

# Achieving Inclusive Growth: Policy Challenges for Emerging Economies

OECD/EU High-Level Conference



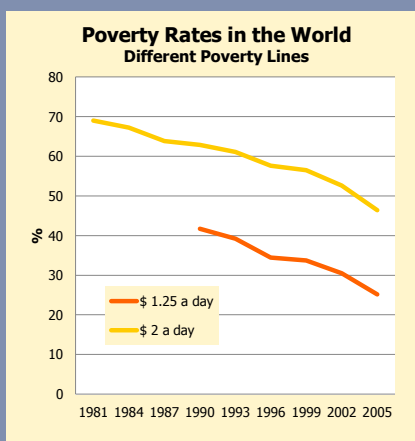
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May 19, 2010



[www.oecd.org/els/social/inequality/emergingeconomies](http://www.oecd.org/els/social/inequality/emergingeconomies)

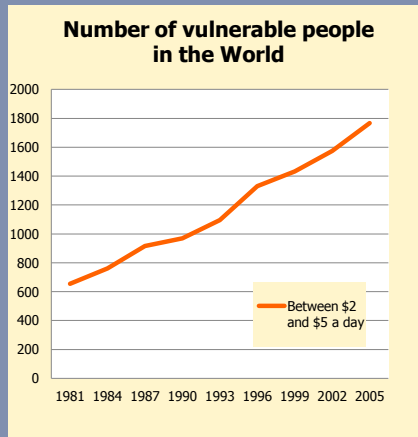
## Context: Poverty has fallen but remains widespread...

- **Last 2 decades marked by unprecedented reduction in poverty:**
  - Poverty declined 1% annually; from 52.2% in 1981 to 25.7% in 2005 (\$1.25/day)
  - In China alone, poverty declined by 475 million
- **...but poverty remains widespread and non-income poverty is sticky:**
  - 1.4 billion people live below \$1.25/day; 2.5 billion below \$2/day.
  - 880 million people are malnourished; 2.5 billion people lack improved sanitation



## ... and vulnerability is high and rising

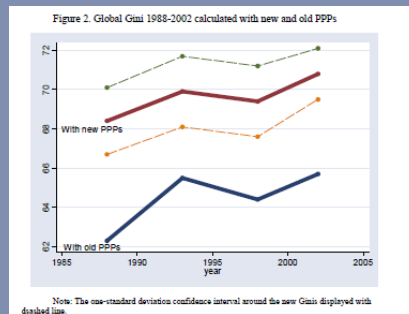
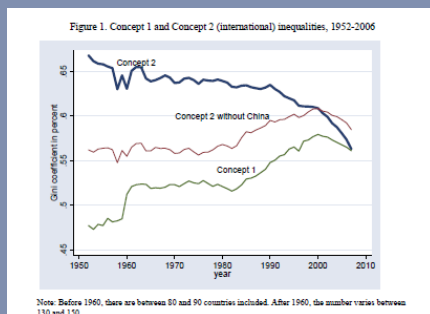
- **There is rising inequality *between* regions and *within* fast-growing countries:**
  - Rapid poverty reduction in East Asia since 1990; near-stagnation in Africa; rising vulnerability in ECA
  - Rising inequality in Vietnam, China, India, Bangladesh and other rapid growers.
- **and vulnerability is high and growing:**
  - Food/financial crises pushed many into poverty; highlighted the fragility of development gains



## Mixed picture on global inequality – driven by China and India

### International Inequality

### Global Gini 1988-2002



Concept 1: inter-country unweighted  
 Concept 2: Inter-country weighted by pop

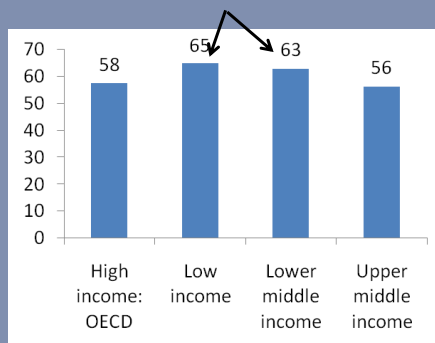
## Key questions:

