rising tide is not lifting all boats; it is lifting the yachts but not the rowing boats.<sup>30</sup>

It is increasingly difficult to dismiss the evidence regarding widening disparities as anecdotal or based on faulty analysis. It is becoming obvious that the fruits of liberalisation and globalisation are not reaching the table of the poor. Disparities are on the rise around the world. There are several sources of data that point in the direction of greater inequalities, including the Trade and Development Report [Unctad, 1997] and the Human Development Report [Undp, 1999], as well as recent papers by Galbraith et. al. [1998], Cornia [1998] and Milanovic [1999].

The latter is of particular interest as it derives a world income distribution by combining the results of household budget surveys in 91 countries into one grand distribution, using purchasing power parity values. It shows that in 1993, the top decile controlled half of global income, while the bottom half earned less than 10 per cent of global income. Diagram 26 also shows that the distribution worsened between 1988 and 1993. The income share of the top decile increased at the expense of that of the bottom 90 per cent. The global Gini coefficient increased rapidly — from 62.5 to 66.0 respectively.<sup>31</sup>

The poor are not only getting poorer in relative terms, but also in absolute terms. The author points out that the real income of the world’s poorest 5 per cent dropped significantly over this 5-year period — by an estimated one-quarter. Similarly, studies in Thailand indicate that the poorest — those at the bottom of the income scale — were hardest hit during the recent crisis [Kakwani, 1999]. A new face of ‘apartheid’ seems to be spreading across the globe as millions of people live in wretched conditions side-by-side those who enjoy unprecedented prosperity.

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<sup>30</sup> In a globalising world, equity concerns are no longer a matter that principally refers to the gap between rich and poor countries, but between rich and poor people, irrespective of where they live. In other words, the unit of analysis needs to shift from the country to socio-economic groups within and between countries.

<sup>31</sup> A change in the Gini coefficient of this magnitude over just 5 years represents a radical change in inequity. Gini coefficients are relatively stable, and it takes a major change in the distribution of income for the coefficient to jump by 3.5 points in a short period of 5 years.

The ‘Matthew effect’ seems to operate among the poor as well. For example, Diagram 27 shows that the proportion of Nigeria’s income-poor declined by 9 percentage points between 1985 and 1992. Despite this positive picture, not everyone benefited. When Nigeria’s poverty line is set at a very low level — so that in the initial year only about 10 per cent of the population fell below it — the picture changes radically. Using this line for extreme poverty, there was a three percentage points increase in the incidence of income-poverty — which implies a considerably bleaker picture than the one that emerges when the higher poverty threshold is used. The story applies equally well to rural Kenya (1981-91) and rural Tanzania (1983-91), where the incidence of income-poverty declined by 3 and 14 percentage points respectively; while extreme income-poverty rose by 4 and 11 percentage points respectively.

These data suggest that widening disparities do not only occur between the rich and poor, but also occur among the poor. Those who were closest to the poverty line seem to have benefited from economic reforms and structural adjustment in these three countries. Those that were furthest from the poverty line seem to have been further marginalised.

In these countries, people at the bottom of the income distribution experienced an actual decline in their level of consumption, even though the national headcount index declined. This led to the paradoxical situation in which the number of people living below the poverty line declined, yet the number of people living in extreme income-poverty increased.

Once again, this evidence cautions against excessive reliance on aggregate national averages to inform policy-making.<sup>32</sup> The ‘average’ is nothing more than a concept, a convenience created to help us understand things better. However, an average country or an average child does not exist in reality, only in our mind. Hence the need to avoid the ‘fallacy of the mean’ when describing the real world.

Inequities and disparities are also on the rise in industrialised countries. As in many other OECD countries, the gap between rich and poor in the United States has been widening in recent years. Unlike others, the US publishes a wide range of relevant statistics on the subject. They indicate that, even though the country experienced a dazzling economic performance in the 1990s, real hourly wages stagnated or fell for the bottom 60 per cent of the workers.<sup>33</sup> Neither was the strong economy able to curb child poverty. In 1996, 20.5 per cent of all US children were living in poverty, up from 19.6 per cent in 1989 and 16.4 per cent in 1979 [Mishel et. al. 1999].<sup>34</sup>

Whether the data refers to rich or poor countries, the picture is similar: the socio-economic groups at the bottom of the income distribution are witnessing a decline in their standard of living. Most of the gains seem to be captured by the top 10 or top 5 per cent in society. At the

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<sup>32</sup> It also confirms that the poor are not a homogeneous group for whom one-size-fits-all policy recommendations and practical solutions are equally relevant.

<sup>33</sup> Little wonder that the average household contribution to charities fell by nearly 10 per cent in real terms between 1989 and 1998, and that contributing households decreased from 75 per cent to 70 per cent respectively.

<sup>34</sup> Some argue that poverty trends in the US are biased by erroneous measurement. However, an independent panel of experts has concluded that an updated poverty measure would actually increase the number of poor, mostly by reclassifying many working people among the poor.

same time, economic theory and analysis indicates that it is increasingly difficult to argue that rising inequity is good for economic growth [Temple, 1999].

## 17. Sustaining globalisation

All available evidence indicates that the ‘Matthew effect’ seems to be thriving under globalisation. If robust economic growth in places as far apart as South Asia, Latin America and the United States cannot narrow disparities and reduce poverty, there is a strong case for introducing social policies that can. Such policies will need to generate more social equity, so as to ensure that economic growth is translated into poverty reduction. At some point, those who are losing out will use whatever means — their voice, their feet or their arms — to reverse market-outcomes. No one knows where that point is, and it would be unwise for any government or for the international community to try finding out where the breaking point lies.

The association between globalisation and widening disparities is of great concern to us because it can undermine the sustainability of the globalisation process. It is the disregard of the fate of those who bear the costs associated with globalisation that fuels the popular discontent — even fear.<sup>35</sup> It is no coincidence that open OECD countries — particularly the small Benelux and Scandinavian economies — have the largest public sector, in order to help cushion some of the negative effects of openness on specific segments of their population (e.g. displaced workers) [Rodrik, 1998]. It is the inadequacy of such socio-economic cushions that led industrialised countries to abandon new trade talks at the WTO meeting in Seattle in December 1999.<sup>36</sup>

Henry George put it succinctly in the 1880s when the world was experiencing an earlier spell of globalisation: “So long as all the increased wealth which modern progress brings goes but to make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent.” [George, 1882]. Indeed, the history of the 20<sup>th</sup> century shows that the sustainability of globalisation should not be taken for granted.

It would be a great tragedy were the wheels of progress to be slowed down by the inability of the global system and national governments to assist the victims of globalisation. The powerful forces of technological progress cannot be arrested, just as the benefits from market principles cannot be ignored; but the distribution of its costs and benefits among socio-economic groups can be made more equitable. We believe there is a better way of ensuring that the market delivers more equitable outcomes.

George Soros writes “I was aware that in some circumstances, the social consequences of my actions might be harmful, but I felt justified in ignoring them on the grounds that I was playing

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<sup>35</sup> Recent polls show a deep divide regarding the perception on trade. Only one-third of American families with less than \$50,000 in annual income hold a positive view of free trade, while nearly two-thirds of those with an annual income of more than \$75,000 hold such a positive view; and that percentage continues to increase as income rises.

<sup>36</sup> Earlier in 1999, President Clinton had admitted in his address to the ILO annual conference that “working people in the US strongly resist new market-opening measures”.

by the rules” [Soros, 1998].<sup>37</sup> The quote raises a fundamental question: How can rules that govern the global financial system be good economics when their outcomes are ethically unacceptable and socially indefensible? The architects of the global trading and financial system cannot ignore the warning of the 1944 Philadelphia Declaration that “poverty anywhere constitutes a danger to prosperity everywhere”.

One way of neutralising the inherent unequalising effects of globalisation is by incorporating the principles and good practices of social policy in the global economic and financial architecture. The onus of these practices should not be placed on national policies alone, but should also have a bearing on the formulation of global rules and regulations — for fairer trade and more aid, limited protection of intellectual property rights,<sup>38</sup> more effective commodity price stabilisation schemes, and other measures. This is in line with the call made by the ministers and heads of aid agencies in donor countries for greater consistency in industrialised countries between agricultural, trade, and investment policies and the goals of development co-operation [OECD/DAC, 1996].

## 18. A ‘social shock-absorber’

Proponents of rapid globalisation and liberalisation often use the metaphor of the bicycle to argue that the economy needs constant reforms and opening-up to maintain momentum. We will use the same metaphor, but instead of focusing on speed, we emphasise comfort. Until recently, bicycles came without shock-absorbers. The idea of installing them came after potholes appeared on the road to globalisation, especially in East Asia.

Recent events have shown that the road to globalisation will be bumpy. In order to keep better control of the handle-bars, the first shock-absorbers are being installed on the front wheel. They are economic shock-absorbers that are part of the fine-tuning of the global financial architecture. An example of an economic shock-absorber is the Chile-style cooling mechanisms of so-called ‘hot-money’. Others are flexible exchange rates, better banking supervision, greater transparency in financial reporting, adequate bankruptcy legislation, etc.

But in order to make the journey as comfortable as possible, the society needs also a social shock-absorbers. Therefore, the next step is to install shock-absorbers on the rear wheel for a smooth and uninterrupted journey to a globalised world. We believe that the universal coverage of basic social services plays this role. Not only is it affordable and relatively easy to install, it is also far more effective than social safety nets that are commonly used to fix the damage done after hitting a few potholes. Ex-post safety nets are usually under-funded, slow to take-off and seldom reach the poorest.

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<sup>37</sup> The saving grace is that the author is among those global financiers who recognise that their actions have social consequences. The author continues: “What I can say with confidence is that the substitution of monetary values for all other values is pushing society toward a dangerous disequilibrium.” [Soros, 1998].

