

**Pacific Economic Governance Agencies'
Seminar Series (PEGASeS)**

**A MACROECONOMIC ASSESSMENT OF POVERTY AND HARDSHIP IN
THE PACIFIC: LESSONS, CHALLENGES AND POLICY RESPONSES
FOR ACHIEVING THE MDGS**

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The views expressed in this paper are those of the author and do not necessarily reflect the views of the UN.

Economic Performance

1. In aggregate Pacific Island economies have performed relatively poorly in recent years compared to many of their neighbours in the Asia region. According to the ADB's *Asian Development Outlook (ADO) 2008* the average growth rate across the region in 2006 was only 2.3%, down from an original estimate 3.3%, while the estimated growth rate for 2007 was 3.1%, down from a forecast 3.4% in the ADO 2007 Update of October 2007, see Table 1. The performance of both Fiji and Tonga, with negative forecasts for 2007 of -3.9% and -3.5% respectively, stand-out as being the weakest in the region. (The latest Reserve Bank of Fiji (RBF) Economic Review for March 2008 suggests that the decline in 2007 actually amounted to around 4.4%). Only Nauru which the ADB estimates experienced a decline of 27.3% in 2007 GDP was worse.

Country	2004	2005	2006	2007*	2008**
Cook Islands	-5.4	0.7	-3.8	8.6	1.0
Federated States of Micronesia	-3.4	-0.7	-2.3	-2.6	-3.5
Fiji	5.6	0.8	3.8	-3.8	1.8
Kiribati	0.6	0.0	-0.7	-1.4	-0.9
Nauru	-	-14.8	4.0	-20.7	-2.7
Palau	5.2	4.5	4.7	5.2	1.5
Papua New Guinea	0.1	0.6	-0.3	4.0	4.4
Republic of Marshall Islands	4.5	0.2	0.6	1.2	0.0
Samoa	3.0	4.8	2.3	3.7	2.7
Solomon Islands	5.2	2.5	3.5	7.3	3.5
Tonga	1.0	2.0	1.6	-4.0	0.5
Tuvalu	3.8	1.8	0.8	1.9	1.9
Vanuatu	2.8	3.5	5.5	3.9	3.0
Average PICs***	2.0	1.2	0.5	1.7	2.9

Source: ADB Asian Development Outlook 2008.

* estimated growth rates; ** forecast growth rates

*** includes Timor Leste but excludes Nauru & Niue

- data not available

2. For 2008 the forecast is for the region to grow by an average of 4.4%, with Fiji and Tonga moving back into positive territory by 1.6% and 1.0% respectively. Growth in PNG is expected to stay high at 6.6%, however the recent concern about recession in the US and the impact this might have on the global economy, including China, could lead to the commodity price boom flattening out, thus possibly dampening PNG's performance.

Country	2004	2005	2006	2007*	2008**
Cook Islands	4.3	0.2	1.4	3.0	3.5
Federated States of Micronesia	-3.3	-0.6	-2.3	-2.5	-3.5
Fiji	5.4	0.7	3.6	-3.9	1.6
Kiribati	2.3	2.5	1.1	0.5	1.0
Nauru	-	-14.5	6.3	-27.3	-2.4
Palau	6.0	5.3	5.4	5.7	2.0
Papua New Guinea	2.7	3.4	2.6	6.2	6.6
Republic of Marshall Islands	5.6	1.7	1.3	2.0	1.0
Samoa	3.3	5.1	2.6	4.0	3.0
Solomon Islands	8.0	5.0	6.1	10.0	6.0
Tonga	1.4	2.3	1.9	-3.5	1.0
Tuvalu	4.0	2.0	1.0	2.0	2.0
Vanuatu	5.5	6.5	7.2	6.6	5.7
Average PICs***	3.8	2.9	2.3	3.1	4.4

Source: ADB Asian Development Outlook 2008.

