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COMMON ISSUE AND COMMON CONCERNS IN THE SAARC REGION: EMPLOYMENT GENERATION AND POVERTY REDUCTION

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Five issues of common concern in South Asia today are considered in this article: (i) the persistence of high rates of unemployment combined with the proliferation of low productivity employment in the informal sector; (ii) the poor performance of agriculture in terms of both productivity per hectare and productivity per worker; (iii) the perceived adverse impact of economic liberalisation and structural adjustment programmes on employment, and in some countries, on agriculture; (iv) the disconnect between relatively low poverty ratios, and the much higher prevalence of nutritional poverty, and the lack of congruence between levels of GDP per capita and Human Development Indicators in several countries; and (v) the challenges of mobilising the resources needed to invest in economic and social infrastructure, particularly in rural areas.

I. INTRODUCTION

In South Asia today, inadequate rates of productive employment growth, persistent poverty, and growing inequalities have emerged as issues of common concern. These challenges are faced as much by countries of the region with relatively high economic growth rates, as by countries with lower ones.

In this paper,[1] five substantive issues, each focused on a particular aspect of the employment growth and poverty reduction challenges faced in the region, are considered along with the relevant evidence and analysis.

The first issue is the persistence of unacceptably high rates of unemployment, combined with the proliferation of low productivity employment in the informal sector and little or no expansion of 'decent work' in the formal sector. Widespread economic and nutritional poverty among the families of those who *are* employed reflects both the scarcity and the low productivity of the work available to many of them.

Much of this low productivity work is undertaken in rural areas, and most of it is in agriculture. This has led to the development of a consensus among South Asian countries, to the effect that the performance of agriculture, (or more generally, the primary sector), constitutes the single most important challenge facing individual countries in the region today. "In agriculture, the policy priorities are to increase both productivity per hectare and productivity per worker, while simultaneously seeking to create as many non-farm jobs as possible with a view to absorbing the shift of workers from low productivity employment in agriculture to more productive employment in the non-farm sector" (SAARC, 2006, p. 168). This challenge is treated here as the second issue.

The third issue of 'common concern' relates to challenges of a rather different kind— the perceived impact of economic liberalisation and structural adjustment programmes on employment, and in some countries, including India, on agriculture. (The World Bank, 2005).

In India, as in several other countries of the region, achievements in reducing the prevalence of under-nutrition and low weight among small children have not kept pace with progress in poverty reduction. The conspicuous disconnect between relatively low head count poverty ratios, on the one hand, and the much higher prevalence of nutritional poverty, on the other, and the lack of congruence between economic progress measured in terms of GDP per capita and progress in terms of Human Development Indicators (HDIs) together constitute the fourth issue of common concern. These asymmetries reflect, in part, the growing income inequalities which characterise most, if not all, South Asian countries—inequalities which have been shown to have undermined progress in poverty reduction (see World Bank, 2005).

Last but not the least, infrastructure is identified in the recent SAARC Report as the prime mover in poverty reduction and productive employment generation. It reduces poverty by reducing the costs of production and increasing labour productivity in both the agriculture and the non-farm sectors. It stimulates development of the rural non-farm sector and promotes rural-urban linkages, and, as a result, it tends to push up real wage rates in both the rural non-farm and the farm sectors.

The challenge is to mobilise the resources needed to invest in the required economic and social infrastructure, particularly in rural areas, where the majority of poor people live. This includes investment to expand irrigation coverage, rural electrification, roads and communications, agricultural research and extension services, as well as investment to ensure access for poor people to affordable education and health services (SAARC, 2006, p. 168).

II. EMPLOYMENT AND UNEMPLOYMENT IN THE SAARC REGION

A pervasive challenge to policy makers in South Asia is the persistence of unacceptably high rates of unemployment, and the even more pervasive occurrence of low productivity, and poverty, among those who *are* employed.

One of the underlying problems is that the labour force in all SAARC countries, during most periods, has grown faster than the number of people employed. Table 1 highlights the numbers and the growth rates of the labour force and the employed. It shows that employment growth rates in the region have generally been inadequate, but that in more recent years, the situation has improved except in Bhutan and possibly India. Table 2 shows outcomes in terms of unemployment rates. It shows that unemployment rates have gone up in four out of the six countries for which data are available.

Although persistent increases in unemployment rates are endemic in the region, it is worth noting that there have been three country level episodes during which a clear reduction in unemployment rates was achieved. They are: in India, by the CDS measure, from 1980 to 1990; in Pakistan, from 1990 to 2004; and in Sri Lanka from 1990 to 2000. These are the *only* periods during which the backlog of the unemployed was reduced in any SAARC country.

What these episodes demonstrate is that despite the continuing high labour force growth rates, the persistent rise in the number of the unemployed can be reversed. In India, this trend reversal was associated with relatively high rates of growth of agricultural production, relatively rapid rates of poverty reduction, and more rapid rates of formal sector employment growth as compared to informal sector employment growth. After 1990, this favourable scenario ceased to exist.

