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ENDING EXTREME POVERTY:
CAN IT BE DONE? IF SO, HOW?

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P R O C E E D I N G S

MR. KHARAS: Good morning, everybody. Let's get started. My name is Homi Kharas. I'm the deputy director of the Global Economy and Development Program here at Brookings, and we've got a really exciting program I think this morning.

First, we'll have a keynote address by the administrator of USAID, Mr. Rajiv Shah, and a very brief follow-up. Unfortunately, he's got a very tight schedule, so there won't be an opportunity for him to take questions from the audience, but after he departs we've got a terrific panel for you that will take the discussion further and there'll be ample time for your participation in that conversation.

Before we begin, a couple of words of context. We're going to talk primarily this morning about the issues that arise in ending income poverty and in bringing the consumption of every person on the planet above a threshold global floor of $1.25 a day. In doing that, we don't mean to minimize the other dimensions of poverty, but I think it is quite useful to have that as a focus for the discussion; otherwise, we'll get very, very broad.

So this goal of ending extreme poverty has already generated an enormous amount of support in many political quarters. President Obama committed to it in the State of the Union Address this January. The United Nations' high-level panel on the 2015 agenda that was co-chaired by President Yudhoyono of Indonesia; President Johnson Sirleaf of Liberia; Prime Minister David Cameron of the United Kingdom also supported it; the secretary general at the United Nations endorsed it in his submission to the General Assembly; World Bank President Jim Kim has made it one of the two goals for that organization. So there seems to be a great deal of political support, and the real question is, is a goal like this achievable, and if so, how. And that's what we want to discuss this morning.

A couple of numbers so that we all understand the dimensions of the issue. Today, there are probably somewhere around one billion people living under $1.25 a day. In recent years, as far as we can tell, poverty has been falling by around 60 million, 70 million every year. So if you just take the simple arithmetic and push that out of the next 16, 17 years, you would be able, in theory, to end poverty. The problem, as I think all of us know, is that it is highly unlikely that one can just take the performance of the past and extrapolate it into the future, and I think that everybody is aware that as you come to deal with the last mile, things become harder and harder. And in particular, as we try to reach marginalized communities, conflict areas, groups that face climate and other shocks, it's going to become extremely difficult. And so it does seem to be really important to have a conversation about what it'll take to achieve this goal and how we should do things differently.

So I think today, this morning, is an important early step in that conversation in what should be a real call to action for everyone. And I can think of no one better to launch this conversation than a man who has brought transparency to USAID through the Global Dashboard and through a commitment to evaluation, someone who has brought innovation to a government agency through the development innovations ventures, someone who has focused the agency through linking different activities into a few coherent umbrella programs, and somebody who has managed to protect aid resources from the worst of the budget cuts in probably the most hostile budget environment that we've seen in Washington for a very long time indeed.

So ladies and gentlemen, please join me in welcoming the administrator of USAID, Mr. Rajiv Shah.

(Applause)

DR. SHAH: Good morning. Thank you, Homi, for that kind introduction. It's wonderful to be here in your building and with you. I also want to note Laurence Chandy and Steven Rocker. It's always a thrill to be with Brookings and Brookings' experts who are always shaping a brighter future for all of us.

I'd like to introduce Alex Thier, whom you all know, who leads our Policy and Planning Bureau, and note that a number of our colleagues are here from USAID as well.

It is a privilege to join you this morning for what I hope will be the first of many very rich conversations about how the United States can best contribute to the shared objective of ending extreme poverty. Two weeks ago, I was in the Middle East, where I had the opportunity to visit the Church of the Nativity in Bethlehem. History isn't history until you've been to Bethlehem. In fact, 2000 years ago when Jesus was born in that spot, the population of the world was just 300 million people. Most of them lived off the land in a condition they did not call subsistence or extreme poverty, but that is what it was. Since the dawn of humanity, extreme poverty has crowded at the heels of progress, stifling hopes and undermining growth across the centuries. Today, we stand within reach of a world that was simply once unimaginable, a world without extreme poverty. In the United States, with $1.25 in your pocket, you can buy a bottle of water or a pack of gum, but for 1.2 billion people around the world, this is all they live on every day. No matter how much you adjust for the relative price of local commodities, $1.25 is a desperately meager sum, and with it, families must make daily choices amongst food, medicine, housing, and education.