* estimated growth rates; ** forecast growth rates

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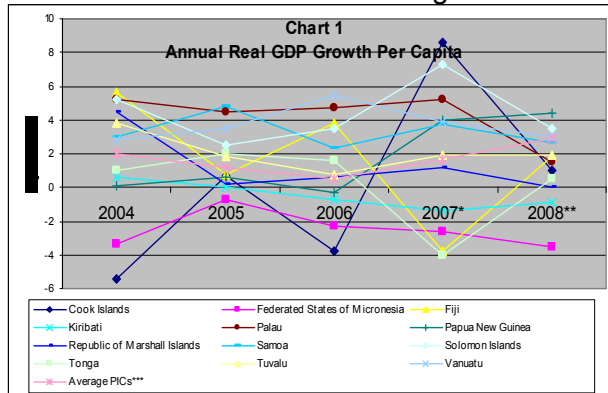
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3. These rates of growth for PICs compare with an average 6.0% per annum in South-east Asia over the 2005 – 07 period, and even higher rates in South Asia and East Asia. Pacific countries are therefore being left behind.

4. These aggregate rates of growth in GDP mean that for many more countries the per-capita rates are either very low or even negative, Table 2 and Chart 1. This suggests that poverty and hardship are likely to be increasing, even perhaps in those countries such as PNG which have enjoyed high rates of growth but where the benefits of growth are not necessarily being spread evenly or are not flowing down to the poorest communities.

5. This seems to be most likely in those countries where urbanisation is increasing and where the rural agricultural sector is in decline.

6. Notwithstanding the low rates of growth overall, and reflecting the diversity in the countries of the region, there has been both good and bad news for the various economies. For example Palau, Vanuatu and Cook Islands all benefited from rising numbers of tourists. Fiji on the other hand struggled to recover the ground lost in tourism numbers in the immediate aftermath of the military take-over in December 2006. However, whilst in the former countries the higher tourist numbers have been reflected in greater revenues and employment, in Fiji it appears that price cutting meant that margins were reduced and employment numbers did not recover from the earlier lay-offs.



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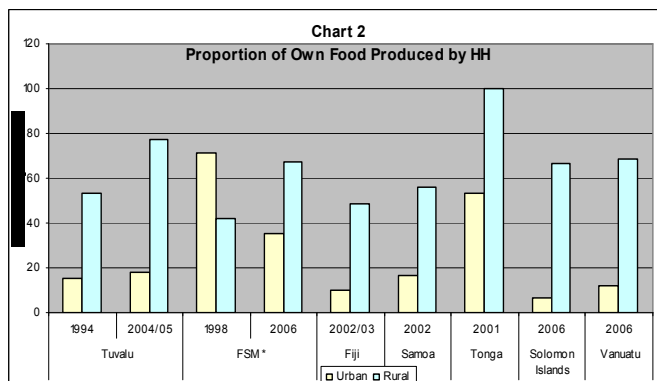
7. The general state of uncertainty in the political situation is having an adverse impact on business confidence. This is exacerbated by weakness in the sugar sector, which in production terms ADB notes was at its lowest level for thirty years in 2007. This, according to ADB, has led to the agriculture sector as a whole having two consecutive years of negative growth.

8. Samoa's economy received a boost from the investment in sports infrastructure and hosting the Pacific Games while Tonga continued to struggle to recover from the riots of late 2006 and also experienced reductions in earnings from tourism, squash exports and remittances.

9. In the Solomon Islands continued expansion in the palm oil plantations on Guadalcanal provide a sound basis for increased employment and exports. Whilst this will help to compensate for the loss of timber revenues, as the logging industry moves towards the inevitable consequences of unsustainable harvesting, it will lead to further concentration of economic activity and employment on Guadalcanal.

10. In the northern part of the region Nauru is coming to terms with the run-down of the Australian "Pacific Solution" but is nevertheless looking forward to the commencement of secondary mining in old phosphate areas. In the Marshall Islands the construction of the new tuna-loining plant is reported to have commenced. This will give a very welcome boost to both employment and growth in the coming years as it reaches full operations.