On the face of it, India achieved a substantial improvement in the employment situation between the periods 1999-2000 and 2004-05. Simultaneously, however, the 2004-05 employment survey also revealed a distinct worsening of the unemployment situation, during the same period. The survey showed that the employment growth rates had more than doubled

Table 1
Trends in Labour Force and Employment

Country	*Description*	*Absolute numbers*				*Rates of growth*		
		1980	*1990*	*2000*	*2004*	*1980-90*	*1990-2000*	*2000-04*
Bangladesh*	Labour force	30.9	51.2	40.8	46.3	5.18		3.21
	Employed:	30.6	50.2	39.0	44.3	5.07		3.24
Bhutan*	Labour force	N.A.	N.A.	N.A.	N.A.			
	Employed:	N.A.	N.C.	0.23	0.21			-2.25
India*	Labour force (UPSS)	307.0	379.9	406.8	468.9	2.15	0.72	2.88
	Labour force (CDS)	243.2	323.1	363.3	416.9	2.88	1.24	2.79
	Employed (UPSS)	301.1	372.5	397.8	457.7	2.15	0.69	2.85
	Employed (CDS)	221.4	305.9	336.7	382.6	3.29	1.01	2.59
Maldives**	Labour force	n.a	0.67	0.88	n.a		2.76	
	Employed:	N.A.	0.67	0.86	N.A.		2.53	
Nepal*	Labour force	6.1	9.9	9.8	N.A.	4.96	-0.10	
	Employed:	N.A.	7.7	8.9	12.4		1.46	8.64
Pakistan	Labour force	6.1	9.9	9.8	N.A.	4.96	-0.10	
	Employed:	N.A.	30.8	38.9	41.8		2.36	1.81
Sri Lanka*	Labour force (million)	5.5	5.9	6.8	8.0	0.70	1.43	4.15
	Employed (million)	4.9	5.0	6.3	7.3	0.20	2.34	3.75

Note:
1. In Bangladesh, a shift from the '10 years and above measure' to the '15 years and above measure' causes the drop in recorded employment growth. Alternative growth rate figures given in the country report are 12.8, 3.12 and 4.53 for 1980-90, 1990-2000 and 2001-04, respectively.
2. For India: (a) The figures for 1980, and 1990 are obtained by interpolation for the mid-points of the respective years. (b) The figures for 2000 relate to 1999-2000 and for 2004 to 2004-05. (c) In India, the absolute number of CDS unemployed is measured in million person years.
3. The employment estimates for Nepal for '1990' are for 1995. This and the 2004 figure are taken from the *revised* draft RPP Report received on February 13, 2006. The 2000 estimate is from the earlier draft RPP Report. The 1990 and 2000 figures are for the age group of 10 years and above. Those for 2000 are for 15 years and above. The employment growth figure for 1980-90 is taken from the Nepal Statistical Profile while that for 1990-2000 is calculated from the employment estimates for 1995 and 2004.

between the periods 1993-94 to 1999-2000 and 1999-2000 to 2004-05, from 1.02 per cent to 2.85 per cent per year; that the workforce participation rates had gone up, instead of down[2] and that the hitherto unrelenting rise in the share of casual workers in the total workforce had ceased, with the self-employed group now growing the fastest and the share of the regular waged and salaried set also expanding instead of contracting for the first time in years (NSSO, 2006, p. 85).

But by 2004-05, so many additional work-seekers had joined the labour force that the unemployment rates rose significantly. Thus, despite the surge of successful entrants into the 'employed' category, the share of those among the labour force who were unemployed but seeking work (CDS) rose from 6.1 per cent in 1993-94 to 7.3 per cent in 1999-2000 and to 8.3 per cent in 2004-05 (Himanshu, 2007). Agricultural workers, as a group, were even worse off. Their CDS unemployment rates rose from 9.5 per cent in 1993-94 to 12.3 per cent in 1999-2000, and then to a record 15.3 per cent in 2004-05.

This combination, of sharply accelerated employment growth rates and simultaneous increases in unemployment rates, caused some surprise.

In explanation, it was pointed out that during the base year (1999-2000), both the labour force participation rates and employment levels had been depressed below longer term trend values, partly because of the relatively poor performance of agriculture during that year. The

Table 2
Changes in the Absolute Number of Unemployed People (millions) and Unemployment Rates (per cent of the labour force)

	Change in absolute numbers unemployed (millions)			*Unemployment rates (per cent of labour force)*			
Country	*1980-90*	*1990-2000*	*2000-04*	*1980*	*1990*	*2000*	*2004*
Bangladesh	0.7	0.8	0.2	0.97	1.95	4.41	4.32
Bhutan	N.A.	N.A.	N.A.	N.A.	3.04	4.52	5.40
India (a) (UPSS)	1.5	1.6	2.2	1.91	1.96	2.20	2.68
(b) (CDS)	-4.6	9.4	7.7	8.28	6.03	7.32	8.23
Maldives	N.A.	0.01	N.A.	N.A.	0.74	1.93	N.A.
Nepal	N.A.	-1.3	N.A.	N.A.	N.A.	8.81	N.A.
Pakistan	N.A.	0.61	-0.03	N.A.	8.61	8.28	7.69
Sri Lanka	0.2	-0.3	0.2	10.91	14.14	7.62	8.29

Note: 1. N.A.=not available

2. Figures for Bangladesh are for persons aged 10 years and above except for 2000 and 2004 where they are for age 15 years and above.