Every decision is a tradeoff with potentially catastrophic consequences. Do you buy medicines for a sick parent? Provide an evening meal to your children? Or put a few pennies away towards a new roof or next year's school fees? This is what we call extreme poverty. For families who endure it, water is as much a luxury as a necessity. School is a privilege. And birth rates are very, very high, a dangerous hedge against the awful reality that your children may die from diseases we could easily prevent. Extreme poverty is not a precise measure of income or the amount of food consumption per day. It is more powerfully understood as the denial of basic freedoms and basic human dignity.

Now, we know it doesn't have to be this way. From 1990 to 2010, the number of children in school grew to nearly 90 percent, and around two billion people gained access to clean water. More than 45 new democracies came into existence, including 13 in Sub-Saharan Africa alone. Child mortality rates have fallen by 42 percent and poverty rates by 52 percent. And lest you think this is a phenomenon largely confined to China, consider what happened in 2005 when, for the first time on record, poverty records began falling in every region of the world, including Africa.

We now have a roadmap out of extreme poverty that is driven by broad-based economic growth and clear, transparent, democratic governance. In September 2010, the first-ever presidential policy directive on global development recognized these fundamental elements as the only way to accelerate development and eradicate poverty.

Now, I know it's easy to be skeptical, but since 1999, the total number of extreme poor has declined by nearly 50 million people every year on average. Projections of what we can achieve by 2030 do differ, but most experts believe that reducing the number of people living in extreme poverty to 200 million people, roughly 3 percent of the globe in 2030, is an extraordinarily ambitious but achievable target. Particularly since achieving this goal requires the type of inclusive growth that creates significant opportunity for prosperity for those living at $2 or $3 or $4 a day.

That is why President Obama called on Americans in his State of the Union Address to help eradicate extreme poverty in the next two decades. This vision was powerfully echoed in the final report of the high-level panel on the post-2015 development agenda led by U.N. Secretary General, Ban Ki Moon and the leaders of Indonesia, Liberia, and the United Kingdom. With Dr. Kharas serving as its lead author, the report outlined a limited number of measurable goals to focus the efforts of the entire global community on this great moral aspiration.

Now, we often think of development simply as paying for infrastructure and services in developing countries, whether it's building roads or delivering vaccines, and America has a proud history of development assistance from the Peace Corps volunteers who have served abroad to the Overseas Private Investment Corporation's efforts to mobilize private investment from American businesses. Today, the United States serves as the largest bilateral donor in the world, but we know we cannot pay our way out of extreme poverty. Instead of trying to deliver results with our dollars alone, we need a new model of development that creates public-private partnerships that deliver measurable results. This new model is grounded in the reality that political leadership and policy reform are essential preconditions to driving investment to the regions and sectors where it will have the biggest impact on reducing extreme poverty and in ending the most devastating consequences of child hunger and child death.

President Obama's Power Africa initiative is one great example. For most of the world, electricity allows businesses to flourish, clinics to store vaccines, and students to study long after dark. But for more than 600 million people in Sub-Saharan Africa, these opportunities simply do not exist. Power Africa encourages countries to make energy sector reforms while connecting entrepreneurial businesses to investment opportunities that are then created by those reforms themselves. This model builds on the New Alliance for Food Security and Nutrition launched by President Obama at the G8 summit at Camp David in which country policy reforms are tied to donor and business investments to modernize food systems and address hunger and nutrition sustainably. It also builds on the Child Survival Call to Action through which country political commitments are creating the planning and investment framework for companies and donors to partner to end preventable child and maternal death.

The defining feature of each of these presidential initiatives is the coupling of country reforms with private sector commitments and donor investments. And throughout the world, the results of these global partnerships are becoming increasingly clear. In Ethiopia, DuPont is building a sea distribution system to reach 30,000 small holder maize farmers and increase their productivity by 50 percent after the Ethiopian government liberalized its seed sector and USAID provided supporting infrastructure investments. In Tanzania, we're now bringing off-grade energy to thousands of farmers in the nation's most fertile region in the south after the government committed to policy reforms and local banks participated in a loan guarantee with the Development Credit Authority. And in the Philippines we've joined with Qualcomm to strengthen results reporting at clinics and hospitals using 3G technology, again, after the government allowed for certain types of technological advances and structured a pathway forward for public-private partnership. These types of partnerships formed the foundation of a more strategic and smarter approach to development, and aid agencies, multilateral development banks, corporations, and private foundations should all be assessing and transforming themselves to accelerate their ability to participate in this new model of development.

But we also know that even as we do that, our job will only get more difficult as we make progress, a point Homi made in his opening comments. Today, India and China do account for nearly half of the world's extreme poor, but that will not be the case for very long. By 2020, extreme poverty will primarily become concentrated in countries like Haiti, Nigeria, Liberia, and the Democratic Republic of Congo. That is because even as we've seen great development gains in some areas, we've hardly seen the needle move at all in other nations.