11. During the course of 2007 the US\$ price of oil on the international markets rose by almost 75%, and recently reached a new peak of over US\$120 per barrel. Although partly mitigated by the fall in the value of the US\$ against regional currencies this big increase in oil prices had a significant impact on prices in the Pacific region where transport costs are a big factor in import prices. The recent sharp increases in the price of rice, flour and other cereal-based products are also having a major impact on consumer price indices, and of course on the ability of consumers to meet the costs of basic food needs. This is especially true of those in urban

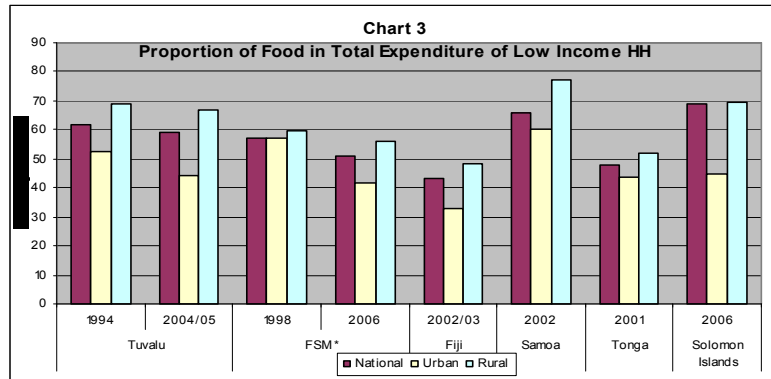


centres where access to home-grown foods is limited. The significantly greater reliance on home production in rural households, and thus their greater degree of food security is illustrated in Charts 2 and 3.

12. The ADB's *ADO 2008* estimates that average inflation across the Pacific region was 4.0% in 2007, up from 3.0% in 2006, but that it would jump to 5.0% in 2008. Solomon Islands with inflation in 2007 estimated at 7.0%, Samoa 6.1% and

Tonga at 5.1% experienced the highest rates of inflation across the region, with Vanuatu and PNG at 2.5%, being amongst the lowest.

13. Remittances from seafarers, particularly for Tuvalu and Kiribati, and from those employed in the global security industry, notably Fiji, where wages are often set in US\$ have been adversely impacted by the depreciation of the US currency against most regional currencies over the last two to three years. For example the average US\$ monthly remittances from Tuvalu seafarers have declined in A\$ value by more than 20% since the beginning of 2006. In real terms therefore families relying on US\$-denominated remittances for their primary source of income have seen their real incomes decline by around a quarter over the two years.



14. Remittances have now become one of the primary sources of income for many households in Fiji, having risen in value from F\$50 million in 1999 to F\$320 million in 2006. However more recent data from RBF¹ suggests that to November 2007 the level of remittances was down by over 25% on the previous year, thus adding to the already depressed state of consumer spending in Fiji.

15. For an increasing number of PICs remittances from both migrant and temporary overseas workers are being seen almost as a panacea for the failure of domestic policies to create investment and employment opportunities in the home countries. But whilst these new opportunities do provide a safety valve they are not without costs in terms of loss of skills and manpower, and other unintended social consequences of absent families and spouses.

Increasing Monetisation

16. The increasing “monetisation” of Pacific Island societies partly brought about by the increased flow of remittances has become a critical factor in the poverty/hardship equation. As remittance flows increase more and more people are becoming reliant on having cash to meet their basic needs. A traditional subsistence, non-cash lifestyle, is now almost impossible for most societies. As Domingo recently commented,² “Very soon, no corner of the world, no matter how remote, how backward, and how pristine, can remain as an isolated economic island. As economic, social, and political barriers and boundaries come down, the playing field will be further opened and leveled by powerful technologies that have become more available, accessible, affordable, installable, and portable.”

17. This monetisation tends to lead to a greater individualism that in turn leads to both a broadening of horizons and a narrowing and weakening of the ties among family members. Many tend to blame this on increasing globalisation and trade liberalisation, but whatever the cause the reality is that this process is likely to continue at an accelerating pace. The Pacific region cannot escape. The challenge for governments is to minimise the adverse impacts from these global linkages on the poor and most disadvantaged and to maximize the positive benefits for the economies as a whole.

¹ RBF Economic Review, Vol 25, No.1, January 2008.