- How does growth translate into employment and earnings opportunities?
  - Jobs and 'quality' of jobs
- How fragile are development gains?
  - Vulnerability to shocks
  - Role for "Smart" safety nets
- What role for the state in determining opportunities and outcomes?
  - Ensuring equality of opportunity
  - Capacity and willingness to redistribute

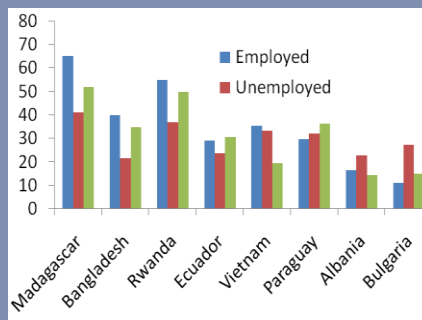
## Quantity of jobs vs. quality of jobs

Poor households depend on work but earn little

Employment rates are highest in poor countries



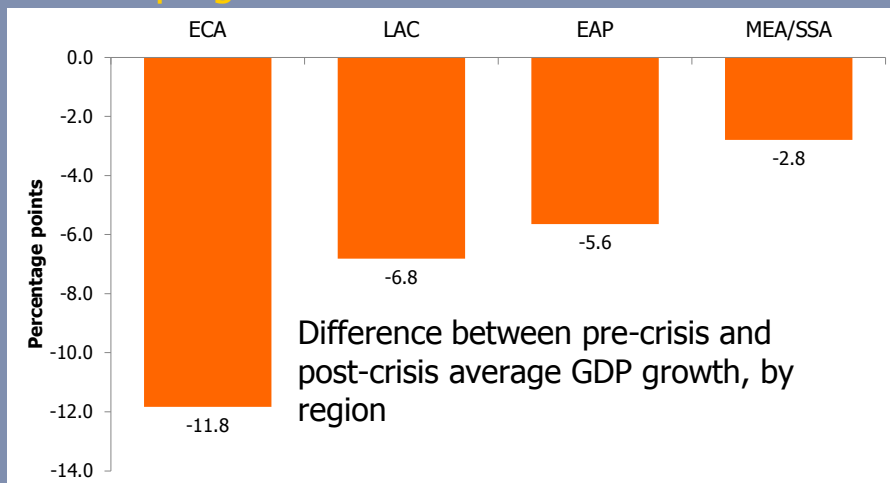
Poverty rates are higher for the employed than the unemployed