There is a reason for this. Conflict is essentially development in reverse. Fifteen years ago, experts seeking to shape policies to end poverty often criticized, sometimes with very good reason, the nexus of security and development. Some argued that development should be independent of efforts to improve security, or development efforts should be concentrated only in those areas with good policy environments. Fifteen years from now, the effort to end extreme poverty will largely have failed or succeeded depending on whether development policy and practice can serve alongside efforts to usher in peace, security, and stability.

And there are reasons to be cautious. The overlap of extreme poverty, extreme etiology, and extreme corruption makes for a very difficult operating environment. But there are also reasons to be hopeful. Our experiences in Afghanistan and Somalia contain successes and failures from which we can learn and adapt.

In the last several years, countries around the world came together to strike a new deal for engagement in fragile states. Instead of assessing progress as we would in Indonesia or Ghana, these countries are taking the lead in defining a new set of indicators that track the transition out of fragility, measuring everything from diversity and electoral representation to the incidence of sexual violence. Migration patterns and remittances increasingly sustain many of these fragile economies, and we see adventurous sources of private capital actively seeking higher risk, higher return investments in some of the toughest parts of our world.

Peace is a precondition to long-term development, but development must take hold quickly alongside security to maintain stability and ensure that the effort to end extreme poverty succeeds. As the lead partner in ensuring that global security enables global prosperity, the United States is uniquely positioned to help lead this final fight to end extreme poverty.

From the devastated streets of Port-au-Prince to the refugee camps in the Horn of Africa, the United States has also served as the world's leader in humanitarian aid and assistance. Nowhere is that more clear than in the Philippines today, where our disaster response team, civilian and military, have already reached tens of thousands of people devastated by Typhoon Haiyan. We will always respond in times of urgent need. It is one of the most profound expressions of who we are as the American people.

But emergency aid is not a long-term solution. In just the last 10 years, the global community has spent $90 billion on humanitarian assistance in just nine countries, responding essentially to the same disaster again and again. This is the fifth time since 2009 that we've been called on to respond to a significant typhoon in the Philippines alone.

We know we cannot prevent droughts or hurricanes from happening, but we can work much harder and much more strategically to ensure these shocks don't devastate families or set back hard won development gains. That is why the United States has helped rally the world behind a new emphasis on resilience. Although our work is still in its early stages, we are starting to see important results. In Ethiopia, by using new underground water mapping technology, we helped discover a new aquifer that will give a million people access to water over the next few years. And in Nepal, our resilience partnership draws on geospatial data to help prepare Katmandu in advance of a sudden onset earthquake.

As climate conditions continue to get harsher, our efforts to shape our humanitarian mission into one that builds resilience for vulnerable people ahead of time, whether through climate resilient seeds, weather-based index insurance, or flood plain sensitive urban design, will be critical in the fight to end extreme poverty.

Embracing President Obama's call to end extreme poverty is not about pursuing one set of activities at the exclusion of all others, or going about achieving this task alone. It is about creating pathways of partnership, security, and resilience for the world's most vulnerable people. It's a recognition that we are at our strongest when we bring the generosity and imagination of the American people to bear on the greatest challenges of our time.

Earlier I shared with you my experience visiting the Middle East. The reason I was in Bethlehem was to join Secretary Kerry for the announcement of $100 million infrastructure program to construct roads, schools, and clinics across the West Bank, including repaving a critical road into Manger Square. As Secretary Kerry noted in that setting, these investments demonstrate that the Middle East peace process is not an end in and of itself, but rather a path towards unlocking the human potential of all of the regions' peoples.

American development policy will always have the responsibility to advance our core foreign policy goals and objectives, including supporting the transition from conflict to peace, from Kabul to Columbia to Kampala. In the process, we will continue to match our core investment priorities in food, health, power, education, and water to the task at hand. We will continue to prioritize transparent democratic governance and help countries pursue regional and global economic integration as those are the paths for prosperity for all people at all levels of income. And we will continue to work to replace our aid and assistance with the development of strong, accountable local institutions.

A half century ago, as President Kennedy stepped forward to lead the United States at the height of the Cold War, and in one of his first acts as president he outlined a bold vision of peace through development, of American prosperity through ending poverty abroad. Today, as we renew our commitment to that basic objective, as we embrace President Obama's call to partner with others to end extreme poverty, we know we will advance these priorities with some new understandings, with an understanding that a new public-private model of development can achieve broader results than public investment alone, with a focus on mutual accountability with ourselves and all of our partners, and with an understanding that to achieve this goal these results are over time increasingly going to have to come from the most fragile environments and the most disaster-prone communities all around the world.