² Surviving globalization, Rene P Domingo, *Professor Asian Institute of Management*, Businessworldonline.com, Manila, Philippines, Monday, June 21, 2004

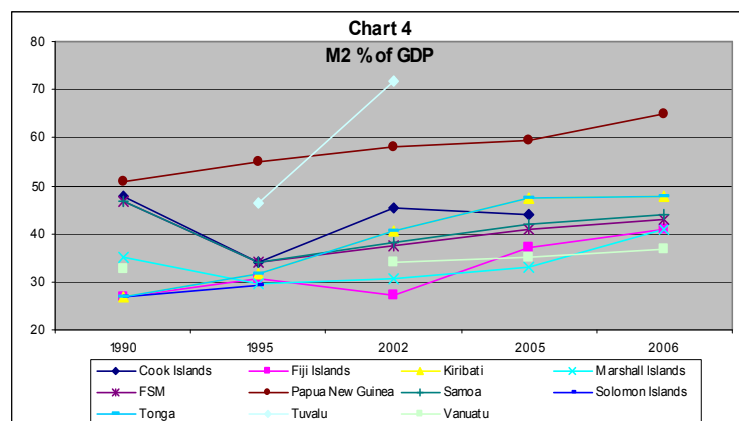
18. To illustrate the growing importance of cash in societies the ratio of broad money supply (M2) to GDP in selected PICs is shown in Table 3 and Chart 4. In many of the countries, notably Kiribati, RMI, Solomon Islands and Tonga, the ratio rose significantly in the period 1990–2002. In Samoa, the ratio fell in the early 1990s as the economy was hit by the cyclones of 1990 and 1991, the taro blight of 1993, and the financial crisis of the national airline in 1994/95. However, in the period since 1995, the ratio has risen again as economic and public sector reforms have stimulated growth. Solomon Islands saw a decline in the ratio during the tensions around the turn of the century, but the ratio has climbed steadily as the recovery programme has progressed. Similarly, Fiji appears to have experienced a decline in the ratio after the 2000 coup, but again the ratio increased as the economy recovered through 2006.

Country	1990	1995	2002	2005	2006
Cook Islands	47.9	34.2	45.3	43.9	na
Fiji Islands	50.9	55	58.2	59.3	64.8
Kiribati	na	51.1	71.2	na	na
Marshall Islands	na	46.3	71.8	na	na
FSM	na	46.8	34	na	na
Papua New Guinea	35.2	29.7	30.6	33	40.8
Samoa	46.8	33.9	37.4	41	43.1
Solomon Islands	26.9	30.5	27.1	37.1	40.9
Tonga	27	31.5	40.6	47.3	47.8
Tuvalu	100.2	81.4	82.6	na	na
Vanuatu	104.1	111.5	109.6	105.9	103.4

Source: UNDP estimates from PRISM

19. It is true of course that government policies, especially fiscal policy and broader economic reforms, are themselves contributing to the increasing monetisation of Pacific Island economies and the consequent pressure on household finances; thus the economic reforms may in some cases be contributing directly to the increasing levels of hardship and poverty that are reportedly being experienced by many households.

20. Monetisation and globalisation are not, however, the underlying causes of growing poverty and hardship. They are, rather, the inevitable consequences of development promoted by international agencies and desired by governments and people alike. They must be seen as presenting opportunities as well as challenges. National strategies need to be developed to meet those challenges and to take advantage of those opportunities.



21. For PICs, although there are certainly losers as well as winners, globalisation has played a generally very positive role in many countries; for example the various Trust and Reserve Funds in the region benefited from the rapid rise in share prices between 2002 and late 2007. Booming international trade has kept the market for Pacific seafarers buoyant, tourism in the region has

been boosted by instability elsewhere in the world and also from the greater competition in Pacific air transport. The creation of new employment opportunities in the global security industry, in sports, in care-giving and in other temporary labour schemes are all part of the globalisation process.

22. But of course the monetisation of traditional, subsistence-based societies brings with it changes that are often uncomfortable.³ How is this happening? Increases in user charges for government services, particularly for health and education place particular burdens on low-

³ For a detailed discussion of these influences, see “Kiribati: Monetization of an Atoll Economy”, 2002, Pacific Studies Series ADB, Manila

income households. Even where education is nominally free, there are frequently additional costs now imposed by schools for books, materials, and building and maintenance funds, often as a result in funding cut-backs or simply lack of resources from national budgets. Introducing improved transport and communication services raises demand and the need to pay for them. Promoting the private sector increases the availability of goods and services and also the need for money with which to purchase them.