## Quality of jobs may matter more than quantity:

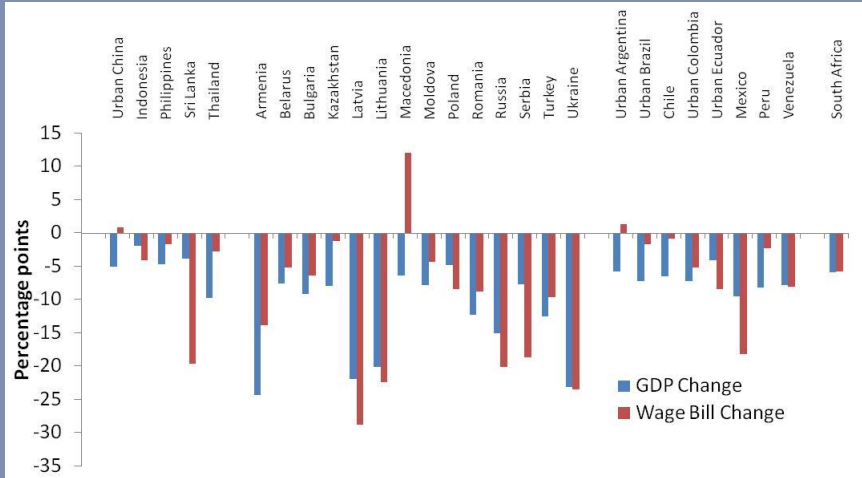
Country	% change per year		Employment Elasticity	% change in poverty headcount index per year		Poverty elasticity <sup>1</sup>	Period
	GDP	Employment		International \$1.15/day \$2/day	National		
Albania	3.1	1.8	0.6		-10.1	-3.3	2002-2005
Vietnam	8.3	2.6	0.3		-8.4	-1.0	1993-1998
Pakistan	4.7	3.6	0.8	-9.0	-4.0	-0.9	1999-2005
Bangladesh	5.1	2.1	0.4		-3.5	-0.7	2000-2005
Sri Lanka	4.0	2.3	0.6	-2.6	-2.6	-0.7	1996-2002
Nepal	4.0	2.6	0.7	-2.7	-1.6	-0.4	1996-2004
Rwanda	6.3	2.5	0.4		-1.0	-0.2	2000-2006
India	6.5	1.8	0.3	-1.5	-0.7	-0.1	1994-2005
Madagascar	1.3	2.8	2.2		-0.5	-0.4	2001-2005
Nicaragua	3.4	3.9	1.1		0.2	0.1	2001-2005

## This crisis: Considerable fall in GDP growth in developing countries



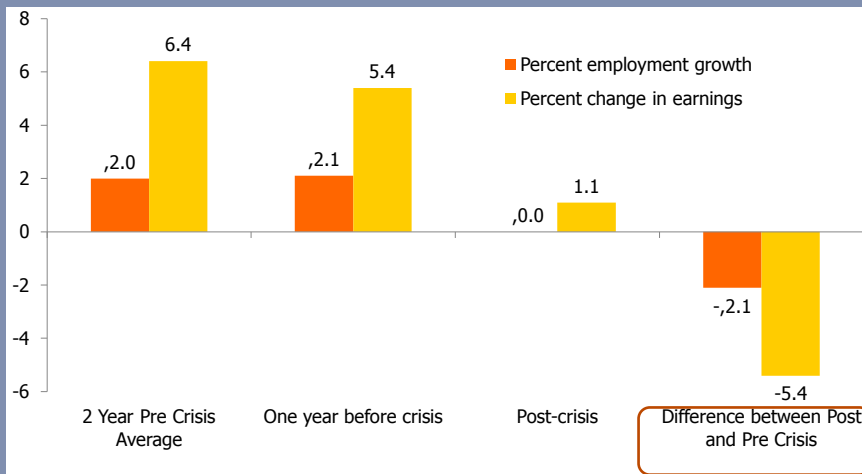
# Commensurate fall in wage bill

Difference pre-post crisis



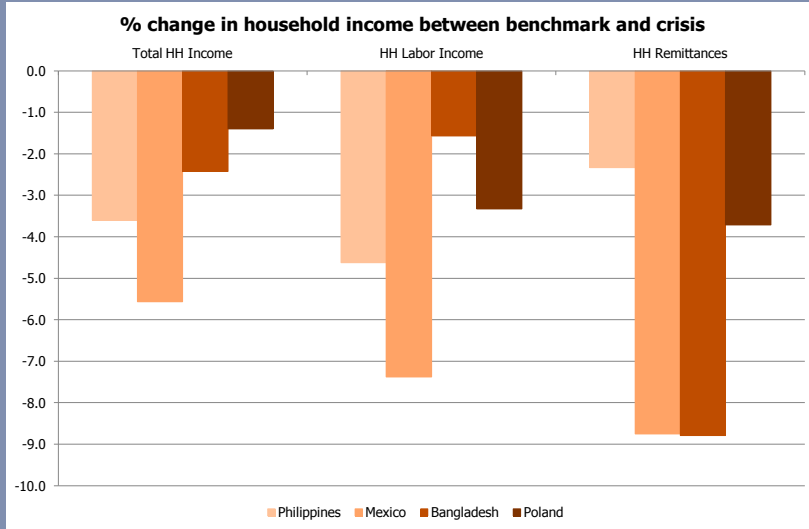
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# But adjustment through earnings growth rather than job creation