America stands ready to address that challenge, not simply with development investment alone, but by marshalling all of the resources of our policy, our government, our trade, our economy, our universities, and our innovators to help contribute to an extraordinary moral objective, the end of extreme poverty.

So we look forward to learning from your panel and learning from those of you here. I look forward to experts in this field over time shaping better and newer ideas as to how we use our commitment and our capabilities to deliver a success that we will all someday be very, very proud of. Thank you.

(Applause)

MR. KHARAS: Thank you, Rajiv. Thank you so much for an absolutely wonderful speech, and thank you for giving us a few extra minutes of your time. I know that you have to leave really soon.

I mean, I don't want to go through all of the new things that were there, but you really have spelled out something which is quite a new model of development. You talked about resilience, which I think is something quite new. You talked about the links between peace and development, which is something quite new. And then about the more traditional linkage between policies, governance, reforms, and resources.

But what I wanted to start with was your -- the sense of U.S. leadership of other allies in this goal. I mean, this is something which is first enormously important. I think we all know that if the U.S. doesn't lead, things don't happen in this world. So you know, I really thank you for that. But it also seems to me to be something which is a strong statement that the U.S. wants to work with others and really embrace this goal of ending poverty. Tell us a little bit about how you've come to that conclusion, why the president has taken that route to ending poverty rather than the more direct routes of

U.S. actions.

MR. SHAH: Well, thank you, Homi. And I think President Obama's basic beliefs in this space have been made very, very clear. America is safer and more prosperous when we create a just and globally-integrated world. And the president has said in so many different settings, from the presidential policy directive to major foreign policy addresses that over time we know that keeping those long-term objectives in mind and leaning into them, not just with the use of American government resources but with the convening power and the clarity of American business with the innovation and expertise in American hubs of innovation, like Silicon Valley and the Research Triangle Park, and with America's young people and students, that we can play a very big role. We cannot achieve this goal by ourselves. We all know that. And in fact, as we look forward, we know that it's a real fight every day to maintain development resources and the standing of development institutions. But when the president gave that speech, he made ending extreme poverty a major foreign policy objective of our country, and many of us that then work on that cone have a responsibility to do the best we can to deliver against it. In this case, the best we can do is to hold hands with partners, try to ensure that the world has a focused approach, do everything we can to support the outstanding report of the high-level panel, and continue to recognize there are some areas where America plays a unique role in leading, like resilience, like in fragile states, and like with a public-private model that can be applied to certain sectors like energy and agriculture. And so we just try to do the best we can with those resources.

MR. KHARAS: So you were very balanced I would say in your speech, as always, and between the sense of optimism, you know, you talked about what science and technology can bring, the new partnerships with the private sector, but yet also these notes of caution about the impact of climate change, of other shocks, of conflict, et cetera. On balance, where do you come out? Are you optimistic? Are you cautious?

MR. SHAH: On balance, I'm very optimistic. And I think it's telling. You look at Pakistan. A few years ago we were all lamenting the very difficult challenges in that political relationship and in their development prospects, but when they got hit with a climate-related flood, they had an opportunity and we were able to work in partnership and they kind of improved their core underlying agricultural economy. When it looked like their Central Bank reserves were very low, remittance income, largely from the Gulf, flooded in and kept things balanced. And now retrospectively, when you look over the last five years, and I think the data will still be coming out, I think you'll end up seeing a lot of extreme poverty reduction at a period of time when the general narrative was one of challenge and strife. I think that's just telling. It's telling that there are a lot of forces at work here. If we coordinate, organize ourselves, and remain focused, we can deliver against this goal.

Let me tell you why I wanted to share some of the points of skepticism. I think this community of policy experts and leaders has some new thinking to do, and you've got to help create some new pathways. The kind of mid-1990s David Dollar work that I learned to appreciate so dramatically probably doesn't have the insights in it anymore to deliver the kind of poverty reduction we want to see in the places we know we need to see it between 2020 and 2030. If I were a young development economist that had training, I'd be very excited. There are lots of new challenges. The basic mindset that security is independent of development and we should be cordoning ourselves off as opposed to embracing the tools and capabilities of our partner much larger agencies and enterprises I think is no longer as effective if what we're talking about is progress against this goal in fragile states. And I think a lot has gone on in the last few years, but we are looking to you all as experts to help clarify what that means for how we operate in these settings, and I am optimistic.