3. For India: (a) The underlying figures for 1980 and 1990 have been obtained by interpolation for the midpoints of the respective years. (b) The underlying figures for 2000 and 2004 relate to 1999-2000 and 2004-05, respectively.

4. In India, changes in CDS unemployment numbers are measured in million person years.

resulting 'exaggerated' employment growth rate of 1999-2000 to 2004-05 was, therefore, described as 'partly a statistical phenomenon' (Unni and Raveendran, 2007). It had also been noted, when the 1999-2000 results came out, that the workforce participation. rates for that year had declined below trend levels, not only for teenagers and young adults who might have been attending schools and other educational and training institutions, but even for adults in the prime working age groups. This suggests a 'discouraged work-seeker effect', wherein people do not report themselves as seeking or available for work because they have good reasons to think that no suitable work is available.

It is generally conceded, however, that a part of the unexpectedly high employment growth rate for 1999-2000 is real, and that it can be traced at least in part to the fact that a growing share of India's population is now entering the young working age group. The fact that an increasingly large number of young people are now entering into the labour force but failing to find work may also have contributed to the rise in the unemployment rate.

In short, a defining characteristic of the Indian employment situation during the first five years of the new millennium is the unprecedented combination of greatly improved employment growth rates together with substantially worsened unemployment rates. Unless the large cohort of young people now entering the labour force find productive jobs, the so-called 'demographic dividend' could well become the 'demographic drag' on labour productivity growth, and hence on poverty reduction processes, in the Indian economy. This leads us to the question: how productive was the employment generated during the period 1999-2000 to 2004-05?

Evidence from the 61st Round suggests that much of the additional employment generated was of poor quality, characterised by low earnings, part-time or irregular employment, and work located in informal, 'unconventional' settings. Between 1999-2000 and 2004-05, real wage growth decelerated significantly as compared to the period 1993-94 to 1999-2000. This "was true for rural and urban areas, for agricultural and non-agricultural workers, for males and females and at all levels of education." In urban areas, the average daily earnings of regular workers declined for the first time in decades (Himanshu, 2007, p. 504). The more recent period was characterised by the proliferation of informal, part-time and subsidiary status employment. This

included especially subsidiary status, poorly remunerated, self- employment and low paid subsidiary status regular waged and salaried employment, such as regular part-time work as domestic servants. Expectations of earnings were pitifully low. In rural areas, about 40 per cent of the self-employed felt that an income of less than Rs.1,000 per month was remunerative enough; in urban areas about 30 per cent considered Rs. 2,000 per month to be sufficiently remunerative (NSSO, 2006, p. 94).

The location of employment speaks volumes about the nature of work as of 2004-05. Although in urban areas, there was a shift in favour of employment in a conventional enterprise, such as a factory, office or an institution, 40 per cent of urban workers had no such conventional place of work. In rural areas, the major shift was towards home-based work, and 60 per cent of the workers were employed in non-conventional places of work (Unni and Raveendran, 2007, p. 198).

III. EMPLOYMENT GROWTH, STRUCTURAL CHANGE AND POVERTY REDUCTION

At the heart of the 2006 SAARC documents, there is an attempt to analyse the relationships between employment growth and workforce structural change, on the one hand, and poverty reduction, on the other. A key point to be noted here is that productivity and income disparities are on the rise in most, if not all, countries of the SAARC region.

In SAARC countries, there have been substantial productivity gains for a small, but growing segment of the workforce: in particular white collar workers, and hired regular production and related workers in the non-farm sector. But, a relatively larger section of the workforce has gotten left behind in the productivity gains race, namely rural workers, agricultural workers, the petty self-employed, and casual workers in both rural and urban areas. Productivity **is** rising among these workers too, but the gaps between them and the white collar workers, and the regular hired non-farm production and related workers, are widening.

How Has This Happened?

Generally, in the SAARC region, the proportionate shift of workers out of agriculture and into more productive non-farm employment has been too slow to prevent the relative income position of workers in agriculture from worsening in relation to the income position of workers in the non-farm sector. The shift out of petty self-employment, in informal non-farm activities as well as in agriculture, has also been too slow to have had a substantial favourable impact on the productivity levels of workers in these activities. Correspondingly, the *increase* in the share of regular waged and salaried workers has either not taken place at all or has been too slow to prevent increases in the share of casual workers—the poorest section of the workforce. These developments have adversely influenced the pace of poverty reduction and the rise of income inequalities. Outcomes in terms of poverty ratios are shown in Table 3.

While, on the one hand, the prevalence, depth and severity of poverty have declined in all South Asian countries, and, given the present rate of poverty reduction, South Asia *is* likely to achieve the Millennium Development Goal (MDG) of reducing extreme poverty by half by 2015, on the other hand, income inequality has increased in most South Asian countries. Such increases have been shown to have undermined poverty reduction achievements. Country studies on the determinants of poverty reduction rates have demonstrated that poverty reduction rates would have been significantly more rapid, had productivity and/or income disparities not increased.