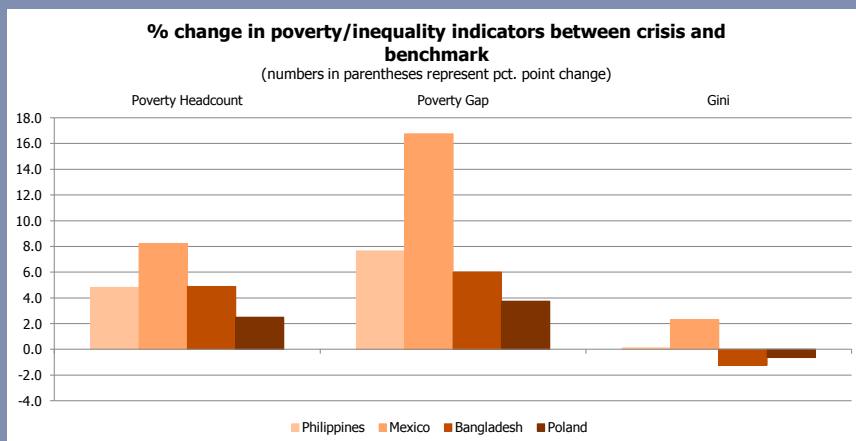
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## Distributional implications 1: simulated changes in household income

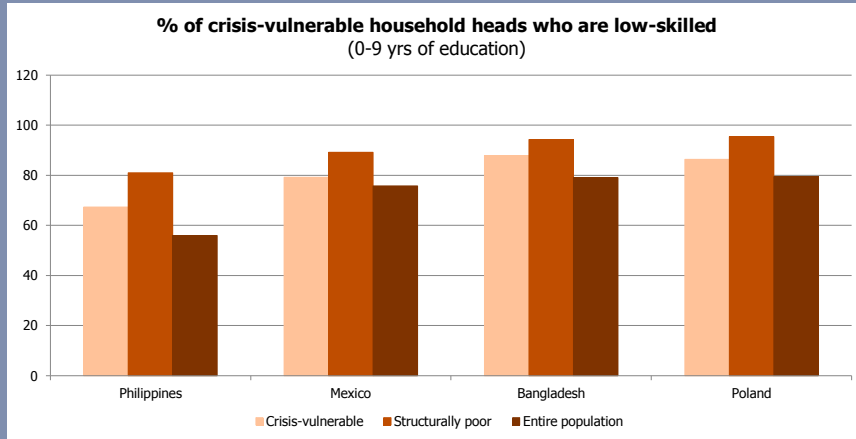


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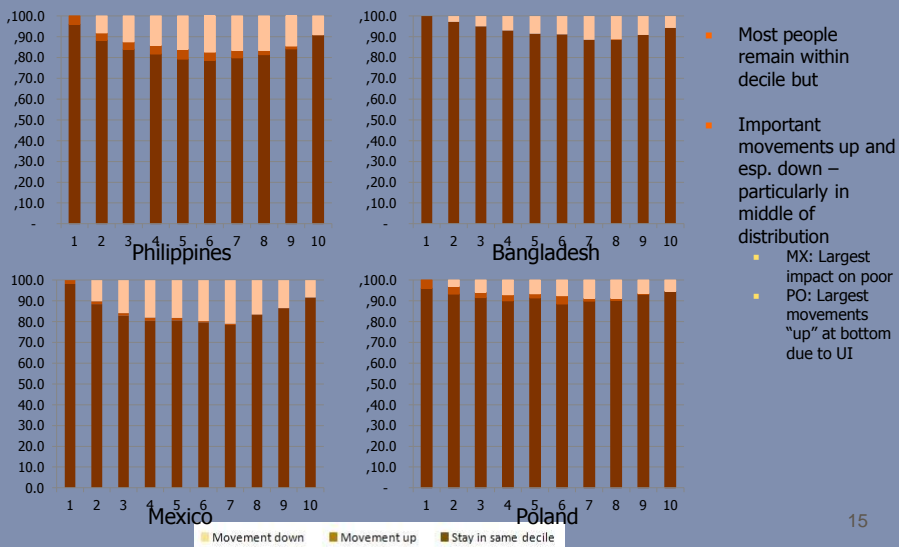
## Distributional implications 2: simulated impacts on poverty and inequality