23. The traditional flows of remittances, both factor incomes and unrequited transfers, into some countries (particularly Kiribati, Samoa, Tonga and Tuvalu) together with the increasing flows now being generated for Fiji from the global security industry, are major contributors to household and national income, and of course, to monetisation. The initiation of the New Zealand Recognised Seasonal Employer Scheme during 2007 began to have an impact on remittance flows to those participating countries of Vanuatu, Tuvalu, Kiribati, Samoa and Tonga.

24. However these financial flows from remittances give rise to what many of the respondents in recent participatory assessments of hardship (PAH) termed laziness or over-dependence on others. This "easy money" was perceived by many to be a disincentive for young people to actively look for work. In Tonga and Tuvalu, remittances equivalent to 48 percent and 38 percent of GDP in 2002 respectively were the most important source of foreign exchange revenues and a very important source of income for many families. In Kiribati and Samoa, where remittances were equivalent to 12 percent of GDP in 2001 and 21 percent of GDP in 2002, respectively, this source of income was also extremely important to many individual households. The recently introduced "Approved Contractor Scheme" enabling PIC nationals to take-up temporary work opportunities in New Zealand will add to the remittance flow.

25. Recognising that having access to cash places burdens as well as benefits on recipients, especially where cash has not be readily available previously, building financial literacy skills and providing financial services to those who were previously not in the formal cash economy is regarded as essential if the benefits of remittances are not to be wasted. The inclusion of entrepreneurship teaching in schools is another initiative that would assist young people to be better equipped for a monetised future⁴.

26. The changes brought about by access to cash incomes are manifest in many outer island and rural areas where dependency ratios are rising as more elderly family members are being left to care for grandchildren when the younger generation move to the urban centres or overseas. The population pyramid charts for Tuvalu illustrate this very clearly. Similar patterns can be observed in Cook Islands, Palau and Tokelau and, to a lesser extent, in Kiribati, Fiji and Samoa. Thus the elderly, while perhaps no longer always being cared for in the traditional Pacific way, are now becoming increasingly burdened with additional responsibilities. It is also seen in the attitude of youth who are no longer generally satisfied with the prospect of a traditional Pacific subsistence lifestyle.

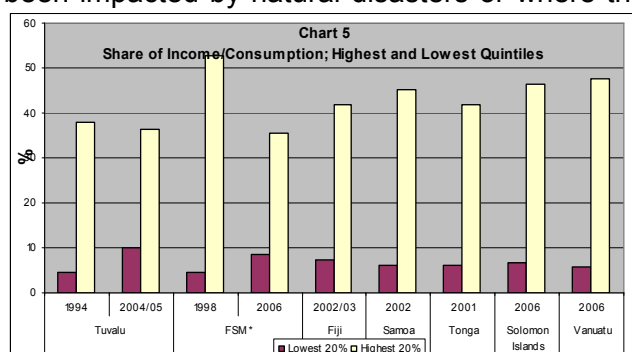
⁴ UNDP continues to support programmes for financial inclusion and entrepreneurship development in schools.

31. The latest UNDP Human Development Report⁵ provides data on only six developing PICs; it ranks Tonga and Samoa as being 55th and 77th (of 177 countries) in the Human Development Index (HDI). Fiji, ranked 92 in the HDI, is ranked 50th (of 108) in terms of its Human Poverty Index (HPI). The three Melanesian countries of Vanuatu, Solomon Islands and PNG are ranked 120, 129 and 145 respectively in the HDI and 56, 53 and 90 in the HPI.

Country	National	Urban	Rural	Data Source
Cook Islands	12.0	na	na	1998 HIES
Fiji Islands	25.5	27.6	22.4	1990/91 HIES
Fiji Islands	34.4	31.8	38.1	2002/03 HIES
Kiribati	50.0	51.0	50.0	1996 HIES
Marshall Islands	20.0	na	na	1999 Census
FSM	27.9	29.5	32.9	1998 HIES
FSM (provisional)	36.7	42.0	35.0	2005 HIES
Papua New Guinea	37.5	na	na	1996 HIES
Samoa	20.3	23.3	17.9	2002 HIES
Solomon Islands (provisional)	22.7	32.2	18.8	2005/06 HIES
Timor-Leste	39.7	25.0	44.0	2001 TLSS
Tonga	22.3	23.6	22.8	2002 HIES
Tuvalu	29.3	23.7	23.4	1994 HIES
Tuvalu (provisional)	25.9	29.8	24.7	2005 HIES
Vanuatu	15.9	32.8	10.8	2006 HIES

