

**The Global Backdrop to South Africa's Anti-Poverty Strategy:
Brief Comments on the Occasion of the Launch of Public Consultations by the Deputy President of
South Africa**

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Deputy President of South Africa, Minister in the Presidency, Minister of Education, Minister of Agriculture and Land Affairs, Minister of Public Works, ladies and gentlemen:

It is an honor to be invited to speak at this launch. My charge is to provide a global perspective on poverty and anti-poverty strategies. I would like to make three sets of comments: (i) global trends in poverty and inequality in the last 15 years; (ii) anti-poverty strategies in the world; and (iii) the implications of the current global economic turmoil for anti-poverty strategies in developing countries.

First, global trends. As I look at the evolution of income inequality and poverty in the world over the past decade and a half, I see the following five features.²

1. Where there has been no economic growth, there has been no poverty reduction. Economic growth is the sine qua non of poverty reduction.
2. In a large number of countries, comprising the bulk of the population of the developing world, growth has been high by historical standards for sustained periods (for example China, India, Bangladesh, Vietnam, Ghana, etc) or in bursts (for example South Africa, and many countries in Latin America).³
3. Many if not most periods of income growth have been accompanied by rising income inequality (China and India being the most obvious examples).⁴ But, even though inequality has risen, official poverty statistics have shown a decline, in some cases (like China) spectacularly so—the growth effect has dominated the inequality increasing effect.
4. However, despite the fast growth and despite falling income poverty as measured by the official statistics, the reaction from civil society, and the population in general, has not been equally positive. The statistics do not seem to be reflected “in people’s pockets.” Policy makers are worried.
5. As a result, governments have increasingly adopted pro-active distributional policies addressing inequality and poverty.⁵

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² See http://www.growthcommission.org/storage/cgdev/documents/gc-wp-005_web.pdf

³ For South Africa, see Borhat and Kanbur (2006).

⁴ The exceptions are the growth experiences of some Latin America countries such as Brazil over the last five years.

⁵ Indeed, the recent falling inequality in countries such as Brazil has been attributed to such policies.

Second, anti-poverty strategies. Over the last two decades, most countries of the developing world have adopted anti-poverty strategies. These can take different forms—stand alone documents, integral parts of “vision documents,” components of specific plans, such as India’s Fiver Year Plans, etc. These strategies, while being country specific of course in their detail, do have some commonalities.

1. They all recognize that economic growth is essential for poverty reduction.
2. However, they also all recognize that economic growth by itself is not enough. Government action is needed to ensure that the fruits of growth reach the poor, and that inequalities are managed.
3. In terms of areas for action, while there are considerable country specific variations on weighting of different components, most strategies have common threads—employment, education, health, housing, water, sanitation, nutrition, gender equity, targeted groups such as children and the old, etc.
4. Most of these features have been constants over the last fifteen years. However, there is one policy instrument whose deployment has exploded in the last fifteen years, Conditional Cash Transfers (CCTs). These are transfers to households in return for households doing something (able bodied members working, keeping children in school, etc).⁶ CCTs are not in themselves new. Public works schemes are of course CCTs, and have been used for a very long time. What is new is the vast increase in their deployment, spreading out from its extensive use in Mexico for education in its Progresa program in the mid-1990s, the Bolsa familia in Brazil, the National Rural Employment Guarantee Act in India, and so on. The central rationale of these schemes—targeted transfers that help to build assets of the poor and of poor communities—has been accepted by policy makers the world over.

Finally, the current global crisis. Anti-poverty strategies should have a medium term character, and should address structural inequalities in a society that impede growth and poverty reduction. However, they cannot be immune from macroeconomic shocks of the magnitude that we are now in the middle of.

1. By all accounts the recession in developed countries that has already begun will be sharp, and could be prolonged. It is unlikely that they will pull out of it easily and quickly, as the vast global balances unwind and the global economy copes with the resultant volatility. The implications for developing countries, through knock on effects and through external account volatility, are sobering. We can in turn expect a significant period of lower growth.
2. The lower growth is bad news for anti-poverty strategies, both because of the direct impact of economic growth on poverty, and because of the potential impact on government resources to finance the strategy. The good news is that moderate fiscal expansion has to be a key component of the response to recession. The issues that remain, however, are (i) the

⁶ See <http://www.arts.cornell.edu/poverty/kanbur/PovAndDistTwentyYears.pdf>

- room for expansion depends on the space that was created by past prudence in good times, and this will vary from country to country; and (ii) every government will face tradeoffs on how best to deploy the expanded fiscal space, for example between large scale infrastructure and more direct anti-poverty measures.
3. Even given the arguments for fiscal expansion, expenditure resources will tend to be sharply constrained. In general, there is a debate about the tradeoff between targeting of expenditures towards the poor and more universal and inclusive instruments. Whatever the general arguments, and in my own writings I have pointed out several problems with fine targeting,⁷ a sharpening of resource constraints tends to move the balance in favor of finer targeting. Independently of the targeting, however, the argument for CCTs is as strong as ever and even stronger—the (now even more) limited resources should be used to induce asset building among the poor and in poor communities to lay the foundations for future income earning opportunities.

Thank you once again for inviting me to speak at this launch of the Draft Anti-Poverty Strategy for South Africa.

⁷ See Besley and Kanbur (1993)

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