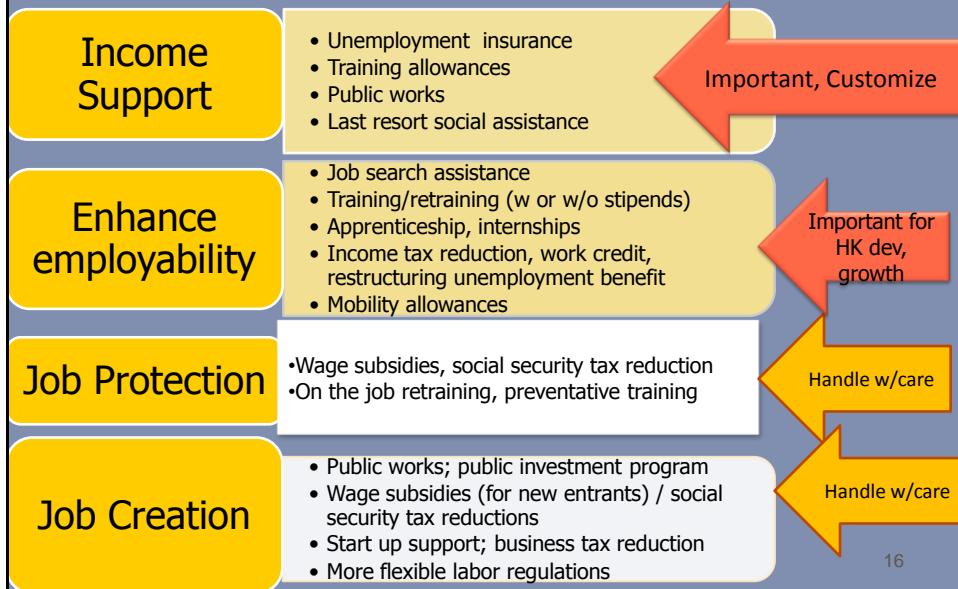
## Distributional implications 3: who are the crisis vulnerable?



## Distributional implications 4: Transition Matrices



## Menu of options for dealing with labor market-related risks



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## "Smart" Safety Net programs-1

- Programs that can be **easily scaled-up** in response to many different kinds of shocks, such as
  - Natural disasters
  - Extreme weather events
  - Food and/or Fuel price increases
  - Policy Reforms
  - Financial crises
- Programs that play a **stronger insurance role**
  - Many existing safety net (SN) programs serve primarily as instruments of income redistribution in the short-run and in the long-run (e.g. CCT programs)
  - The insurance role of SN requires a flexible budget that can be **scaled up** rapidly to meet unanticipated circumstances and easily **scaled down** as economic conditions improve

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## “Smart” Safety Net programs-2