<sup>38</sup> Including the expansion of mechanisms such as compulsory licensing and parallel imports of products that are subject to trade-related intellectual property rights (TRIPS).

The countries that were hardest hit by the financial crisis in East Asia were also the ones where the social shock-absorber was lacking, i.e. where access to basic social services was the least developed. In Indonesia, for instance, one-third of all children under the age of five were underweight in 1995 — a proportion that was higher than the average for sub-Saharan Africa. In education, only a fifth of the children belonging to the poorest asset-quintile completed 9 years of education — which was less than what their counterparts achieved in Zimbabwe. Such social statistics, which are all pre-crisis,<sup>39</sup> belie the image of a miracle economy that reduced poverty in a spectacular way (Diagram 28).

In both Thailand and Indonesia, secondary enrolment ratios are considerably lower than in Malaysia and the Philippines — two countries that weathered the crisis better. Diagram 28 shows that the enrolment ratios for girls in particular are much lower in the former two countries than in the latter two — about 40 versus 70. We believe that Indonesia's and Thailand's under-investment in basic social services was one of the underlying causes of their greater vulnerability to the financial crisis. Indeed, the inadequacy of their human resources base prevented their production system to move into higher value-added sectors. This slowed their export growth as competition from low-income countries became stronger — which has been a contributory factor to the crisis.

Recall the case of Mali where 4 in 5 children do not complete five years of education. That country achieved the remarkable feat of increasing the dollar value of manufacturing exports to OECD countries by 20 per cent or more per year between 1964 and 1994 [Rodrik, 1999]. Nevertheless, the economy cannot be considered as a success story. As in other cases, this example indicates that more openness alone is unlikely to bring sustained development. Gerry Helleiner has called on governments not to 'succumb to mindless globalisation' [Helleiner, 1997].<sup>40</sup> Mali's economic stagnation and marginalisation is not due to lack of openness, but to inadequate investment in basic social services to build the foundation for sustained and equitable development.

Short-term and ex-post social safety nets do not appear appropriate to address the real challenge of laying such solid foundation. Ensuring universal access to basic social services of good quality, and sustain public support for that goal in times of crisis and austerity contributes to the establishment of society's social shock-absorber.

## 19. Summing up

Little or no progress is being made in terms of reducing income-poverty. The number of people who struggle to survive on less than \$1-a-day has continued to increase in all regions during the 1990s — except in East Asia — in spite of the economic recovery and the surge in trade and international capital flows.<sup>41</sup>

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<sup>39</sup> Between mid-1997 and mid-1998, relative food prices rose by 40 per cent in Indonesia [World Bank, 1999], which must have led to a further rise in child malnutrition.

<sup>40</sup> Quoted in Rodrik [1999].

<sup>41</sup> The 1999 report on Global Economic Prospects admits that progress has stalled [World Bank, 1999].

The international community seems to be interpreting incorrectly the evidence regarding global poverty trends and its implications for economic growth. This is essentially due to the use of the poverty norm of \$1-a-day which can lead to tautological reasoning between poverty reduction and economic growth.

Millions of children — primarily from poor families — are denied their social and economic rights, even though the resources, knowledge and techniques are available to give all children a good start in life. An early, front-end investment in children is within the financial reach of all countries, even the poorest ones. The financing gap to guarantee universal coverage of a minimum package of basic social services in developing countries represents less than one-third of 1 per cent of global annual income. Seldom has the international community had an investment opportunity that is so noble in its objective and so productive in its outcome. Moreover, it is far less expensive to break the hold of destitution in terms of basic social services than bearing the moral and economic costs of permitting poverty to persist and increase.

We believe that universal access to an integrated package of basic social services is one of the most effective and cost-efficient ways of reducing poverty and creating a level playing field. It will create a social shock-absorber in times of crisis, which will help sustain the globalisation process and make it more inclusive. Basic social services are key to trigger the virtuous circle of social and economic development. Access to these services will equip and empower the poor to embrace change and make globalisation work for everyone, thereby improving the equity of market outcomes.

The notion of participation is central to the human rights approach to development: the poor become engaged subjects of development, rather than being passive objects; they are strategic partners, rather than target groups. Universal access to basic social services will build the solid foundation for meaningful participation.

The incorporation of social shock-absorbers in the global financial architecture makes excellent economic sense, besides being a legal requirement for the member states that have ratified international human rights treaties. It is precisely what the leaders of the now industrialised countries did in the late 19<sup>th</sup> and early 20<sup>th</sup> century when they established a market economy: they gave it a human face — based, in part, on the understanding of ‘enlightened self-interest’. The rewards of this action have been spectacular indeed.

As a new global economic architecture is being considered, we may want to revisit the views of some of the architects of the old system. One of these architects was Franklin D. Roosevelt, US President from 1933-45. In 1937, he stated: “The test of our progress is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have too little.” When asked to use the ‘FDR test’ for assigning a grade on the score-card of the 1990s, many observers and analysts would find it difficult to give the decade a passing grade. Some might even be tempted to call for an end to globalisation ‘as we know it’.

## Diagrams

Diagram 1

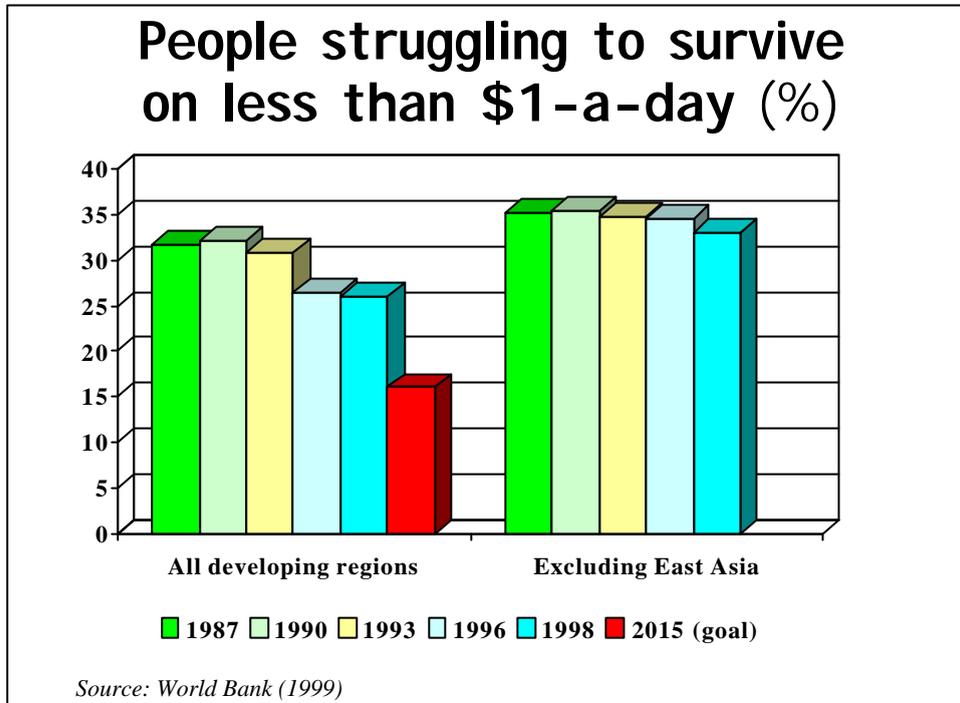
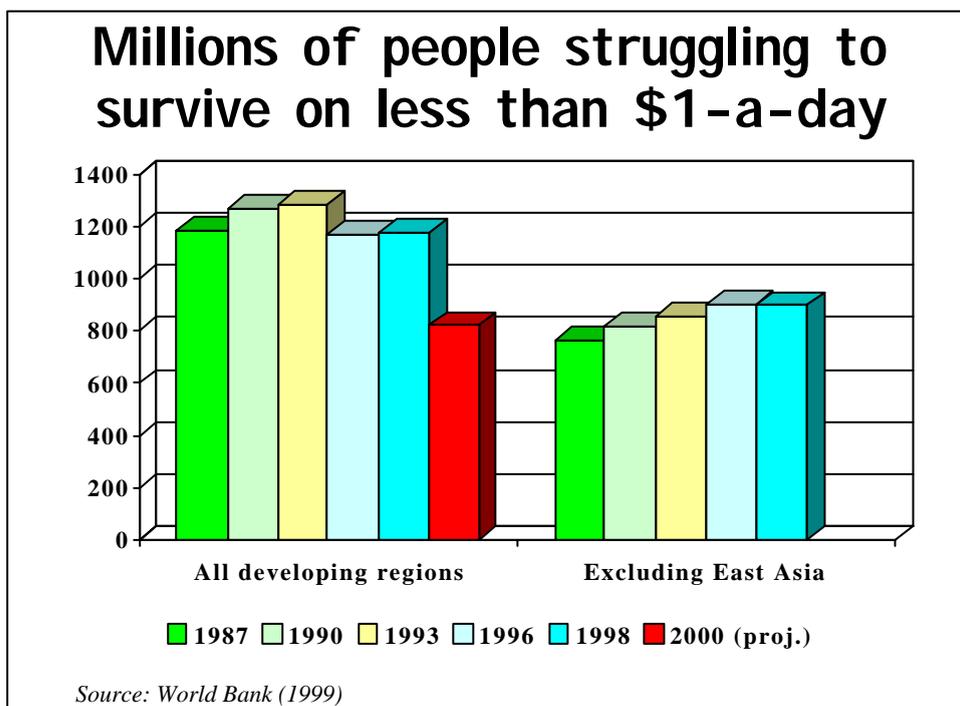
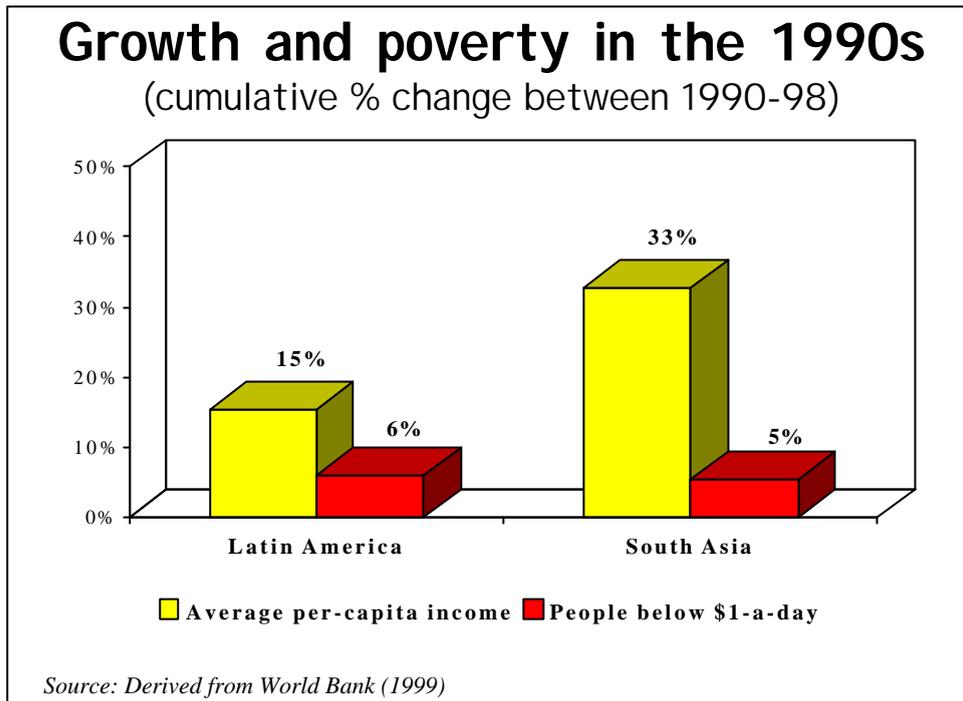


