PORGMUN Research Paper

Getting out of the poverty trap: overcoming the geopolitical obstacles of the poorest of the poor

Introduction

Poverty trap is a spiraling mechanism which forces people to remain poor. It is so binding in itself that it does not allow the poor people to escape it. Poverty trap generally happens in developing and under-developing countries, and is caused by a lack of capital and credit to people. There are five main traps, which underpin chronic poverty:

1. **Insecurity**: The chronically poor frequently live in insecure environments with few assets or entitlements to cope with shocks and stresses.

2. **Limited citizenship**: Chronically poor people have no meaningful political voice and lack effective political representation.

3. **Spatial disadvantage**: Remoteness, certain types of natural resource base, political exclusion and weak economic integration can all contribute to the creation of intra-country spatial poverty traps.

4. **Social discrimination**: Chronically poor people often have social relations of power, patronage and competition that can trap them in exploitative relationships or deny them access to public and private goods and services. These are based on class and caste systems, gender, religious and ethnic identity, age and other factors.

5. **Poor work opportunities**: Where there is limited or unevenly distributed economic growth, work opportunities are limited and people can be exploited. Such work allows day-to-day survival but does not facilitate asset accumulation or fund children's education.

However, poverty trap can be broken by planned investments in the economy and providing people the means to earn and be employed. If the needs and rights of chronically poor people are to be addressed, they need two related but distinct forms of assistance. In the short term, to survive and improve the immediate prospects for themselves and their children, they need practical actions that meet their most pressing needs and create a platform for future improvements. This entails policy change, the allocation of additional resources and finding effective ways of delivering services to them. In the longer term, to promote social and political institutions that give the chronically poor voice and support their demand. Chronically poor people need assistance in organising and developing political linkages. They need real commitment, matched by actions and resources, to support their efforts and overcome the obstacles that trap them in poverty. A series of poverty alleviation programs can be enforced to raise individuals out of poverty by providing monetary aid for a period of time.

Poverty Reduction Strategies

Poverty Reduction Strategies (PRSs) are a vehicle that could do this. They have made some progress in shifting the style of policymaking towards a more evidence-based approach, and in focusing more attention on poverty analysis. Aim of the PRSs is to present a coherent strategy that helps poor countries to experience faster sustainable growth and achieve a substantial reduction in poverty. If successful, PRSPs could provide improved national coordination and higher levels of resources for comprehensive poverty reduction activities. Five core principles underlie the PRSP approach. Poverty reduction strategies should be:

1. **Country-driven**, promoting national ownership of strategies through broad-based participation of civil society.

2. **Result-oriented** and focused on outcomes that will benefit the poor.

3. **Comprehensive** in recognizing the multidimensional nature of poverty.

4. **Partnership-oriented**, involving coordinated participation of development partners (government, domestic stakeholders, and external donors).

5. Based on a **long-term perspective** for poverty reduction.

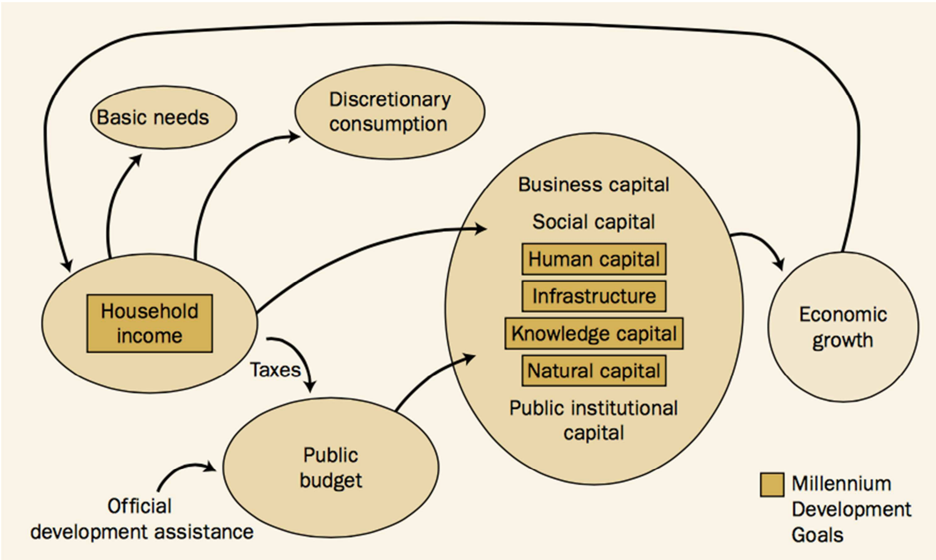
While policy choices are important, it is the allocation of resources and the quality of implementation that determine their impact on poverty. These depend on the political processes that underpin public policy and management. PRSs could have been a device to mobilise political constituencies in support of the poor and chronically poor, and to build fairer social compacts. To date, this opportunity has not been seized. Both first and second generation PRSs are widely regarded as donor-owned products in most countries. The third generation PRSs must be seen as national political projects that open up formal political processes (parliamentary debates, party manifestos, electioneering), as well as informal spaces and networks, for the voices of poor people and their representatives.

Millennium Development Goals

In many developing countries, economic and social infrastructure such as electricity, gas, transportation and communications services is underdeveloped. In recent years, in addition to an increasing population living in poverty in some regions, global problems have emerged, including HIV/AIDS and other communicable diseases, air and water pollution, and conflicts and terrorism. To address these issues, the international community set out the "Millennium Development Goals" as common goals, and individual countries have launched a range of measures.