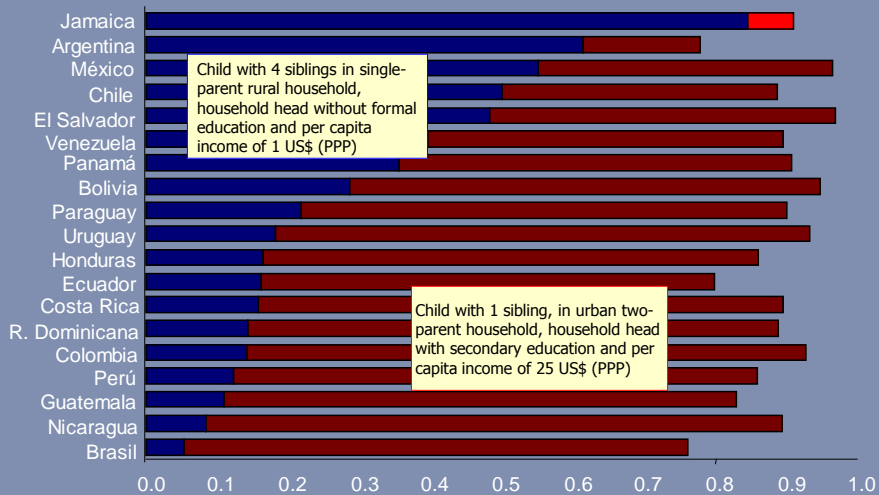
- Programs that are targeted to the **vulnerable** households (not just the chronic poor)
- Programs that exploit **synergies** across sectors
  - e.g. CCT intervene in health, education, and nutrition simultaneously.
- Programs that provide **incentives for adaptation**, increased agricultural productivity, and resiliency to climatic shocks
  - Ethiopia’s Productive Safety Net Program (PSNP)

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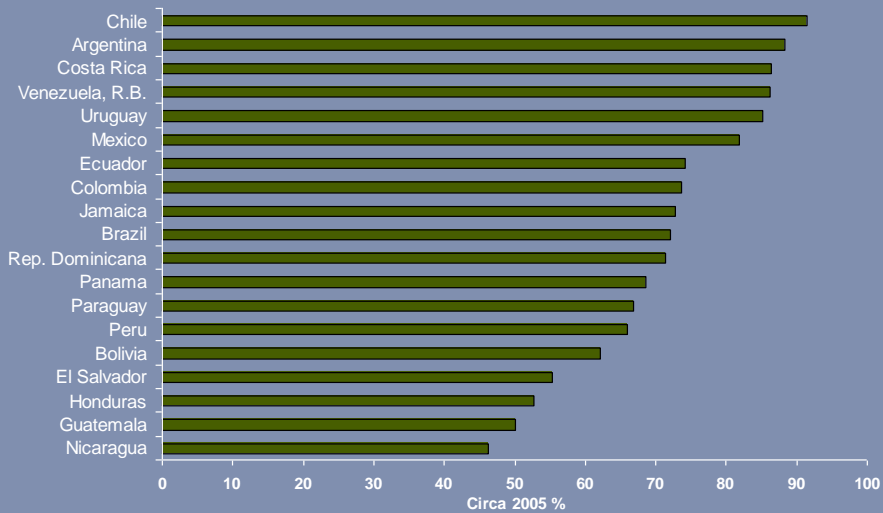
## What role for State in determining opportunities and outcomes?

- Delivering services and ensuring equality of opportunity
    - Circumstances of birth should not determine a person’s future well-being
  - Willingness and capacity to redistribute
- Human Opportunities Index (Latin America)
- Completing 6th grade on time
  - School enrollment at a specific age
  - Infrastructure
    - Clean Water
    - Electricity
    - Sanitation