Diagram 2



**Diagram 3**



**Diagram 4**

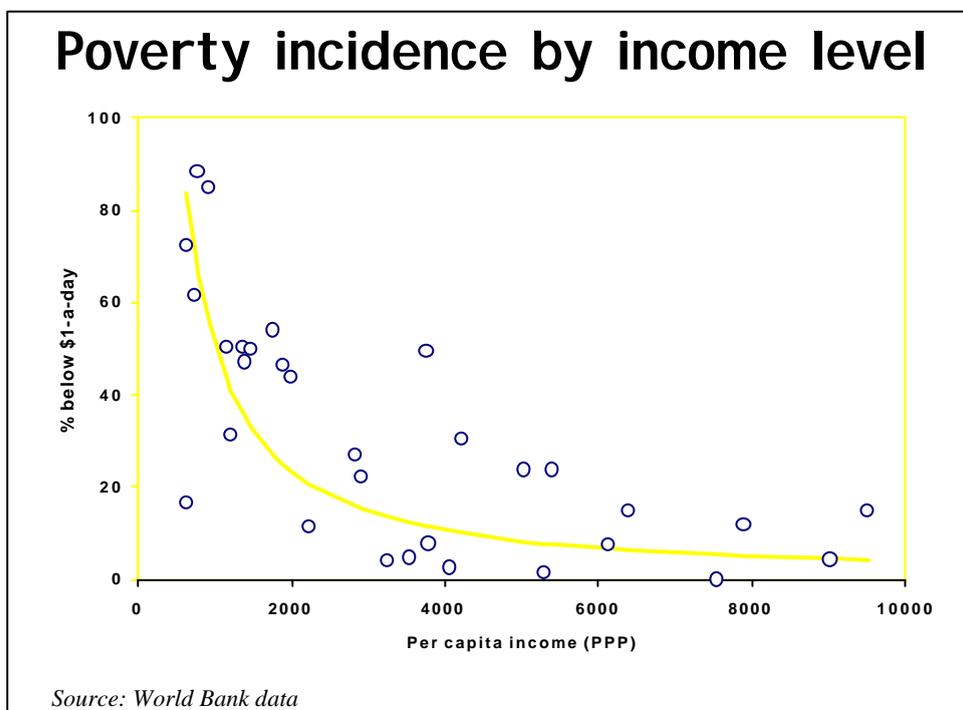


Diagram 5

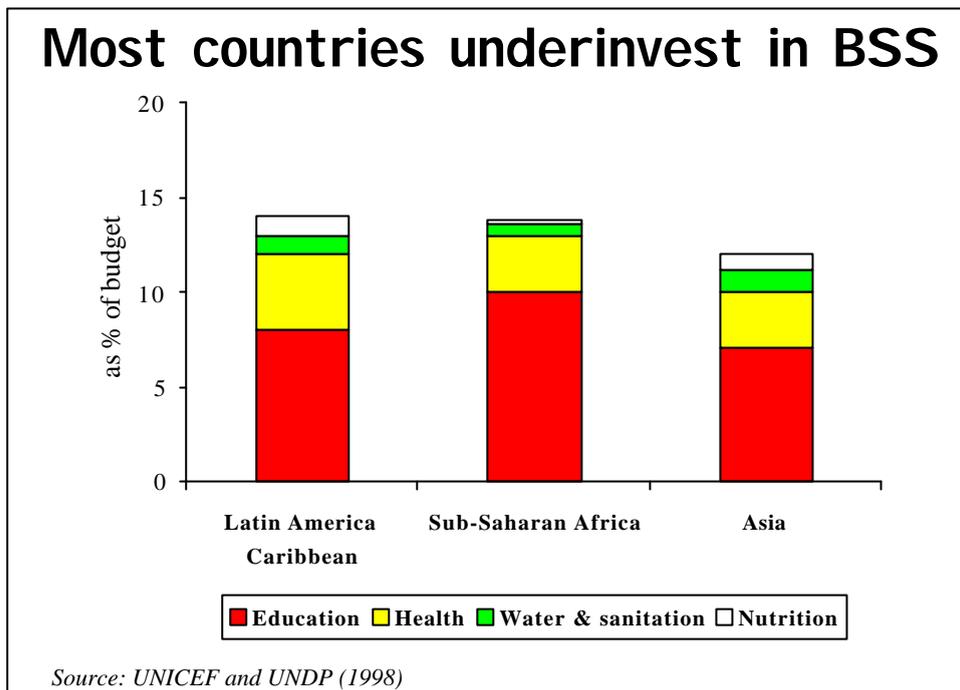
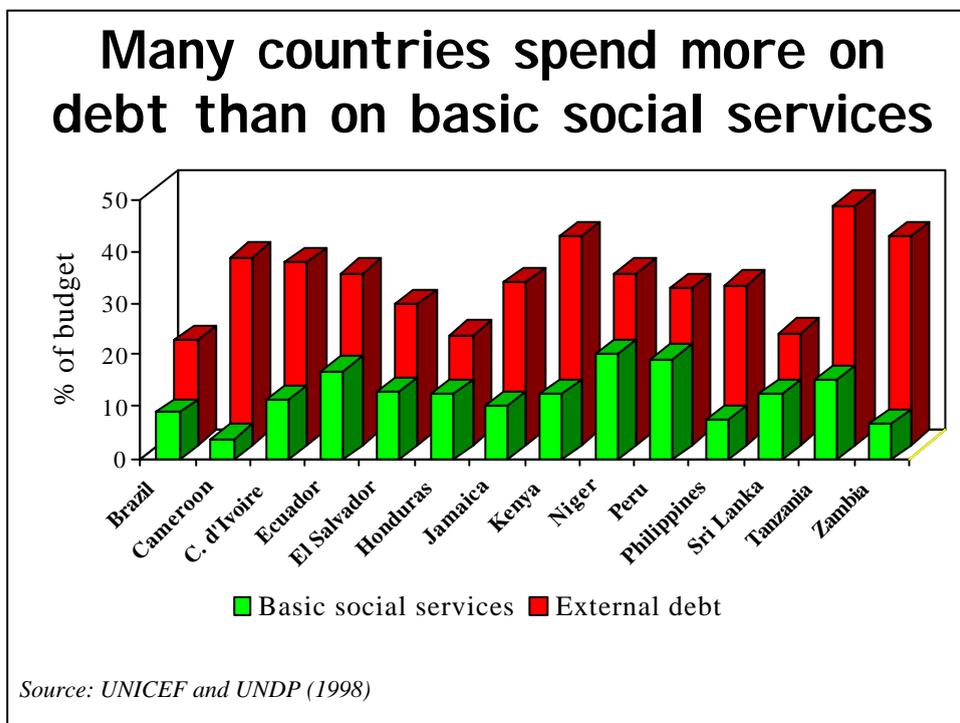
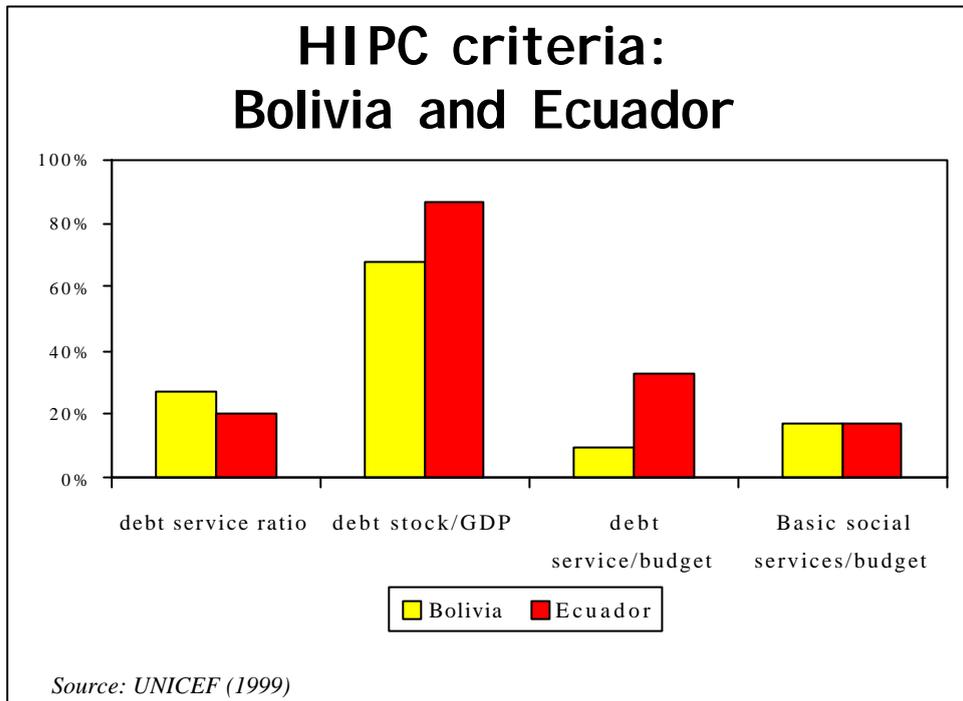