The Gini indices in Table 4 show that income, (or consumption), inequalities have increased markedly during recent years in Bangladesh, Bhutan, Nepal and Pakistan, but have remained

Table 3
Trends in Poverty Ratios according to $1-a-day Definition: 1981-2001

	Poverty rate (%)			*Annual change (%)*	
Region	*1981*	*1990*	*2001*	*1981-90*	*1990-01*
Bangladesh	26.2	35.2	32.8	3.34	-0.64
Bhutan	–	–	36.3*	–	–
India	53.0	40.6	35.5	-2.92	-1.22
The Maldives	–	–	1.0**	–	–
Nepal	41.9	53.2	27.3	2.69	-5.88
Pakistan	56.4	47.8	12.0	-1.82	-11.81
Sri Lanka	18.2	3.8	1.8	-15.97	-6.57
South Asia	51.5	41.3	31.3	-2.42	-2.49
World	40.4	27.9	21.1	-4.03	-2.51

Note: * For the year 2000 as per RPP 2005 Bhutan Country Report
**For the year 2004 as per RPP The Maldives Country Data
Source: *www.worldbank.org/research/povmonitor*

more or less the same in India, Maldives and Sri Lanka. However, it needs to be noted that inequalities in consumption expenditure are always smaller than inequalities in income. This is because relatively rich people tend to save a larger part of their incomes than poorer ones do, and because very poor people may borrow in order to maintain consumption expenditure at levels above current incomes. Moreover, stability over time in consumption inequalities may be misleading. As in the Indian case, where the relatively low Gini index, (which is for consumption expenditure), remained unchanged from 1900 to 2000, we have reason to think that income inequalities are probably much larger, and may well have risen during the decade.

IV. DOES EMPLOYMENT GROWTH *PER SE* REDUCE POVERTY?

Most people tend to think that it does. But, country studies, of the multi-variate regression model kind, have had to drop employment variables, if any were ever considered for inclusion, because they had no significant impact. In a small exercise undertaken for 16 states in India for the years 1993-94 to 1999-2000, employment growth rates failed utterly to account for inter-state variations in poverty ratio reduction.

Thus the short answer to the question appears to be, 'No'.

It is the quality – the productivity and the structure – of employment growth that counts.

Nevertheless, for the person who has no work, low productivity employment is surely better than no employment.

But, in relation to poverty reduction, the big job–the major challenge–is to raise the productivity of those who are already employed–the so-called 'working poor' , who are employed but still do not earn enough to raise themselves above the poverty line. The problem is that the kind of low productivity employment that millions of people are engaged in in the SAARC region does not get them out of poverty. Most of these people are in the informal sector.

In a study carried out some years ago, it was found that informal employment growth was most rapid in two kinds of states–on the one hand, in states like Orissa where productivity was the lowest, and on the other hand, in states like Haryana, where productivity was the highest.

Most employment growth in India and other countries in the SAARC region *has* been in the informal/unorganised sector. That is why, in regressions, variations in employment growth rates fail to account for inter-regional variations in poverty ratios.

Table 4
Income/Consumption Inequality by Quintile Groups and Gini Index

Country	*Share of income or consumption*							
	Poorest 20%		*Richest 20%*		*Ratio of richest to poorest*		*Gini index*	
Bangladesh	6.6	4.7	45.3	52.0	6.9	11.1	0.39	0.45
	(1981-82)	(2004)	(1981-82)	(2004)	(1981-82)	(2004)	(1981-82)	(2004)
Bhutan	–	6.5	–	48.7	–	7.6	0.37	0.42
		(2004)		(2004)		(2004)	(2000)	(2004)
India	9.46	9.52	37.58	38.5	4.0	4.0	0.28	0.28
	(1990)	(2000)	(1990)	(2000)	(1990)	(2000)	(1990)	(2000)
The Maldives	10.0	11.0		–		–	0.42	0.41
	(1997)	(2004)					(1997)	(2004)
Nepal	7.6	6.2	44.9	53.4	5.9	8.6	0.34	0.41
	(1995/96)	(2003/04)	(1995/96)	(2003/04)	(1995/96)	(2003/04)	(1995/96)	(2003/04)
Pakistan	8.0	7.0	43.7	47.6	5.5	6.8	0.35	0.41
	(1988)	(2002)	(1988)	(2002)	(1988)	(2002)	(1988)	(2002)
Sri Lanka								
1. Share of HH	5.4	4.8	50.3	52.8	9.3	11.0	0.46	0.47
Income	(1995/96)	(2002)	(1995/96)	(2002)	(1995/96)	(2002)	(1995/96)	(2002)
2. Share of HH	7.2	6.2	44.5	48.5	6.2	7.8	0.34*	0.33**
Consumption	(1995/96)	(2002)	(1995/96)	(2002)	(1995/96)	(2002)		

Note: Sri Lanka, - excluding Northern and Eastern Provinces;
* SAARC RPP, 2004;
** UNDP HDR, 2005; Figures in brackets are years.

Source: RPP 2005 Country Reports.

V. WHICH KINDS OF EMPLOYMENT CHANGES DO HAVE SIGNIFICANT EFFECTS ON POVERTY REDUCTION?

In the SAARC region, rapid poverty reduction has been associated with certain *specific* kinds of workforce structural change. By far, the most important of these is a proportionate shift of workers out of agriculture and into non-farm employment. It has had a highly significant effect on the pace of poverty reduction. In India, for example, cross-section regressions using state-wise 1999-2000 employment data and head count poverty ratios for 15 states demonstrated that a high share of non-agricultural workers in the workforce structure is associated with low poverty ratios, and a low share with high poverty ratios. (The relationships are significant at the 97.5 per cent level or better).