ADB (2004 & 2008) and UNDP Estimates

32. Although generalisations can be misleading given the diversity among PICs, the overall trend in the progress towards achieving the MDGs is that the Polynesian countries have been performing relatively well, the Micronesian countries of the North Pacific have been struggling to maintain gains already made, and in some of the Melanesian countries, notably those that have been impacted by natural disasters or where there has been conflict or civil/political tension, a



reversal of earlier development progress is being witnessed. The result is that many countries are off-track to achieve at least five or more of the eight Millennium Development Goals (MDGs). This is illustrated in the following Figure.

33. The latest available national poverty estimates suggest that overall approximately one-in-four households across the region has a per capita income below the respective national poverty line, see Table 4.

34. The figures also suggest that, with a couple of exceptions, hardship and poverty are equally felt by urban and rural families alike. This contrasts with most other developing countries in the Asia/Pacific region where rural poverty tends to be higher than that experienced in the urban centres. It suggests that whilst on the one hand the traditional subsistence lifestyle of the Pacific

	GOAL 1	GOAL 1	GOAL 2	GOAL 3	GOAL 4	GOAL 5	GOAL 6	GOAL 7	Unlikely to achieve
	poverty reduction	hunger reduction	universal primary education	gender equality in education	reduced child mortality	reduced maternal mortality	reverse major diseases	access to water & sanitation	
Cook Islands	-	-	-	-	-	-	-	-	-
Fiji	-	-	-	-	-	-	-	-	2 goals
Kiribati	-	-	-	-	x	-	-	-	-
Marshall Islands	-	-	-	-	x	-	-	-	-
Micronesia	-	-	-	-	-	-	-	-	-
Nauru	-	-	-	-	-	-	-	-	-
Niue	-	-	-	-	-	-	-	-	-
Palau	-	-	-	-	-	-	-	-	-
Papua New Guinea	x	-	x	-	x	-	x	x	8 goals
Samoa	-	-	-	-	-	-	-	-	3 goals
Solomon Islands	-	x	-	-	x	-	-	-	-
Tokelau	-	-	-	-	-	-	-	-	-
Tonga	-	-	-	-	-	-	-	-	-
Tuvalu	-	-	-	-	x	-	-	-	-
Vanuatu	-	-	-	-	-	-	-	x	5 goals

helps to underpin a minimum standard of living in the rural areas, the lack of overall economic growth in the economy as a whole and the urban areas in particular, (a feature of most urban centres in Asia), is not enabling urban dwellers to improve their standards of living above the basic minimum.

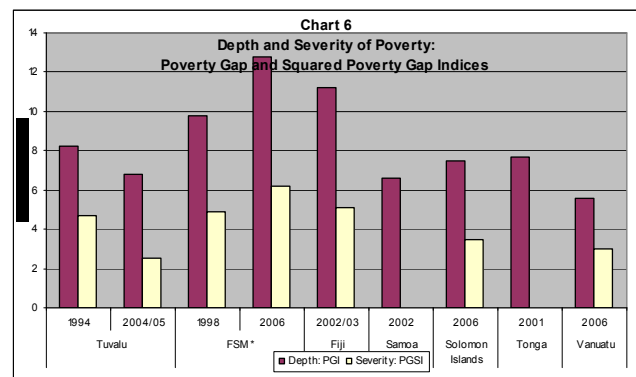
⁵ UNDP Human Development Report 2007/08

35. The level of inequality in income or consumption can be measured by the Gini Coefficient but is perhaps easier to see in Chart 5 which illustrates the share of income/consumption that is attributable to the highest and lowest quintiles. Consistently across the region the lowest quintile enjoys less than 10% of income/consumption whereas the top quintile has around 40% of the income/consumption.

36. Chart 6 takes this a step further and shows the depth and severity of poverty as measured by the Poverty Gap Index and Squared Poverty Gap Index respectively. Apart from Fiji and FSM which seem to show higher indications of both the depth and severity of poverty, other countries are fairly consistent in the level of their indicators. It should be noted however that these are the national averages and that some countries do show quite wide variations between urban and rural areas.