## Two Latin American children: Probability of completing 6th grade on time



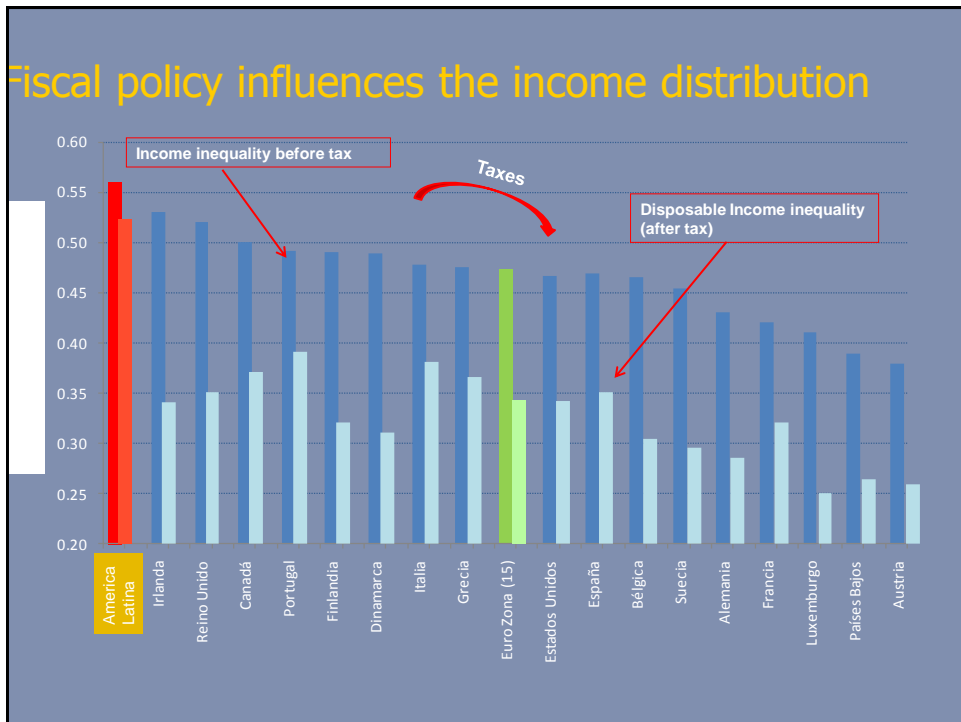
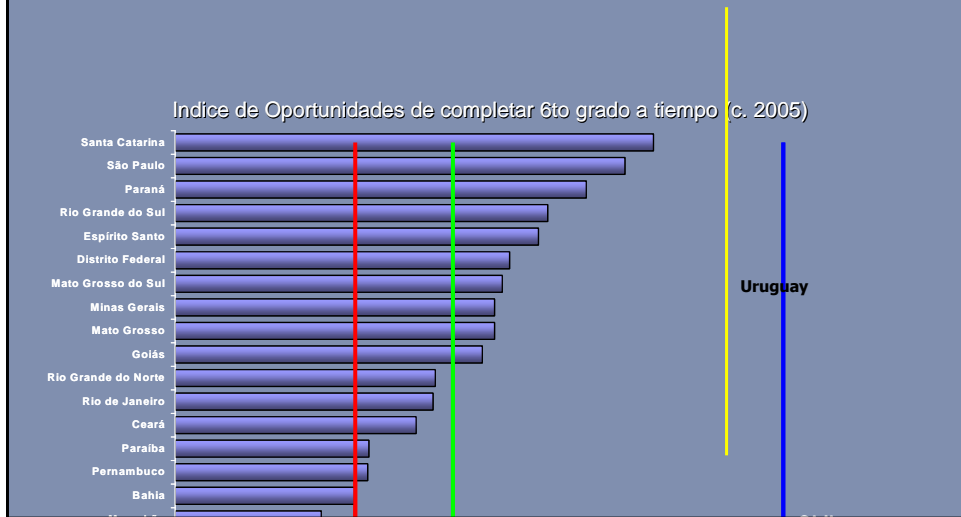
## Human Opportunity Index (HOI)



## The Human Opportunity Index can vary inside a country

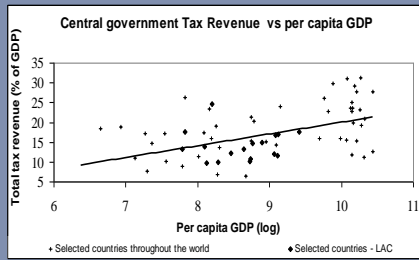
No state in Brazil has an Opportunity Index similar to Chile. Several states have an index inferior to Guatemala