A rise in the share of white collar[3] employment has a weaker, but similar effect. So also does an increase in the share of hired *regular* non-agricultural production workers.

However, a detailed sub-sectoral analysis produced some surprises. In India, for example, though all the regression coefficients had the expected negative sign, indicating that a relatively high share of each of them was associated with a relatively lower poverty ratio, only three sub-sectors produced an R^2 of .30 or greater and levels of significance at the 97 per cent level or above. They are: (i) the share of employment in trade, (ii) the share of workers in construction employment, and (iii) the share of workers in financial and related services.

Of particular interest was the finding that relatively high state shares of employment in manufacturing were *not* associated with low poverty ratios. In the Indian case, this result may be accounted for by two related pieces of information. One is that a dominant and growing share of manufacturing is in the informal, (unorganised), sector. The other is that poverty levels

in unorganised manufacturing, especially in rural areas, have always been relatively high.

In the light of this, and other, evidence, it was concluded that the relatively rapid expansion of sub-sectors such as manufacturing, in countries where the vast majority of the sector's workers are employed in the informal sector, and the share of the formal sector is shrinking, does *not* have the effect of reducing poverty.

In short, it is the quality as well as the quantity of employment growth in specific sub-sectors that counts.

VI. THE CRUCIAL ROLE OF AGRICULTURE

In South Asia, widespread economic and nutritional poverty among workers' families reflects both the shortage of employment opportunities and the low productivity of the work that *is* available to many of those who are employed.

Much of this low productivity work is concentrated in rural areas, and most of it is in agriculture. In recent years, three developments, common throughout South Asia, have contributed to this result. These are: (i) a rise in the absolute number of people employed in agriculture, (ii) a decline in area available for cultivation, and (iii) a tapering off of the big push initially given to yield growth rates following the introduction and subsequent geographical spread of HYV seed-based technologies.

Despite the slowdown of agricultural employment growth rates in the region, the workforce in most countries remains heavily concentrated in agriculture. What has happened is that though the *share* of agriculture in the total workforce[4] has tended to come down gradually, the *absolute number* of agricultural workers has continued to rise, slowly in some countries during some periods, and more rapidly in others.

In the Indian case, agriculture employed roughly 56 per cent of the usual principal and subsidiary status, (UPSS), workforce in 2004-05, down from 60 per cent in 1999-2000 and 64 per cent in 1993-94. Simultaneously, however, the absolute number of agricultural workers rose from 239 million in 1993-94 to 240 million in 1999-2000 and then to close to 258 million in 2004-05.[5]

Most of the recent, (during the period 1999-2000 to 2004-05), increase in the Indian farm workforce has been among the self-employed, suggesting that the acceleration in farm employment growth was largely supply-driven, reflecting both the increase in workforce participation rates due to the accelerated movement into the labour force of young people just entering into the working age group, and the failure of young farm-born additions to the labour force to find more productive non-farm jobs.

Second, the area available for cultivation in countries of South Asia has tended to contract over time. In India, for example, the operated area declined from 133 to 119 million hectares between 1960-61 and 1981-82 and to 108 million hectares in 2003.

The combined result of a growing agricultural workforce and shrinking cultivable area has been a rise in the numbers of farm workers per hectare. In the absence of sufficiently large increase in yield, (output per hectare), labour productivity growth rates in agriculture get depressed.

Unfortunately, yield growth rates decelerated in several countries when the adoption of the first round of HYV seed-based technologies exhausted their potential in terms of yield growth and geographical spread. In more recent years, no further significant breakthroughs were achieved.

The Indian experience illustrates this scenario. For all crops combined, yield growth rates peaked during 1980-81 to 1990-91 at 2.56 per cent compound, then collapsed to 0.90 per cent from 1990-91 to 2003-04. A substantial decline in public investment in agriculture contributed to this result. Since the size of the operated area also went down during this most recent period,[6] a

significant deceleration of agricultural GDP growth rates took place. The per worker productivity growth slowed down, and in some states,[7] the per worker productivity declined.

It may be worth noting at this point, that in India, the inverse relationship between the per worker productivity levels in agriculture and rural poverty ratios was significant at about the 95 per cent level or better in both 1993-94 and 1999-2000.

Thus, by 2003, Indian farmers possessing less than four hectares of land could not cover total consumption expenditures from cultivation and farming of animals combined.(For details, see NSSO, 2005, p. A-192). Given that roughly 93 per cent of the farmers possessed less than four hectares, it is clear that most of the recorded additional employment in agriculture must have been of sub-standard quality.

Similar situations prevail in most other South Asian countries.

This fact gave rise to a consensus to the effect that the performance of agriculture, or more generally, of the primary sector, constitutes the single most important challenge facing individual countries in the region today. Thus a recent SAARC document concluded that on the employment front, "The low and declining level of employment elasticities in the agricultural sector constitutes a central challenge to employment policy-makers in the SAARC region. In agriculture, the policy priorities are: (i) to increase both the productivity per hectare and productivity per worker, while simultaneously seeking to create as many non-farm jobs as possible with a view to absorbing the shift of workers from low productivity employment in agriculture to more productive employment in the non-farm sector" (SAARC, 2006, p. 168).