37. Urban drift, leading to higher levels of unemployment and growing numbers of people living in squatter settlements and sub-standard housing conditions, result in a deteriorating social environment. Many of the poor live in low-quality housing without proper access to water, sanitation and other basic services. Poor housing conditions lead to poor health, poor employment prospects, and poor education attainment. Children frequently miss school through ill-health or because school fees have not been paid. Adults are frequently poorly educated and thus unable to get anything but the lowest-paid and often casual employment, if such employment is even available. The cycle of poverty can therefore be perpetuated.

38. Increasing urbanisation is placing ever greater burdens on urban infrastructure, basic services and environmental health. Greater resource allocation is necessary to meet the demands of the urban areas. As a consequence there is growing inequity in access to basic services between the urban and rural areas; thus further exacerbating the desire to move to where services are perceived to be better.



39. Weak fiscal situations and poorly defined budget priorities compound the problems. Budget allocations are not necessarily responsive to the needs of the poorest and most disadvantaged; they are not focused on the need to achieve the MDG targets at the aggregate level. Rarely are the budgets directly linked even to the national development strategies.

40. It has been argued⁶ that declining governance standards are also contributing to poor economic and MDG performance. High rates of population growth, particularly in the Melanesian and some Micronesian countries, make it more difficult to achieve real per capita increases in income, and are putting pressure on government budgets. The increasing proportion of youth in the populations of many countries is leading to weakening in the overall social environment.

41. Lack of employment opportunities and in particular increasing youth unemployment, together with the growing numbers of people engaged in temporary labour mobility, both domestically and internationally are becoming critical human development policy issues for many countries. The agenda of decent work for all is therefore very relevant to PICs. The positive and negative impacts particularly on those, often the elderly, women and children, left behind in both rural and urban environments, is adding to the complexity of modernising and

⁶ For example in *Hardship and Poverty in the Pacific*, ADB, Nov 2004; *Governance in the Pacific: Focus for Action 2005 - 09*, ADB 2005

monetising Pacific island countries and meeting the human development needs of the most vulnerable.

42. Many disadvantaged groups do not have access to basic services such as telephone, electricity, financial services and basic goods. Lack of access to markets and poor knowledge of finance marginalises income opportunities for rural communities. Geographic impediments, inefficient state owned enterprises and state supported monopolies have historically obstructed the private sector from delivering services effectively particularly in the rural areas.

43. Notwithstanding the lack of substantive progress towards their achievement, many PICs are now increasingly taking the MDGs, localised where necessary, as core policy targets and are keen to integrate the MDGs into national strategies, both as goals and as performance indicators. While some notable progress is being made on MDG reporting, countries have yet to recognise the implicit linkages between the MDGs, national and sectoral planning and budget instruments, the Mauritius Strategy, the Pacific Plan and other frameworks, including those pertaining to rights-based issues.

Pro-Poor Policies

44. There are many constraints and challenges facing PIC governments at the current time, those who attended Professor Duncan's presentation last year will be familiar with many items in the following summary list:

- a. weak fiscal situations
- b. policy environments that are not conducive to domestic resource mobilisation and productive investment
- c. the impact of global externalities; including the current oil, food and commodity price increases
- d. high levels of domestic rural/urban migration and external labour mobility
- e. increasing youth unemployment
- f. the growing threat of HIV/AIDS and other STIs, drug abuse and anti-social behaviour, and
- g. concern over the future impact of climate change.

45. These are all adversely affecting the ability and commitment of PIC governments to implement the policy initiatives necessary to realise significant achievements towards improving human development, the reduction of hardship and poverty and the overall achievement of the MDGs. Indeed the impacts of these various developments are having profound affects on the likely long-term sustainability of some small island states. The issues therefore set very challenging policy agendas for human development in the Pacific Islands.