Opportunity Index of completing 6<sup>th</sup> grade on time

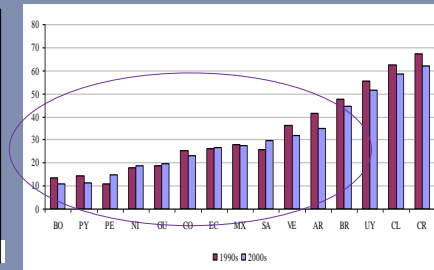


# Little capacity to redistribute in many emerging economies

## Low tax collection

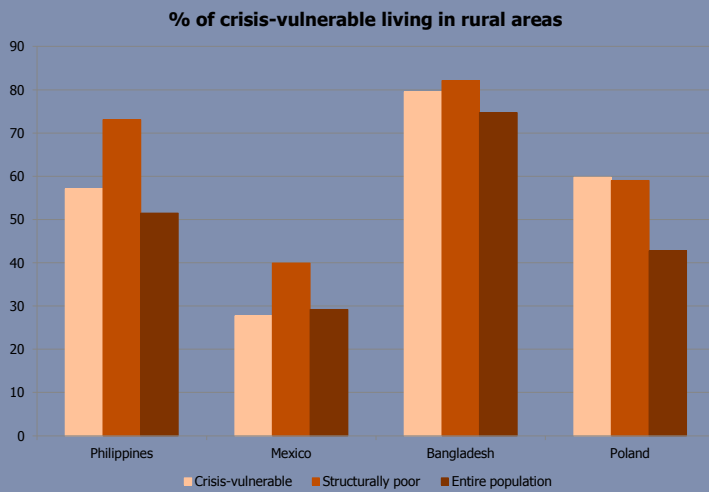


## Low coverage of Social Protection



Additional slides

## Characteristics of the crisis-vulnerable (II)



- 2010
- New poor relatively more likely to reside in urban areas than chronic poor... but less likely to reside in urban areas than the average household
- Similar pattern across countries, but differences more acute in Philippines and MX (higher level of urbanization? higher rate of poverty reduction in urban areas in recent years?) and no differences in Poland (higher level of penetration of off-farm activities in rural areas)

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## Characteristics of the crisis-vulnerable (III)

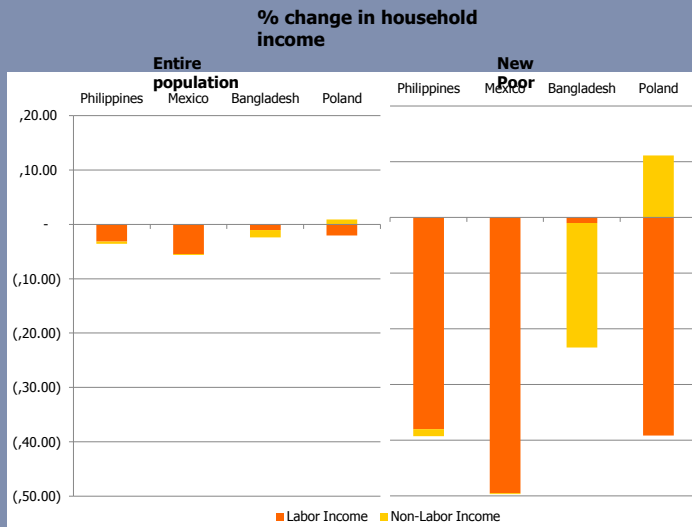
**% crisis vulnerable individuals by labor market status at benchmark \* (ages 15-64)**



- Mexico**
- Important differences across groups within country
- Crisis more likely to affect/increase numbers of "working poor"
  - New poor more likely to be economically active than chronic poor
- Among employed, higher risk in services and manufacturing

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## Characteristics of the crisis-vulnerable (IV)



- Significant losses in household income among new poor in crisis, compared to average household
- Changes driven primarily by labor income in PH, MX, and Poland and non-labor income in BD (remittances)
- Off-setting impact of UI in Poland