While analysis of SAARC country experience demonstrated that an effective way to reduce poverty in at least some SAARC countries is to accelerate the shift of workers from relatively lower productivity agriculture to more productive employment in the non-farm sector, excessive focus on the movement of workers into non-farm sector employment may divert attention from the basic facts of the rural situation. These are, first, that in all SAARC countries, the bulk of the population and most of the poor population lives and works in rural areas, and secondly that except in Maldives, most of those who work in rural areas are either cultivators or agricultural labourers or both. Not surprisingly, both non-farm employment levels and the productivity of local non-farm employment depend crucially on the performance of the agricultural sector.

Taking both production and consumption linkages into account, it has been estimated that, in 2000, nearly 56 per cent of the rural trade and business enterprises in Bangladesh were agriculture-related, either on the consumption side, or on the inputs, construction or output using sides. Re-investment of the agricultural surplus has also helped finance the initiation of new non-farm enterprises.

In India, in 2002, in parallel village studies conducted in prosperous and backward agricultural regions, similar results were obtained. Close to 60 per cent of the rural trade and business enterprises were predominately agriculture-related, either on the consumption side, or on the inputs supply, repairs, construction or output using sides. Very few such enterprises could be identified, which were linked mainly to urban consumers outside the villages, or to the requirements of non-farm households or other non-farm users within the village. Such non-farm links were found mostly in larger villages.

Moreover, from the experience of SAARC countries which produce official estimates of employment and gross value added (GVA) for cottage and small-scale rural (and urban) non-farm enterprises separately, as well as for agriculture, we know that there exists a highly significant link between regional levels of agricultural productivity, on the one hand, and productivity in a wide range of rural non-farm activities, on the other. The reason for this is that both are influenced to a highly significant degree, by regional rural infrastructure endowments.

Thus, a weak agricultural sector, in any region, tends to get reflected in a similarly weak non-agricultural sector in the same region. Both non-farm employment levels and the productivity of rural non-farm employment depend critically on the performance of the agricultural sector. In short, the development of the rural non-farm sector has to go hand-in-hand with the development of agriculture itself.

But the simultaneous development of both sectors does not come 'cheap'. It demands heavy and sustained investment on infrastructure, especially rural infrastructure development.

VII. IMPACT OF ECONOMIC LIBERALISATION AND STRUCTURAL ADJUSTMENT

A third issue, highlighted in the SAARC Regional Poverty Profile (2006) document, was the impact of economic liberalisation and structural adjustment programmes in the region.

What the available evidence indicates is that several countries benefited a great deal from liberalisation in economic growth terms, but not in terms of employment. In most countries, agriculture did not benefit the country concerned either in economic or in employment terms. It was argued that, had liberalised economic policies been introduced at a time when agricultural growth was accelerating and annual expenditure on rural (and other) physical, social and institutional infrastructure was rising, and had foreign and domestic investment been encouraged to move into sectors where labour-intensive methods of production prevailed, the story might have been different.

Several factors tended to depress employment outcomes.

In SAARC countries, liberalisation typically involved, among other things, the privatisation and reform of state-owned enterprises. In some countries, this led to the closure of many enterprises in the public sector and the consequent loss of jobs. The labour intensity of production in the private manufacturing sector also tended to decline, as many large and medium-sized private enterprises sought to enhance productivity levels in order to compete with liberalised imports by raising the capital intensity of production.

Three SAARC countries, Bangladesh, India and Sri Lanka, appear to have suffered employment losses in the small-scale manufacturing sub-sector following the introduction of liberalised industrial and trade policies. The lesson drawn is that many hitherto protected tiny, small-scale, and sometimes medium-scale manufacturing units, cannot compete in a newly liberalised environment, and that the employment losses resulting from liberalisation can be large.

In Sri Lanka, on the other hand, industry is generally said to have benefited from trade liberalisation and an export-oriented industrialisation policy. It led to steady growth, not only in production, but also in employment and productivity, partly because labour-intensive technologies were used in the fastest growing industrial sectors: food, beverages and tobacco, and textiles and garments, with increasing productivity during the 1990s. However, it is reported that most of those leaving agriculture moved into services, including the liberalised financial sector, insurance, transport, communications and the external trade sub-sectors, rather than into manufacturing.

In Bangladesh, the liberalisation of agricultural input markets is credited with contributing to the surge in farm output and employment growth rates which coincided with the introduction of high yielding varieties of *Boro* rice in Bangladesh.

In short, the experience of SAARC countries has been mixed, with most countries reporting decelerating employment growth and some even reporting a deterioration in the performance of agriculture, in the wake of liberalisation and structural adjustment measures.

VIII. ECONOMIC POVERTY, HUMAN DEVELOPMENT AND THE DISCONNECT BETWEEN ECONOMIC AND HUMAN DEVELOPMENT INDICATORS

In all countries of the SAARC region, the prevalence, depth and severity of poverty have declined. Assuming that the current rates of poverty reduction continue, the region as a whole is set to achieve the MDG, of reducing poverty by half by 2015. But there are worries in this sphere.