Diagram 6



**Diagram 7**



**Diagram 8**

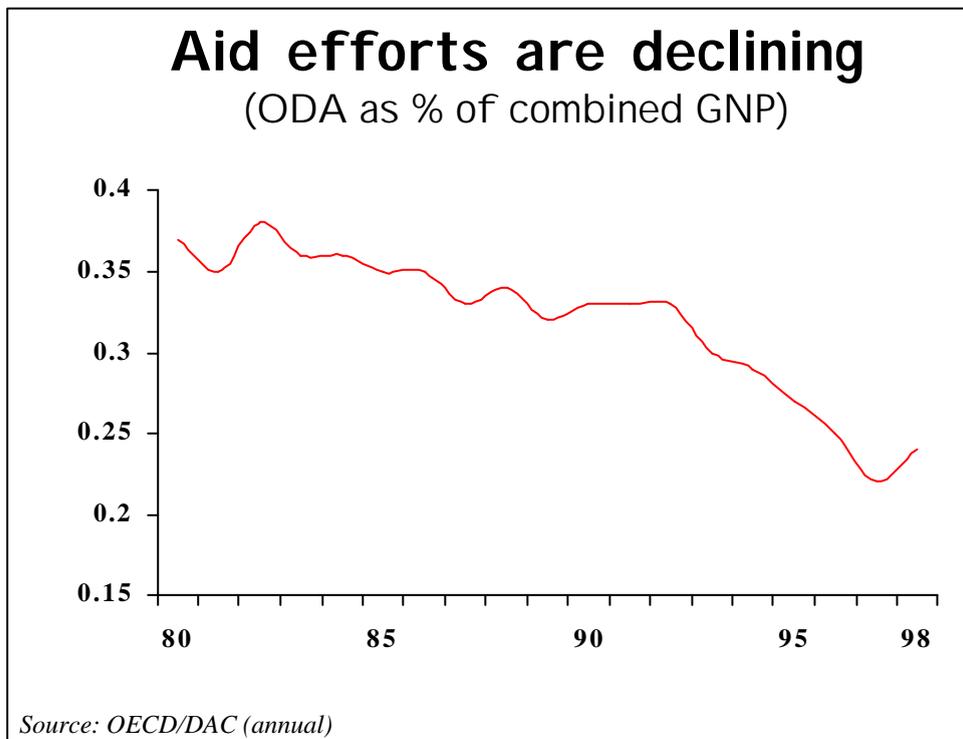


Diagram 9

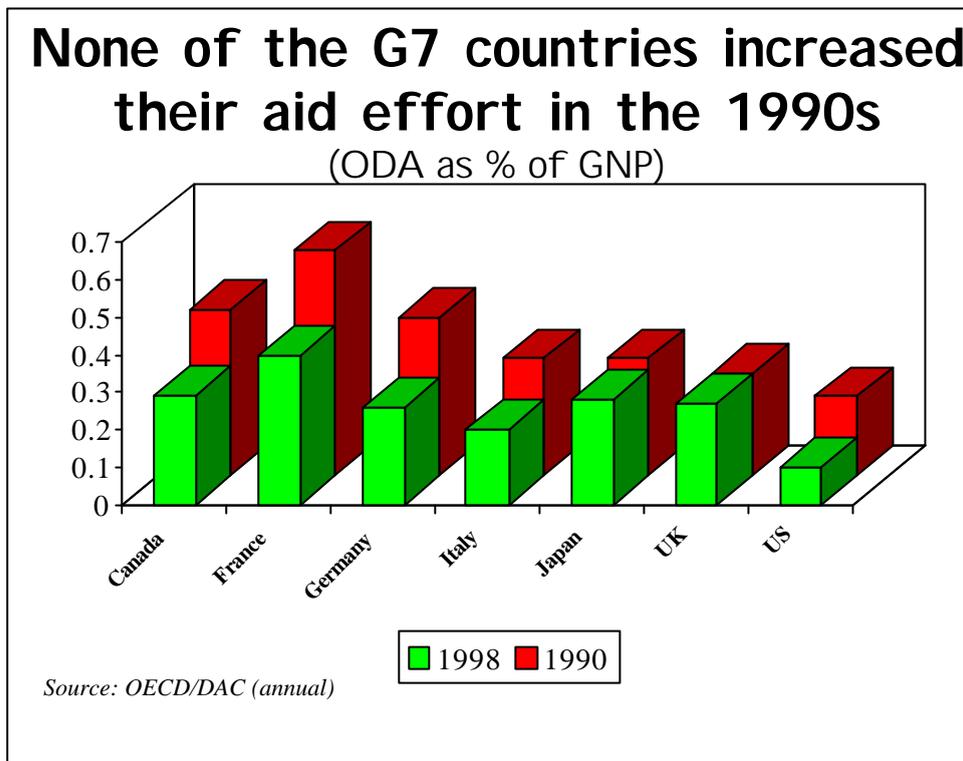


Diagram 10

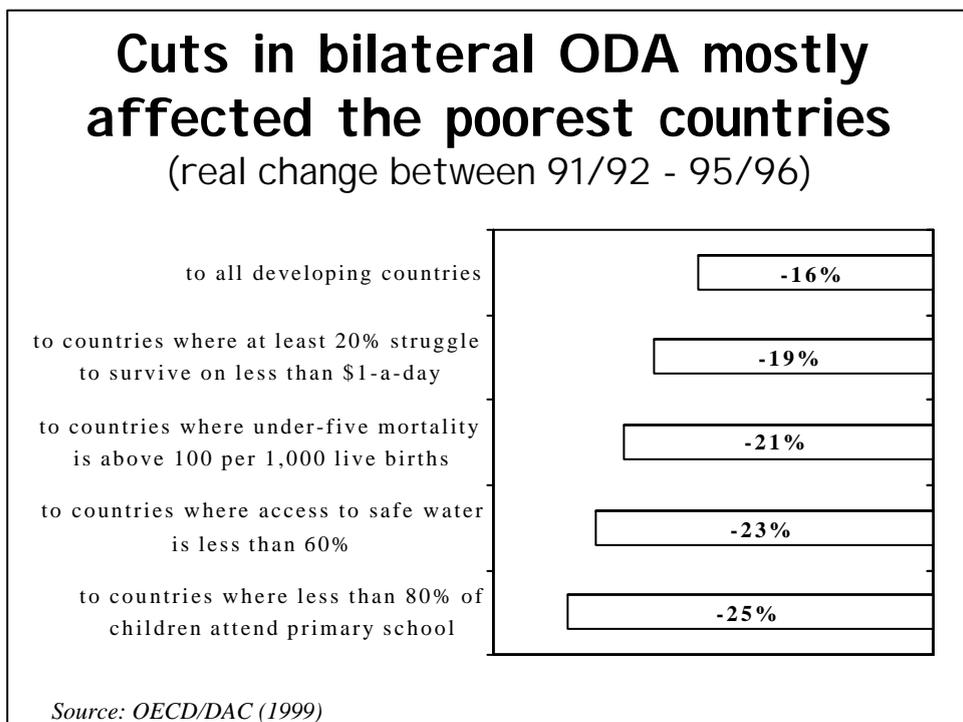


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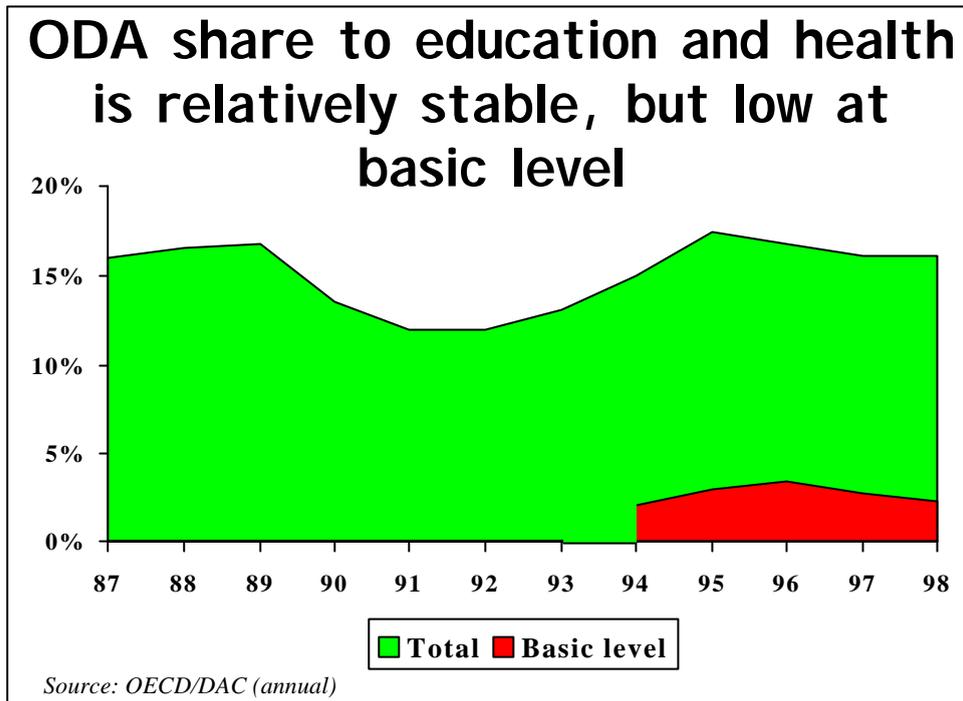