MR. KHARAS: Great. Well, David has joined us here at Brookings, so

I'll tell him he needs to update his thinking on all of this.

So, you know, what is all of this going to mean for you, for USAID? Yes, there's new thinking, new approaches, et cetera. What are the couple of big things that you want to see in terms of new directions for the agency?

MR. SHAH: Well, you know, I don't know that they're necessarily new as much as we want to be much more sophisticated and clear in how we address these, and we want to hold hands with experts to understand how to best deliver progress. But the three areas I tried to highlight in the speech would be the answer to that. We believe that there's this new model of development that's emerging. It still has to be proven at scale, and seeing that through in agriculture and power and understanding its applications to other sectors of work will be a continued area of focus and challenge.

Second, this focus on fragility and really understanding it, knowing how to measure fragility, understanding when you can be hopeful and when you need to be cautious about making large investments in fragile environments, understanding how to fight corruption in fragile environments, even as you want to make rapid gains in health and welfare. Our challenges we're grappling with. I think relative to most other development partners, although this gap has narrowed over the last few years, America makes disproportionately large investments in fragile environments. So we look to you all as a community of experts to help us do that well. And I think that's going to be an asset, not a detriment as we look to the fight to end extreme poverty.

And then finally this work in resilience. It is probably not possible -- although experts like you will have to answer this definitively -- to end extreme poverty so long as the same very low income communities get hit with the same major catastrophes over and over and over again, and so long as we keep providing a large amount of emergency assistance without building the kind of core resilience. What it takes to build that resilience, how far you can go providing nomadic communities in Somalia and

Ethiopia with access to livestock markets in the Gulf, for example, that remains to be seen. But I think these are important areas of learning and exploration, and we need to do an even more focused job of delivering on the resilience agenda.

MR. KHARAS: Well, Raj, thank you. I know you've got to run. It's been wonderful to hear those words. Lots of food for thought, and hopefully, food to eat as well. So thank you very much.

MR. SHAH: Thanks, Homi. Thanks very much.

(Applause)

(Transition)

MS. LOWREY: So I'm Annie Lowrey, and I'm a reporter for *The New York Times* here in D.C., and I'll just very, very briefly introduce our panelists, although I'm sure that all of you know them well.

Martin Ravallion is a development economist and a professor at Georgetown. Laurence Chandy is of Brookings. Cathy Pattillo is of the IMF, and Alex Thier is of USAID.

So I'm going to go ahead and just ask an initial round of questions, then we can eventually get to questions from the audience, hopefully.

So Martin, I was hoping that you could describe where we stand right now, and whether the consensus is that the goal of eradicating extreme poverty by 2030 is a reasonable goal that the world can achieve.

MR. RAVALLION: Thank you. And thank you for Brookings for organizing this event and inviting me.

I think it's good to sort of take a step back here. One of the things I was prepared this morning -- I can't show it to you, you don't have PowerPoint here -- is a graph. I did a little splicing. It's something I would discourage any of my Ph.D. students at Georgetown from doing, but I'm liberated from those constraints. So I spliced together a bunch of data going back to 1820, just to see what the picture looked like.

We've made incredible progress against absolute poverty and as best I can determine, on a reasonably comparable basis, if you go back to 1820, we are looking at 80 percent of the population of the world living below something like $1, $1.25 a day. Huge progress, but that was still about one billion people. Today it's about 20 percent, less than 20 percent living below that roughly the same poverty line. It's also roughly one billion people. We've made enormous progress in getting the percentage down, but this has been a real persistence in that last billion.

I think what we've seen, there are really two critical dates in that period, and this is a sweeping view of history of poverty. But two critical dates really stand out. One is around 1950, and the other is around 2000. In 1950, we saw a dramatic change in the trajectory of global poverty. It started falling much faster. In fact, if it hadn't been for that change around 1950, we'd be looking at an extra 1.5 billion people living below $1.25 a day today. So that was a big change.

The other big change was around 2000. And here what was really interesting is that we started to see the rest of the developing world outside China on a new trajectory. If you go before the period from about 1980 to 2000, we were looking at about one-half a percentage point reduction in the poverty rate of $1.25 a day outside of China. China was doing the heavy lifting. There was no question. And China's success against absolutely poverty is breathtaking. This is one of the greatest achievements in history. It's fantastic. But what really happened in 2000 was that that started to change and started to spread to the rest of the developing world. And not just India. We're also talking about Sub-Saharan Africa. We're seeing growth rates now that will make a significant dent on absolute poverty in Sub-Saharan Africa. That change in 2000 came with a substantial increase in investment, both domestic and international, both public and private, in the developing world. That investment in a context of somewhat better security, better technology, and better voice has changed and made a dramatic change. That's why we can talk about this now. It is optimistic to believe that that change since 2000 will continue. There's going to be all kinds of forces pushing against it. The risks in the developing world, the risks in the world as a whole today are considerable. We shouldn't be at all complacent about this, but that optimistic trajectory getting to that one billion people out of poverty by around 2030 is attainable if that progress since 2000 in the developing world, not just China, is maintained.