First of all, during recent years, income inequality has tended to increase in India and other countries of the region. This has undermined progress in poverty reduction everywhere. Moreover, despite the progress in poverty reduction, the decline in the proportion of under-nourished people and small children has been too slow to achieve the MDG goal of halving the prevalence of under-nourished people by 2015. Finally, there is a marked lack of congruence between achievements on the economic development front on the one hand, and progress on the human development front, on the other (SAARC, 2006).

While Sri Lanka, Maldives and Nepal have performed better than might have been expected, given their levels of per capita GDP, in India, Pakistan and Bangladesh, social progress has lagged behind economic growth. This is traceable in part to the fact that, in recent years, though public spending on health and education has increased as a share of government expenditure, social sector expenditures have tended to stagnate in terms of their share in GDP.

Figure 1 illustrates the outcome of this situation—a disconnect between the performance of SAARC countries in terms of per capita GDP, on the one hand, and performance in terms of Human Development Indicators, on the other.

A few words of explanation may be required.

The UNDP Human Development Index (HDI) measures the average achievement of a country in basic human capabilities. The HDI indicates whether people lead a long and healthy life, as measured by life expectancy at birth, are educated and knowledgeable, as measured by the adult literacy rate, (with two-thirds weight), and the combined primary, secondary and tertiary gross enrolment ratio, (with one-third weight), and enjoy a decent standard of living, as measured by GDP per capita (in PPP US dollars). The HDI value ranges from 0 to 1. A higher HDI reflects a higher level of average achievement of a country in these basic human development indicators.

In 2003, the HDI for South Asia was 0.63 as compared to 0.74 for the world as a whole. The HDI for South Asia was well below that for East Asia and the Pacific -0.77 – or Latin America and the Caribbean—0.80. By comparison, OECD countries had an HDI of 0.91. Within South Asia, Sri Lanka and Maldives have already achieved the world average in basic human capabilities. In 2003, the HDI of Maldives and Sri Lanka was about 0.75. India's HDI increased from 0.51 in 1990 to 0.60 in 2003. Other countries of the SAARC region are making modest progress. Their HDIs were between 0.52 and 0.53 in 2003.

But 'progress' on the HDI front can also be measured in relation to the situation in other countries, in terms of ranks. The best performing country is ranked as number one. For example, in 2003, Norway was ranked as number 1, because it had the highest index of 0.963. The lowest was Niger, with a rank of 177, and an index of 0.281. Among SAARC countries, Sri Lanka recorded the highest HDI, followed by Maldives. It may be noted that Sri Lanka runs a unique set of free health and education systems, which are provided by no other SAARC country. This is what lies behind Sri Lanka's outstandingly good performance in the area of Human Development.

In the light of this, and other experiences of SAARC countries, the concluding chapter of the Report recommends, "Basic social services should be either free or subsidised, regardless of whether they are provided by public, private or non-governmental agencies." This recommendation is in

line with the recommendation of a 2006 report by Oxfam International in association with Water Aid, which reads: "Developing country governments need to … abolish fees for basic education and healthcare and subsidise water for poor people" (OXFAM, 2006, p. 13).

In all SAARC countries, the Human development Index rose during the period covered in Figure 1. This is in line with trends worldwide, with the exception of twelve countries in sub-Saharan Africa and six countries in the former Soviet Union.

Superior performance in human development can also be assessed with respect to a country's own performance on the economic development front. If its international rank by the HDI measure is better, (i.e., closer to one), than its international rank with respect to GDP per capita, then it is recognised as having performed unusually well in terms of Human Development Indicators, given its per capita income rank. This is what is illustrated in Figure 1.

Three SAARC countries—India, Pakistan and Bangladesh—record low HDI ranks, notwithstanding their relatively superior performance by the GDP per capita standard. India, despite its much-admired recent record of high GDP growth rates, has recorded disproportionately small gains in terms of social sector indicators. In all three countries social progress has lagged behind economic growth.

Sri Lanka has one of the highest ranks of all Asian countries when its performance on the HDI front is compared to its performance in terms of GDP per capita. Because of this, it has been described as a model low-income country, which has achieved great success in achieving high levels of literacy, school enrolment and health outcomes despite low per capita incomes by international standards. Maldives and Nepal also do better with respect to human development than they do in terms of per capita GDP.

In India, as in several other countries of the region, achievements in reducing the prevalence of under-nutrition among small children have also not kept pace with progress in poverty reduction. In India, the contrasts between the state level poverty ratios for 2004-05, and the corresponding state level percentage of children under 3 years of age, who were under-weight in 2005-06 is startling.

The National Family Health Survey, 3 (GoI, 2007) revealed that in 2005-06, in all states except Orissa, the percentage of under-nourished small children was greater than the prevalence of poverty, often by a very large margin. At the all-India level, the proportion of children who were under- weight was 45.9 per cent, while the headcount poverty ratio was only 28.3 per cent. The incidence of rural under-nutrition among small children was also far worse than urban under-nutrition. In rural areas, 49.0 per cent of small children were under-weight, while in urban areas, the figure was only 36.4 per cent. In contrast to this, rural and urban poverty ratios were almost the same -29.2 per cent in rural areas and 28.3 per cent in urban centres. In general, very high rates of under-nutrition are more or less endemic in rural areas, while high poverty ratios are, to a greater extent, concentrated in a few states, with other states recording poverty ratios much lower than the average.