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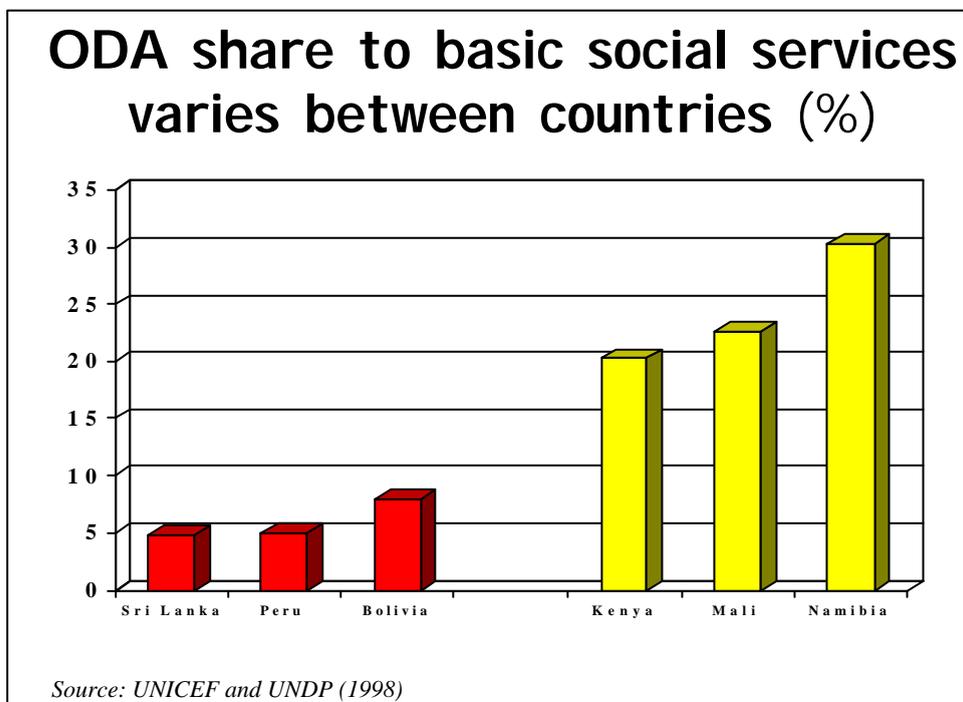


Diagram 13

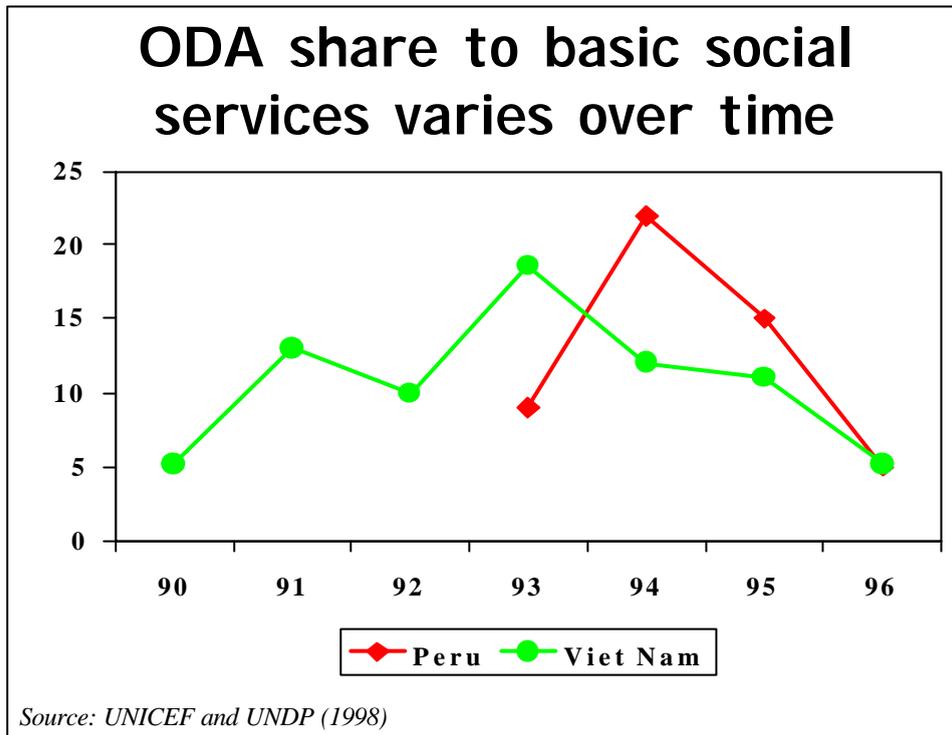
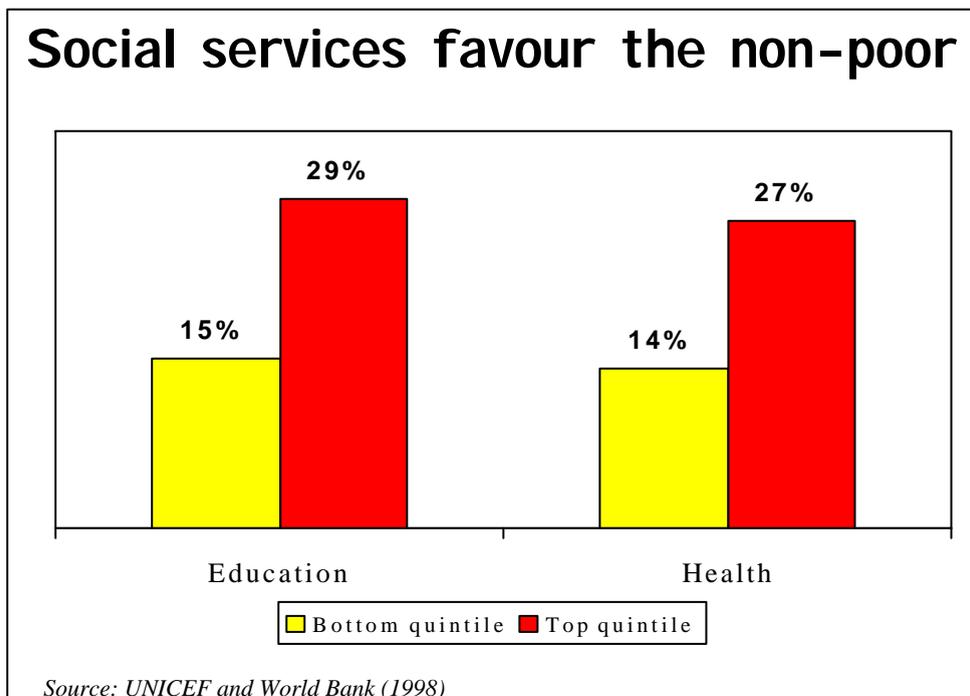
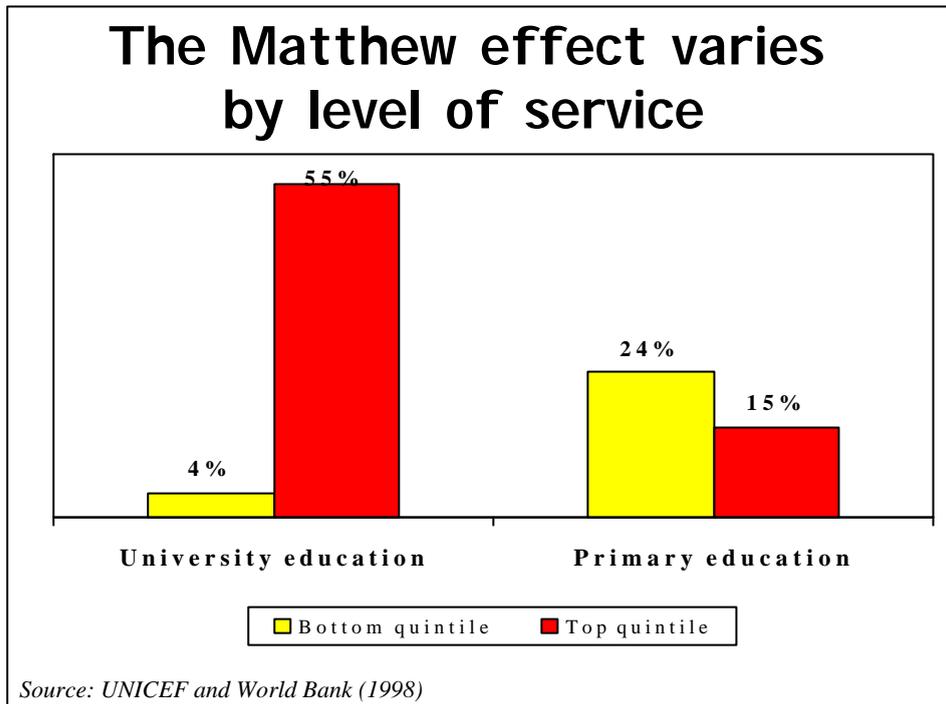