Long-term poverty reduction requires sustained economic growth, which in turn depends on technological advance and capital accumulation. The Millennium Development Goals play two roles in the growth process. First, the Goals are ends in themselves, in that reduced hunger, gender equality, improved health and education, and broader access to safe water and sanitation are direct goals of society. Second, the Goals are also “capital inputs” to economic growth and further development. A healthier worker is a more productive worker, as is a better educated worker. Improved water and sanitation infrastructure raises output per capita through various channels, such as reduced illness. So, many of the Goals are a part of capital accumulation, defined broadly, as well as desirable in their own right.

The links between capital accumulation, economic growth, and the Millennium Development Goals are shown below. The Goals for hunger and disease are part of the “human capital” box. The Goals for water and sanitation and slum dwellers are part of the “infrastructure” box. The Goal for technological innovation and diffusion are part of the “knowledge capital” box. And the Goal for income poverty is part of the “household income” box. Because meeting the Goals for hunger, education, gender equality, and health is vital for overall economic growth and development, it is a mistake to talk simply about the level of economic growth needed to achieve the Goals in a country. It is more helpful, particularly for the poorest countries caught in a poverty trap, to think about the kinds of investments that will achieve the many Goals and thus also support overall economic growth.



We can, however, identify four overarching reasons why the Goals are not being achieved. Sometimes the problem is poor governance, marked by corruption, poor economic policy choices, and denial of human rights. Sometimes the problem is a poverty trap, with local and national economies too poor to make the needed investments. Sometimes progress is made in one part of the country but not in others, so that sizable pockets of poverty persist. The MDGs can only be achieved if chronic poverty is effectively tackled, particularly in sub-Saharan Africa and South Asia, and if the target is extended to 2025 to enable national governments and international organisations to make the necessary political commitments and resource allocations and implement necessary policies.

Least Developed Countries

Most LDCs are caught in an international poverty trap. At the heart of this trap there are a various domestic vicious circles through which the high incidence and severity of poverty act as constraints on national economic growth, thus perpetuating all-pervasive poverty. The poverty trap can be described as international because an interrelated complex of trade and finance relationships is reinforcing the cycle of economic stagnation and generalized poverty within many LDCs, which is in turn reinforcing the negative complex of external relationships. The current form of globalization is tightening rather than loosening this international poverty trap.

The key to overcoming the poverty trap is to raise the economy's capital stock - in infrastructure, human capital, and public administration - to the point where the downward spiral ends and self-sustaining economic growth takes over. This requires a "big push" of basic investments in key infrastructure (roads, electricity, ports, water and sanitation, accessible land for affordable housing, environmental management), human capital (nutrition, disease control, education), and public administration.

Official Development Assistance

ODA is broadly divided into bilateral aid, in which assistance is given directly to developing countries, and multilateral aid, which is provided through international organizations. ODA is mostly focusing on poverty alleviation and social expenditure (e.g. MDGs and PRSs). ODA loans support developing countries by providing low-interest, long-term and concessional funds to finance their development efforts.

The core idea of official development assistance, therefore, is to push the elements of the capital stock—infrastructure, human capital, public administration above the threshold needed for self- sustaining economic growth. ODA should not be a safety net (except for humanitarian relief). It is an investment in economic development to help countries begin climbing the ladder of self-sustaining economic development..

However, with the global economic crisis, the financing gap is getting bigger for LDCs because of the big drop in the world trade, volatility in commodity prices, significant fall in remittances and FDI. Now is the time when ODA is needed most by LDCs. But forecasts and ex-post analysis by many pointed to a possible reduction in ODA.

Summary

The primary responsibility for development lies with countries themselves. As an indispensable condition for defeating poverty, each country must recommit to pursuing the national institutions and policies conducive to dynamic and sustain- able economic growth. But many low-income countries, including many fairly well governed ones, cannot afford the public investments in basic infrastructure, human capital, and public administration that are foundations for private sector growth and economic development. Many Least Developed Countries, especially in Sub-Saharan Africa, are stuck with low or negative growth, because their saving rates are too low to offset population growth and depreciation, and they are unable to attract the needed investments from abroad.

To be adequate for a country in a poverty trap development assistance needs to support proper investments at a level sufficient to get capital accumulation ahead of population growth and depreciation. A big push of aid-supported investment that puts the country on a path of increased savings and self-propelling growth is far more efficient than low quantities of aid that do not change the fundamental growth potential of the economy. The key insight is that it will be much cheaper for the donors to frontload their aid to raise each low-income country to the point of self-sustaining growth as rapidly as possible - rather than to continue to dribble out aid in small mea- sures for several decades. If aid - even well targeted aid - is so small that the country's infrastructure and human capital are persistently insufficient, growth will never take off in a self-sustaining manner, and aid will remain a handout rather than a solution to the poverty trap.

Further research:

http://unctad.org/en/docs/ldc2002_en.pdf
(Poverty traps)

http://www.chronicpoverty.org/uploads/publication_files/CPR2_ReportFull.pdf
(Chronic poverty, PRSs)

http://www.oecd.org/dac/povertyreduction/50313489.pdf
(Donor practice – developed countries)

http://www.unmillenniumproject.org/documents/MainReportChapter3-lowres.pdf
(Millenium Development Goals)

http://www.chronicpoverty.org/uploads/publication_files/WP30_Gore.pdf
(Poverty in LDCs)

Sources:

http://unctad.org/Sections/ldc_dir/docs/ldcIV-2010_Li_en.pdf http://www.oecd.org/dac/stats/documentupload/DAC%20List%20of%20ODA%20Recipients%202014%20final.pdf

http://economictimes.indiatimes.com/definition/Poverty-Trap

https://www.imf.org/external/np/exr/facts/prsp.htm

http://www.who.int/trade/glossary/story075/en/