MS. LOWREY: Okay. And so, Laurence, I was wondering if you could describe a little bit the major obstacles to achieving the goal that development experts see, and especially the folks who might be left behind even if you continue to see great gains across the world, including in India and China and Latin America, Sub-Saharan Africa.

MR. CHANDY: So the first point I would make is there is at least a possibility of maintaining the kind of progress which Martin identified over the next few years, and that's because there are a lot of people right now in the world living just under $1.25. In fact, if we lined up everyone in the world in order of their daily consumption from the poorest person to the richest person and we asked everyone to stand on each other's heads if they're at the same level of daily consumption, you produce an upside down u-curve and the highest point, that's the mode, would be $1.25. That's an interesting finding.

And what that means is that very small changes make small improvements in the livelihoods of people living just below the poverty line will lead to large reductions in the poverty headcount. And of course, there's a corollary to this, which is that over the next few years as that highpoint moves beyond $1.25, the number of people living just below the poverty line is likely to fall. And so either we're going to see -- that implies that the rate of poverty reduction is likely to slow, or to put it another way, it's going to require greater growth or more inclusive growth or more redistribution to maintain that rate of progress we've achieved.

My concern is that some of the people who live furthest below the poverty line right now are among those who aren't actually seeing their livelihoods improve very fast, so I'm going to talk about two groups which overlap. That's fragile states and people living in Sub-Saharan Africa.

So for fragile states, the point I'd emphasize, and I think this echoes the administrator's remarks, is that if we look at progress and poverty reduction in terms of absolute numbers in stable countries over the last 20 years, the numbers fall from 1.6 billion to 800 million. If we look at so-called fragile states, by which I mean countries who are marred by conflict or have willfully bad governance, we've gone from 400 million living in extreme poverty to 400 million living in extreme poverty. What that means is that the share of the world's poor who are accounted for by fragile states is rising. So in 1990, it was one in five. Today it's around one in three. I expect in the next few years, perhaps before 2020, we'll be at one and two. So either we need to find a way to achieve sustainable poverty reduction in fragile states or we need to stop fragile states from being fragile in the first place. Both of those are difficult challenges.

Now we turn to Africa. So we know that Africa's poor are poorer than the poor elsewhere. So the average daily consumption of someone living in extreme poverty outside of Africa is around $1, 25 cents below the extreme poverty line. In Sub-Saharan Africa, it's 70 cents. So they're much farther behind. Now, we also know, as Martin said, that Africa on aggregate seems to be experiencing some strong, robust economic gains. In fact, over the last decade, Sub-Saharan Africa, the economies of Sub-Saharan Africa on average have grown 5 percent a year. Now, if you lop off two percentage points for population growth, that brings you to a 3 percent growth in per person consumption per year. And you see that borne out on average in the surveys, whether it's survey data.

You even see that borne out in the bottom deciles, the poorest people in Africa.

So here's a cute fact. If you start at 70 cents in 2010 and your income grows 3 percent per year for 20 years, it gets you to $1.26. You start to think, hey, things look all right for Africa, right? If you just maintain that rate Martin's talking about, we could get all of Africa's poor perhaps up to $1.25. Well, not so fast for a few reasons. Number one, there are a dozen economies in Africa who haven't grown at all in the last decade. Some of those economies have actually slowed down. Sorry, not slowed down, they've gone backwards. They've become smaller. Also, I've been talking about averages. So when I talk about this average poor person in Africa living on 70 cents, well, half of Africa's poor live below 70 cents. That's 200 million people. So they've got much further to travel to get to $1.25. And of the 200 million people in Africa who live below 70 cents, half of those -- that's 100 million -- are in those economies which aren't growing at all. So you start to see there some of the challenges which the administrator talked about.

So to conclude, the prospects for maintaining this fast rate of poverty reduction over the next few years look reasonable, but I think the administrator is right that it's going to get harder and harder over the next 20 years.