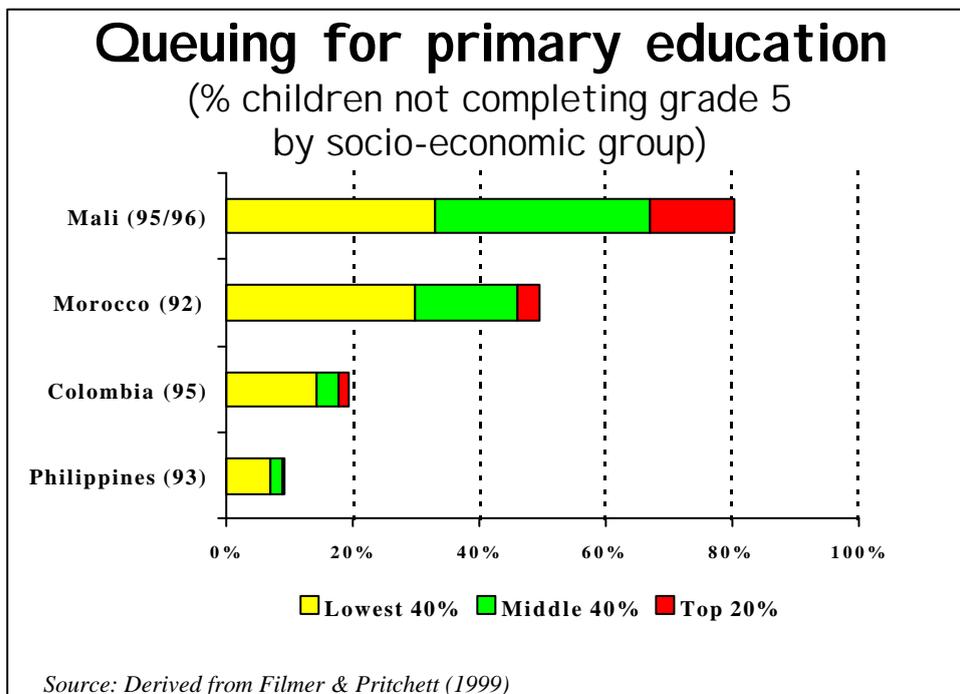
Diagram 14



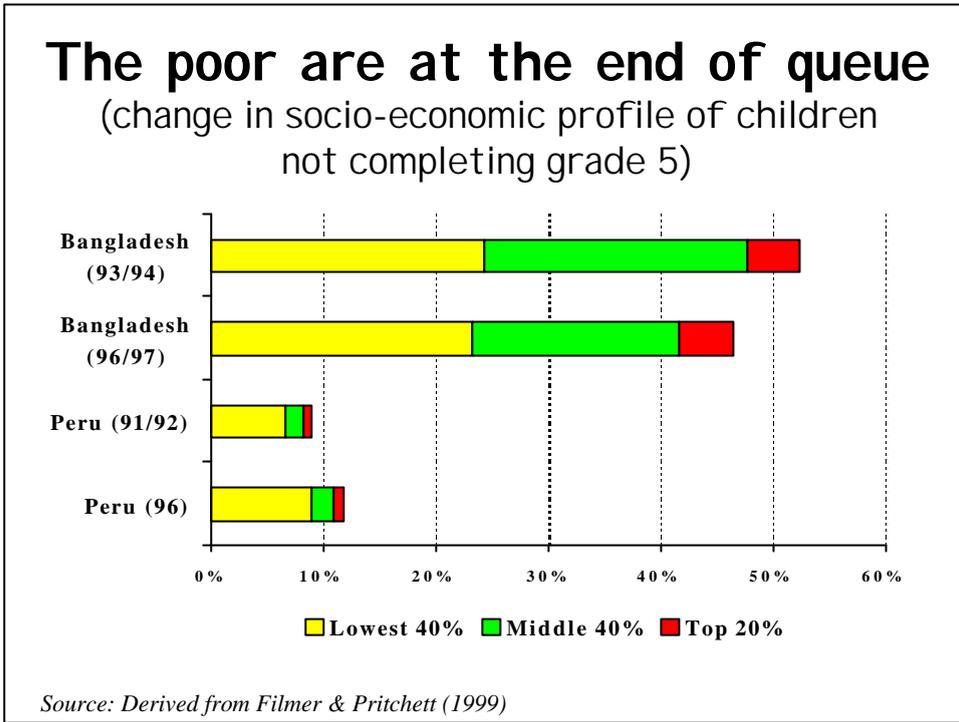
**Diagram 15**



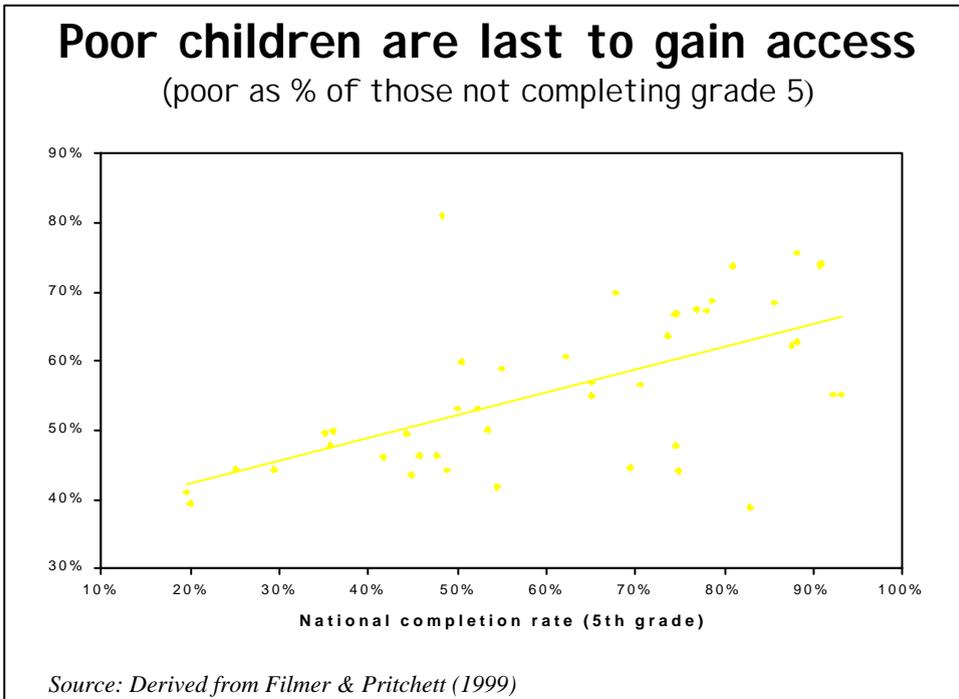
**Diagram 16**



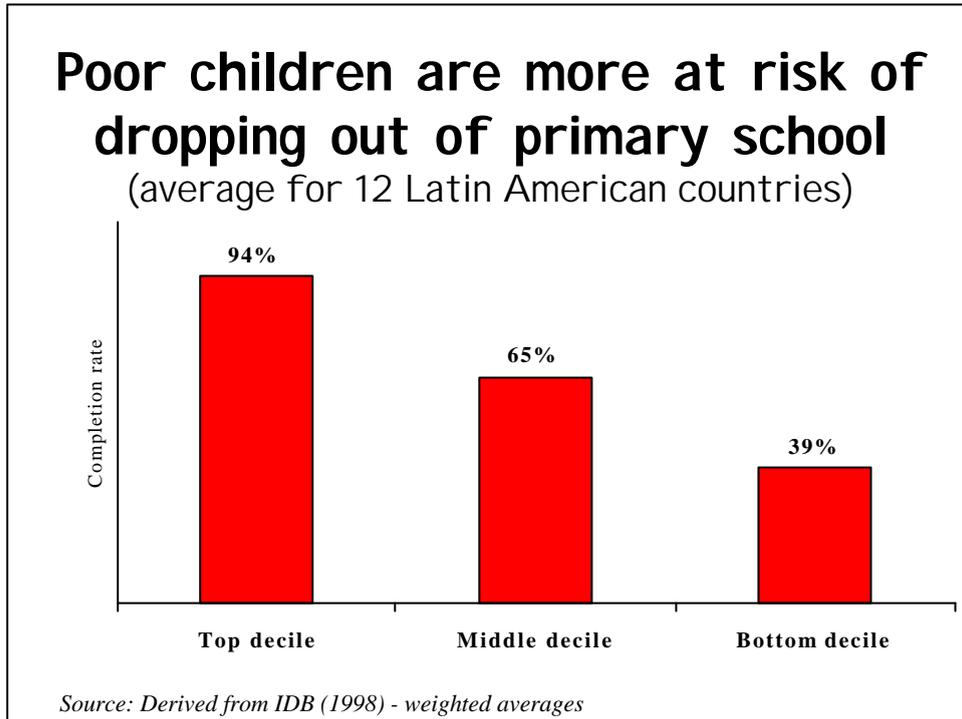
**Diagram 17**



**Diagram 18**



**Diagram 19**



**Diagram 