46. So what can be done? Poverty reduction and hardship alleviation interventions aimed at pro-poor growth

Box 1

Patterns of growth are important

- Growth in sectors in which poor are more likely to be involved, agriculture, fisheries, construction, retailing, small-scale manufacturing, personal services and informal activities
- Rural sector must be made more attractive

Key issues for creating an enabling environment for economic opportunities to be created for the poor

- Access to resources and assets
- Access to basic services
- Access to rural financial services, credit facilities and financial literacy programmes
- Decentralization, local empowerment and participation
- Good governance
- Land reform and access to land for productive use
- Access to transport and markets
- Access and other support to extension services

and achieving the MDGs need to be adapted to particular circumstances, with due attention to the identified priorities and needs of those who are most disadvantaged. A one-size-fits-all policy approach needs to be avoided. A stronger, more consultative and participatory conceptual framework for setting and implementing development priorities and strategies that will help to achieve the MDGs is needed.

47. Within this complex environment the need for more clearly defined pro-poor policies and development strategies linked to adequate resource allocation to address the critical issues is clear.

48. Within the broad policy context described in the earlier paragraphs the characteristics of the policy measures which might deliver pro-poor growth can be broadly summarised as follows in terms of the target beneficiaries and impacts;

- Labour rather than capital intensive; policy should aim to utilise a nation's most abundant and underutilised resources, its people; unemployment, especially youth unemployment, is one of the most significant policy issues for all PICs, addressing this is critical if poverty reduction and hardship alleviation is to be realised.
- Target assets the poor possess; in the Pacific almost everyone in the rural areas has access to land and/or marine resources; those in the urban centres have their labour; thus policies which are pro-poor would aim to improve the productivity and economic opportunities offered for the sustainable utilisation of the land and marine resources by the rural poor; and in the urban centres would seek to create an environment in which new employment and economic opportunities for the often low or unskilled labour that constitute the majority of the urban poor.
- Target sectors in which the poor are employed or engaged; employment and household income and expenditure surveys all suggest that the poor are more likely to be engaged in agriculture and fishing (and subsistence cropping generally), construction, garment-making, other small-scale manufacturing industries and in personal services.
- Creates income and employment for the poor and disadvantaged:
 - i. Youth and other unemployed (low-skilled)
 - ii. Women
 - iii. Other disadvantaged groups (elderly, disabled, displaced people, rural/urban migrants); what is required are policies that both increase the number of employment opportunities as well as increasing productivity and the level of real incomes for the lowest paid such that they can be raised from "working poverty"
- Targeted at areas where poor live (urban or rural); this criteria adds the spatial dimension the targeting of pro-poor policies
- Serves to reduce inequality; and
- Maintains competitive prices for the products that the poor produce and for the essentials which they need to purchase; this means ensuring a competitive external exchange rate and a progressive domestic tax structure
- The budget should be structured to enable pro-poor and gender impacts to be measured and monitored; this would include:
 - Non-distorting tax and tariff regimes
 - Progressive direct taxes
 - Indirect taxes with minimum impact on low income groups
 - Transparent budgets
 - Subsidies, hidden and budgeted, all clearly identified and minimized, or targeted at specifically supporting the poor (e.g. welfare payments)
 - Tax exemptions and other concessions for non-poor removed
 - Resource allocations increased for services used by poor and women

- Basic education and health
- Water and sanitation
- Rural transport and communications
- Agricultural extension activities and markets access

49. Growth is a necessary but not sufficient condition for poverty reduction. If inequality is to be reduced then the patterns of growth are important; as already noted growth must occur in the sectors in which the poor and low-income groups are more likely to be involved, namely agriculture, fisheries, construction, personal services, small-scale manufacturing and informal activities. The rural sector in particular must be made more attractive. Policies must therefore serve to reduce inequality, the rate of growth of per capita incomes of the poor need to rise faster than average incomes over the whole population

50. Low incomes, hardship and poverty can be self-perpetuating and there is much evidence to suggest that these conditions, the vicious circle of self-perpetuating poverty can persist across generations; a household with a low income often has a poor diet, this can lead to poor health and an impaired ability to concentrate. As a result children in low-income household are less likely to be able to maximise the benefits of any schooling that might be available, resulting in poor educational attainment and lack of skills. These conditions limit ability to take advantage of opportunities, and lead to unemployment, low income, social exclusion, and thus the cycle is perpetuated. Pro-poor and inclusive policies are required to break this cycle.

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