MS. LOWREY: So Cathy, I was wondering if you could describe a little bit the growth prospects since we've seen a lot of really great gains in China and India that have continued to see really good growth throughout this whole period of global recession, the prospects for lower income countries over the next couple years since that growth in many cases has moderated and it's not clear whether growth will pick back up.

MS. PATTILLO: Okay. Thanks very much. I have to start with a disclaimer. These are my views and not the views of the IMF's management or board.

So maybe before the low income countries, I'll just make a quick remark about growth in emerging markets also and then low income and inclusiveness. So first, on the emerging markets, then, you know, the emerging markets enjoyed an incredible decade of really strong growth before the crisis. Since the crisis then we've seen a slowdown after a brief decline in the year of the crisis, a recovery in 2010-2011, and growth is now lower than that post-crisis recovery than in the period before the crisis. Some of the main reasons are that they had these really, really strong tailwinds before the crisis and a lot of those are fading. Some of the really important tailwinds then were trade, really strong growth in their trading partners, developmental supply chains. Secondly, really, really high commodity prices, and thirdly, easy financing conditions which can be a double-edge sword. Right now, those tailwinds, which together with very good policies led to really strong growth, a lot of those tailwinds are fading and actually becoming headwinds in some cases. And so for the emerging market group then this slowdown in growth we think is both a combination of cyclical but also some structural, which means it's here to stay. So for them then the challenge is really sort of back to basics on macro policies, improving macro imbalances in some countries and structural reforms.

So then now on low income countries, as has been mentioned, since the mid-1990s, low income countries have had also unprecedently strong economic growth, and this came from a range of factors, but most importantly, an amazing improvement in policies. So they achieved and have maintained macro stability, lowering deficits, building reserves, lowering debt also thanks to debt relief. They've avoided sort of these major mistakes that were made before, huge valuations that killed traded sectors. A lot of improvement in institutions and governance, high public and private investment. So we've seen then this very high rate of growth on average in low-income countries.

Second, then, we've seen, in addition to the average high growth, we've seen a lot of growth takeoffs, accelerations. There was a recent wheel chapter that looked at the frequency of growth takeoffs in low-income countries where takeoffs are defined as increases that last at least five years and have growth of at least 3-1/2 percent per capita and found that the frequency of these in low income countries in particular has really increased in the 1990s. Twenty-nine countries then have had these upsurges and they're lasting longer. So low income countries then are growing on average fast and experiencing a lot of accelerations.

Also, we've seen a lot of resilience in the growth in low-income countries. During the global financial crisis, even in 2009, growth was solidly positive, a very quick rebound, and countries have been growing post-crisis thanks largely to the good policies that they had before the crisis where they built these buffers that they were able to use during the crisis to implement countercyclical fiscal policies, strong domestic demand. Also through investment. Also continued remittances. So strong average growth, accelerations, and resilience have been the story for low-income countries.

The prospects then are really very strong also for continued growth, and a number of the challenges that we hear from low income country authorities about maintaining that growth relate to issues like ensuring that there is more diversification and structural transformation of economies, diversifying exports, moving resources then from low productivity to high productivity sectors. This is a big challenge. Financial deepening, which could really increase growth is another big challenge. Addressing huge infrastructure gaps through public investment and some of the types of things that the administrator was talking about is another key challenge for growth, and for a number of countries that are resource rich, then realizing the revenue potential of those resources, actually getting revenue and managing well the spending with those resources is key. So those are a number of the challenges.

Lastly, I wanted to touch on the inclusiveness of growth, focusing again on Sub-Saharan Africa. And here, as I've indicated, we've seen very, very strong growth, and with that then improvements in living standards, improvements in a number of indicators that show well-being. Human development indicators, infant mortality, education, health. The amount of poverty reduction then associated even with this high growth then has been I think lower than in other regions. And a chapter done in the IMF in our Sub-Saharan Africa Regional Economic Outlook looked at these aggregate relationships between high growth and poverty in Sub-Saharan Africa. But it also then cautioned that we need to go beyond looking at these relationships because, as I said, you see a lot of improvements in living indicators, and looked then at a number of household surveys and several fast-growing Sub-Saharan Africa countries and found that consumption growth of the lowest quartile then did increase a lot during these episodes. So growth was inclusive in these countries. They also did an angle curve analysis to analyze whether income growth was potentially underestimated and found that in a number of countries there was significant underestimation of income and therefore, consumption and perhaps then poverty rates overstated.

So not to say that everything is wonderful. For Sub-Saharan Africa, the growth inclusiveness is a huge challenge and for the IMF, this is an area that we are increasingly working on because our members are coming to us also with the identification of this as crucial then for the policymakers to ensure that growth is both sustained and then benefits those who have not had these opportunities. So this is something we hear in countries that are a range of incomes and particularly from low-income country policymakers and those in Africa.