20**

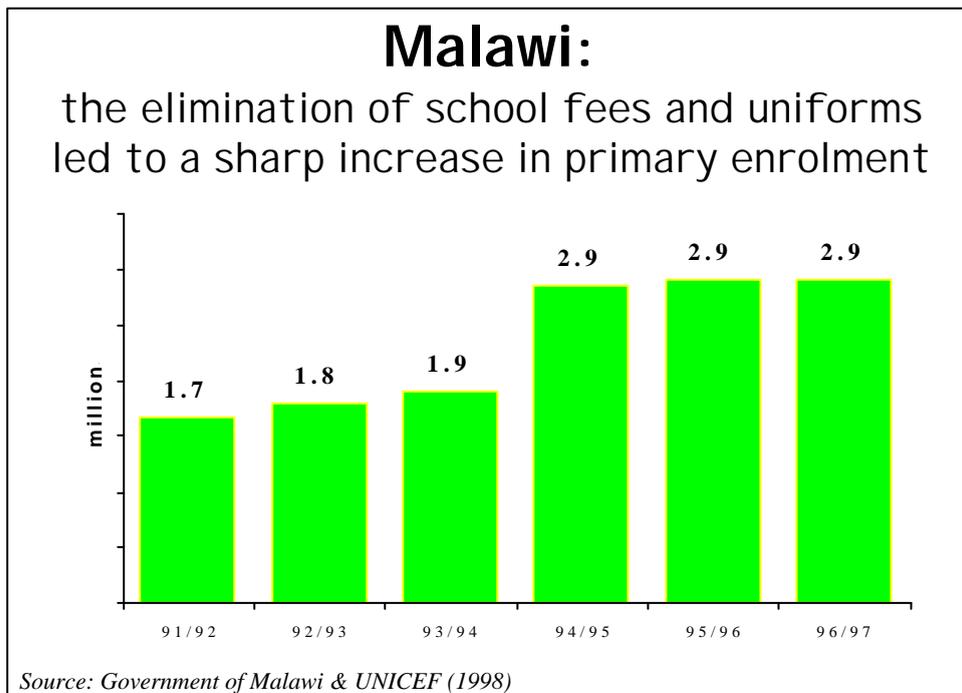


Diagram 21

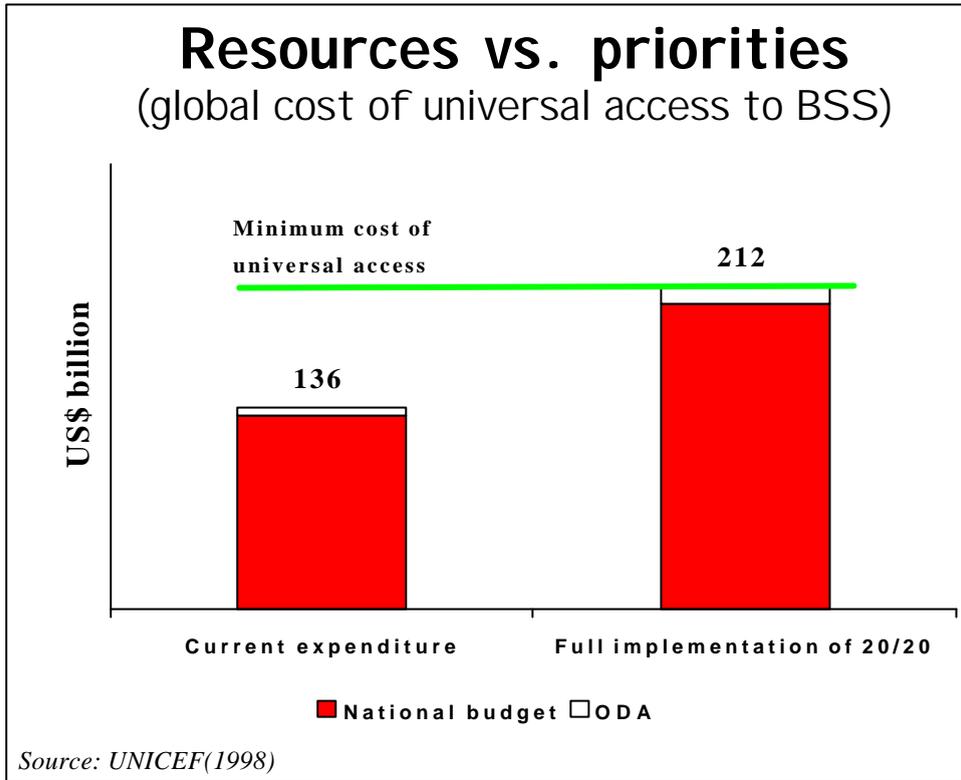


Diagram 22

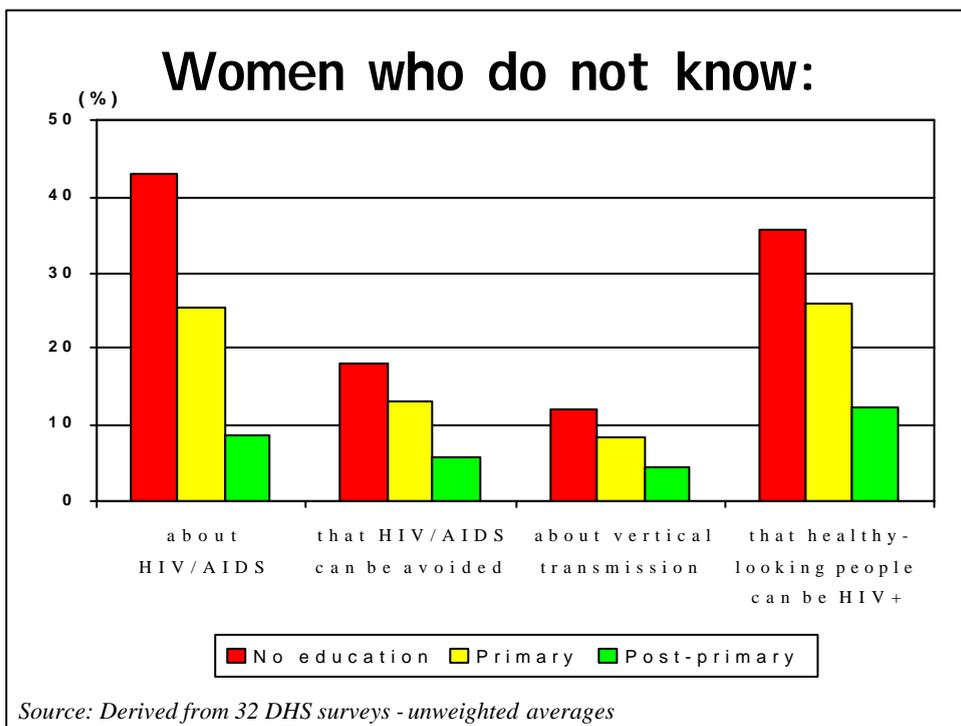


Diagram 23

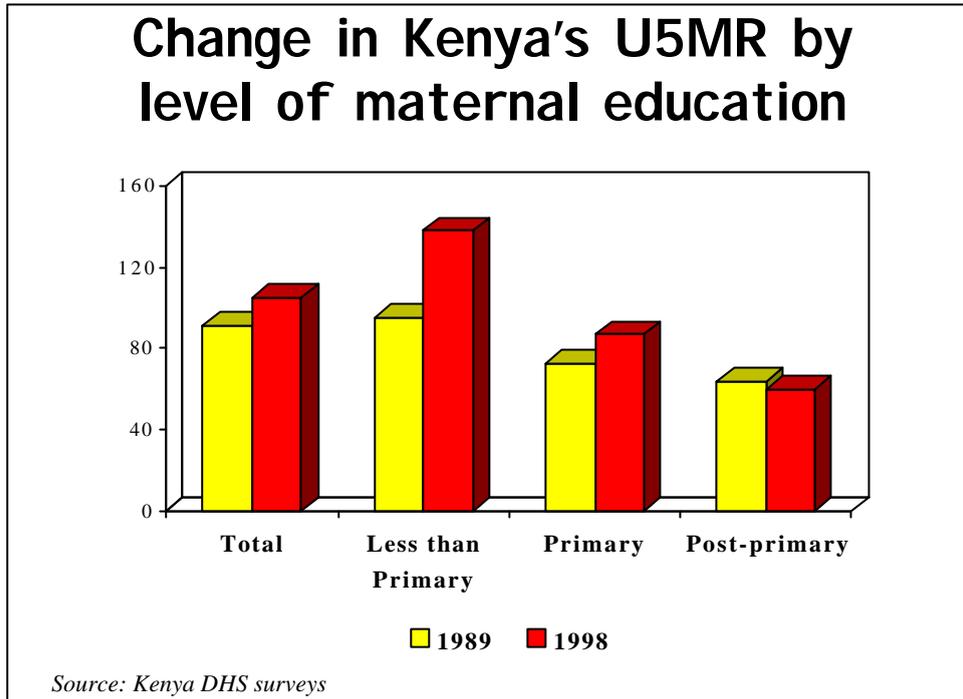


Diagram 24

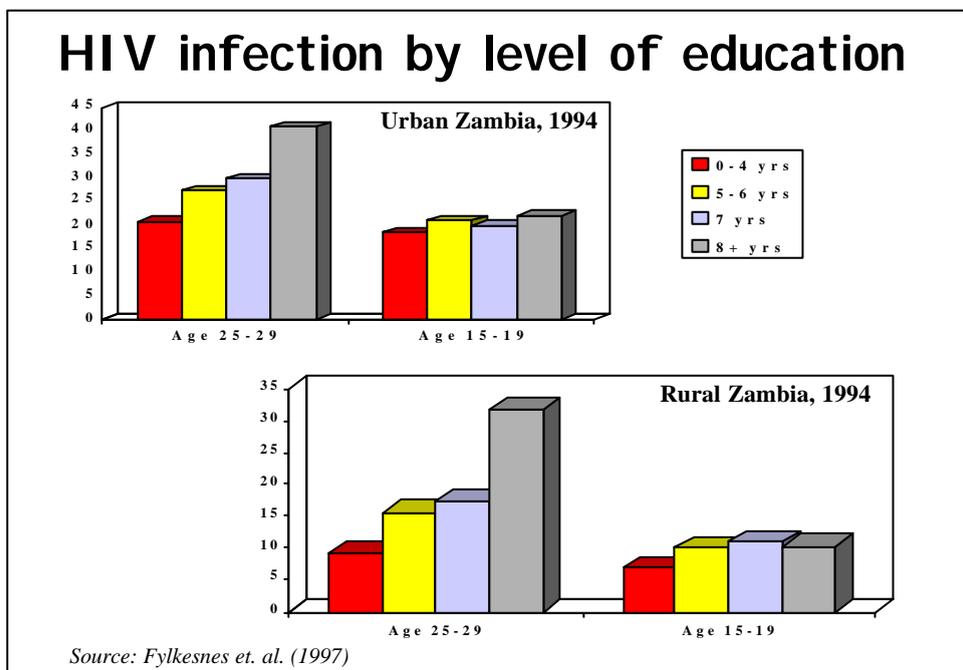