The disconnect in countries such as India, between head count poverty ratios, on the one hand, and the prevalence of poverty, on the other, and the lack of congruence between economic progress measured in terms of GDP per capita and progress in terms of Human Development Indicators, constitutes the fourth issue of common concern.

IX. INFRASTRUCTURE DEVELOPMENT: THE 'PRIME MOVER'

There is, throughout South Asia, abundant evidence of a strong inverse relationship between the prevalence of poverty and access to economic and social infrastructure services. In India, for example, the relationship between inter-state variations in an official infrastructure index[8]

and the state level head count poverty ratios of 1999-2000 was significant at the 99.7 per cent level, with an R^2 of 0.5166. Similar results are reported for other countries of the region.[9]

The significant favourable impact of infrastructure development, especially rural infrastructure development, is extensively documented in countries of the SAARC region. Evidence from SAARC countries shows that infrastructure reduces poverty by reducing costs of production and increasing labour productivity in both the farm and the non-farm sectors. It stimulates rural non-farm sector development and promotes rural-urban linkages and, as a result, it tends to push up real wage rates in both the rural non-farm and the farm sectors. In regressions, the impact of superior infrastructure on poverty is greater, and more significant than any other factor analysed. (The impact of a workforce shift in favour of non-farm employment has the second most significant impact.)

But what kinds of infrastructure work best?

An FAO-sponsored group working in Bangladesh concluded that there were three keys to increasing land and labour productivity in agriculture: (i) the development of new technologies, in particular new HYV seed varieties; (ii) public investment in rural infrastructure including all-weather roads, regulated rural markets and rural electrification; and (iii) investment to promote the diversification of production activities *within* agriculture and the diversification of the workforce into productive activities *outside* of agriculture.

Thorat and Shenggen (2007) confirm the primacy of publicly supported technological development for agriculture. They show that in both India and China, government investment in agricultural R&D has had a greater impact in terms of poverty reduction than any other factor.[10] However, a range of complementary agricultural infrastructure investments is required. Aside from agricultural research and extension services, this includes investment to expand irrigation coverage, rural electrification, roads and communications, as well as investment to ensure access by poor people to affordable education and health services.

The challenge is to mobilise the resources needed to invest in the required economic and social infrastructure, particularly in rural areas, where the majority of poor people live.

Notes

1. The four tables, the figures and some of the findings reported in this paper are based on, or reproduced from tables, figures and concluding remarks contained in the Report titled *SAARC Regional Poverty Profile 2005: Poverty Reduction in South Asia through Productive Employment, (2006)* published by the SAARC Secretariat, Kathmandu, Nepal and printed by Jagdamba Press, Nepal. However, the present author is solely responsible for the emphasis and interpretation given to ths material.
2. For males and females in rural areas, the usual status worker population ratios declined between 1993-94 and 1999-2000, from 553 to 531 for males, and from 328 to 299 for females, and then rose again in 2004-05, but to just under the 1993-94 levels. In 2004-05, the worker population ratios for rural males and females were 546 and 327 per 1000 persons, respectively. In urban areas, the worker population ratios also declined during the first period, but the subsequent rise was greater—for urban males from 518 in 1999-2000 to 549 in 2004-05, and for females from 139 to 166 during the corresponding period.
3. The occupational structure of the workforce is defined internationally in terms of nine occupational divisions: (i) professional, technical and related workers, (ii) administrative and managerial workers, (iii) clerical and related workers, (iv) sales workers, (v) service workers, (vi) agricultural and related workers, (vii), (viii), and (ix), production and related workers, transport workers and labourers, respectively. Workers in occupational divisions numbered (i) to (v) inclusive may be described as white collar workers. Workers belonging to categories 6 to 9 are counted as blue collar workers.
4. The share of agriculture may come down: (i) because workers born into agricultural worker families take up non-farm jobs, or (ii) due to out- migration of former agricultural workers to foreign countries, or both.
5. The corresponding agricultural workforce growth rates are 0.06 per cent between 1993-94 and 1999-2000, and 1.43 per cent between 1999-2000 and 2004-05.

6. The cropped area declined at the rate of -0.25 per cent per year compound during the 1990-91 to 2003-04 period.
7. Productivity per agricultural worker declined between 1993-94 and 1999-2000 in Bihar, Gujarat and Orissa.
8. Fifteen states were covered. The infrastructure index used was that developed for the Eleventh Finance Commission.
9. For example, multiple regression analysis done for the Sri Lanka Millennium Development Goals report (the World Bank, 2005b) showed that the percentage of households with electricity connections was inversely related to poverty levels, with every one per cent increase in electricity coverage being associated with a 0.35 per cent reduction in poverty.
10. See Thorat, Sukhadeo and Shenggen Fan (2007), "Public Investment and Poverty Reduction: Lessons from China and India" in *Economic and Political Weekly, Vol XLII no 8, page 709.* See also Ahmed and Hossain (1990), Latif (2002), ILO (2002), Government of Pakistan (2005).

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