Diagram 25

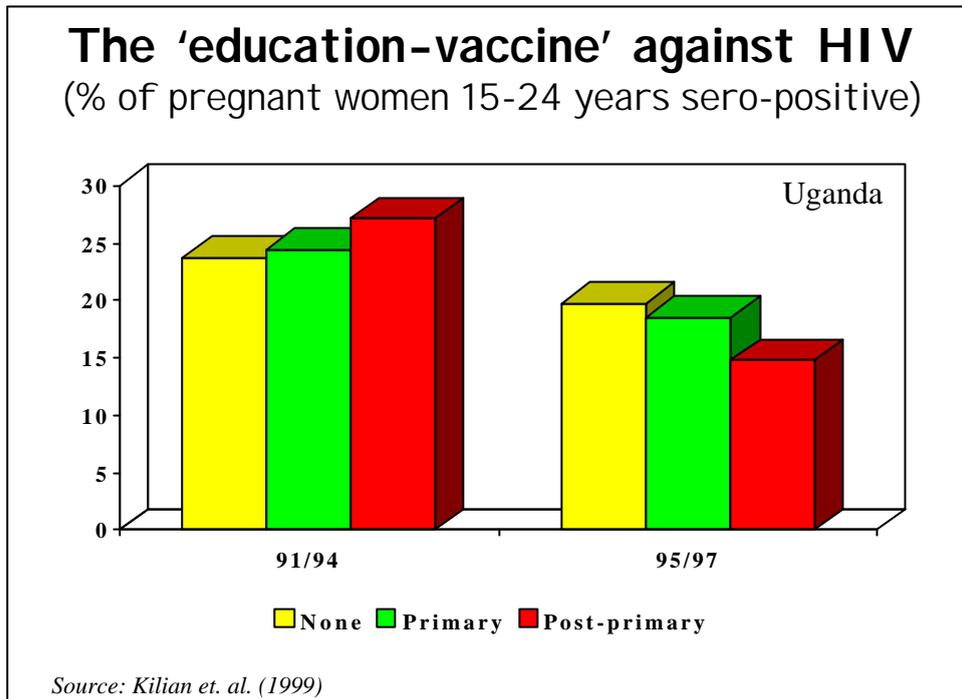


Diagram 26

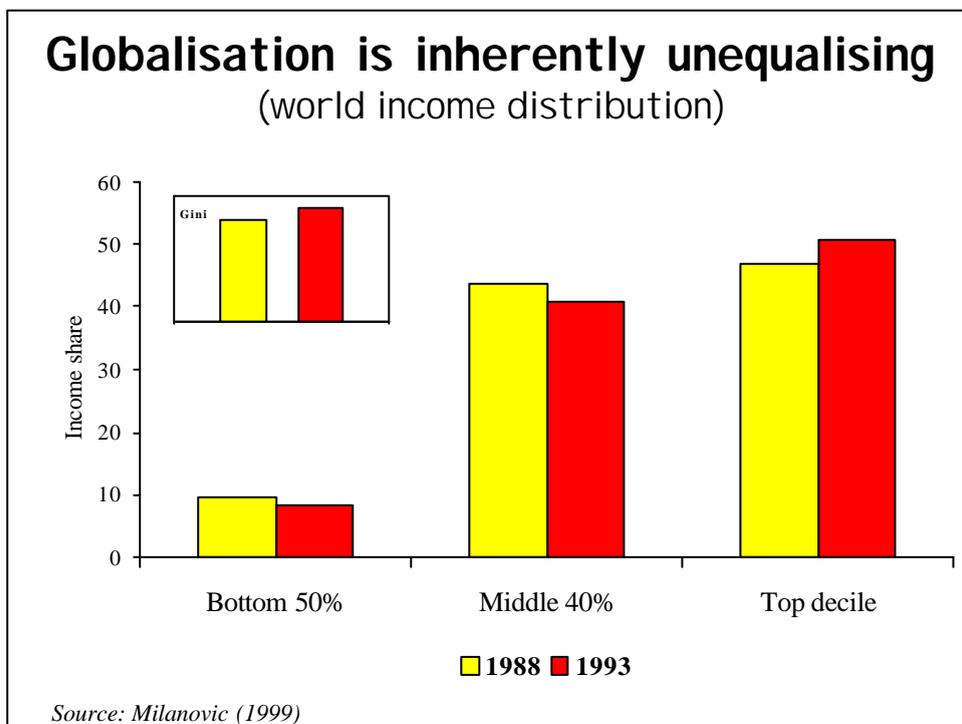


Diagram 27

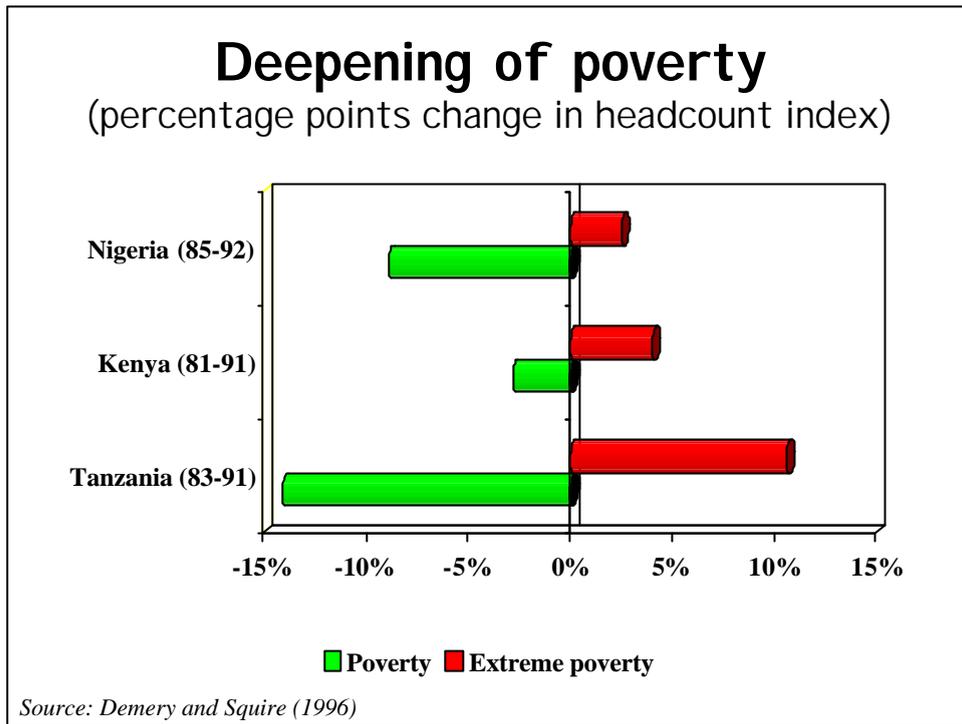
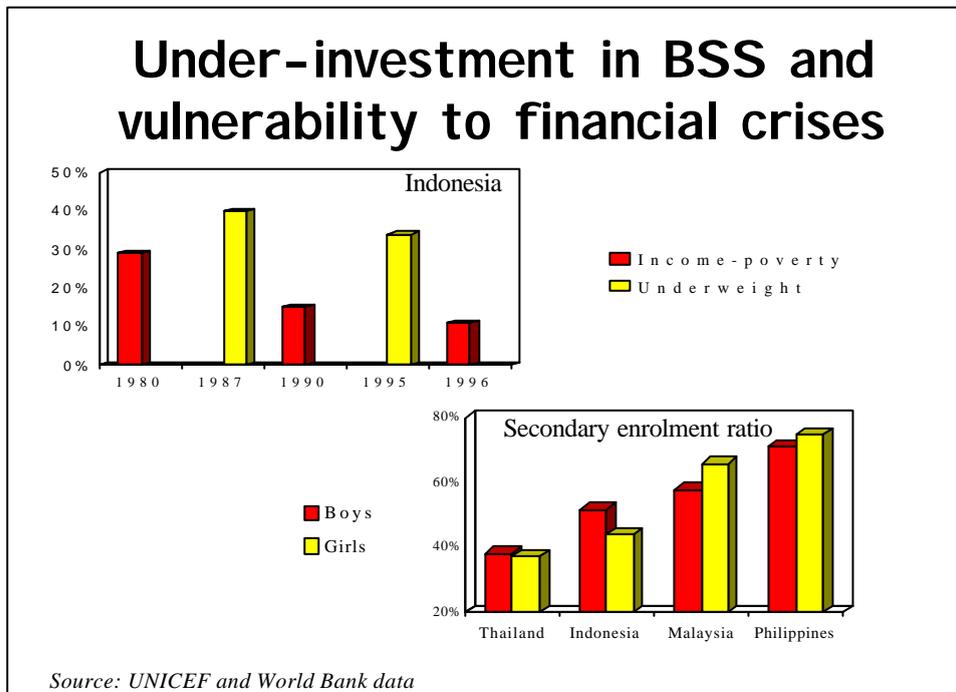


Diagram 28



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