And so I think some of the challenges for Africa then are ensuring that growth is even higher. There is a potential for even higher growth and for making sure that those who did not benefit then continue to get better access to the economic opportunities than from growth. And this could mean thinking about removing distortions in some areas that then prevent people from taking advantage of investment and productive opportunities, better access to services that again benefit a wider range of the population, and these are areas that we're continuing to work on.

MS. LOWREY: And so lastly, Alex, I was hoping that you could drill down a little bit on what the renewed focus for poverty means for USAID, and how the United States government is thinking about helping achieve this goal and how we can be using development resources better.

MR. THEIR: Thanks so much. Let me reiterate a huge thank you first of all to Brookings for hosting this and to our fantastic staff at USAID also for making this possible. Getting to this stage, literally and figuratively, has been an important journey for us and there's a lot of work that's gone into it.

You know, the first thing that I would say is that we are living in a pretty incredible moment, I think, for development. When you look at, first of all, within the United States, the president and the level of understanding and the level of commitment that I think he brings to this agenda has been a really powerful, motivating force for us. I also think that we have some really important, as demonstrated really by the past three speakers, some really important counter narratives to some of the negativity about development over the last couple of years that have really emerged from the findings of progress on the Millennium Development Goals. The mood this year during the U.N. General Assembly was pretty electric, maybe partly because of Homi's great work with the panel. But overall, it has created this sense, not only of hopefulness that we made some real accomplishment to be able to get things done, but also that you have this moment which I think is in some ways unprecedented where we all know basically in two years, almost to the week, that world leaders are going to be standing on the stage together proclaiming global unity for the goal of ending extreme poverty. And that's, I think, one of the most inspiring moments that we've had certainly in my lifetime. And so we at USAID really in a lot of ways feel like we are part of a movement right now of people and institutions and government and the private sector that have seen this goal and for the first time, instead of it being the type of thing that a beauty contestant might say on stage that we're going to end extreme poverty, that it's actually real. And that's really powerful. It's a powerful motivator for us.

The second is, I think as Dr. Shah said, you know, there are a number of things that are underway right now that we think are really powerful drivers of this agenda and things that we are going to learn a tremendous amount from. So when you look at something like our Feed the Future initiative, it has an explicit goal of lifting 20 million people out of extreme poverty. And so that's not a goal that's meant to increase agricultural production in some places. It is explicitly tied to elevating 20 million people. And if you look at the global goal within the new alliance of 50 million people, you know, you start to get somewhere, not only in terms of that specific goal but in this overall approach. The theory of how we get there sustainably, which is this idea of this new model that Dr. Shah articulated, you know, we no longer look at overseas development assistance as the fundamental driver. We look at it primarily as a catalyst to work with other partners. And it's not just traditional partners. It's a lot of new partners. We just signed -- Dr. Shah just arrived back from Sweden where we just signed a partnership with Volvo. And that partnership is about driving innovation and worker training in Africa. And the reason that we believe in partnerships like that is that it's not just about what we used to talk about, corporate social responsibility and getting corporations that are working in these environments to essentially give a little bit of extra charity, it's about getting them in their main line of development so that you're connecting people to the global economy and that these opportunities for growth, and particularly inclusive growth are sustainable.

The other thing is that we have new partners coming onto the scene. If you look at Korea, South Africa, Brazil, countries that have historically been enormous recipients of overseas development assistance, today we are working with all three of those countries in Africa, pooling our resources with theirs, pooling our understanding with theirs and the work that they've done to elevate their own populations out of poverty. And so I think that you really have this powerful new dynamic.

We're also -- and this is one of the reasons why we were so excited for this event today -- is that we really see ourselves in partnership with folks on the stage, the people in the audience, to learn more about what we're doing. We have this and a series of other events that we're putting together to try and elicit more thinking and feedback. It's a trope to say, but it's true. The best ideas do not come from government, and we're going to be very heavily reliant on our partners on outside experts to help us understand what to do best. We're working towards an evidence summit next year where we're going to try to bring together some of the best thinking.

And then the last thing is that, you know, as an assistance agency, ultimately our work matters in the field. It matters at the country level. And if we're going to figure out how to deepen our response, what we need to do now is to figure out, is to look at specific country contexts, because none of this works unless it's led by our partners in those countries. And so we are going to be working with them intensively to figure out how to apply this to real context and real programs.

For example, Nigeria. Every USAID country where we work puts together a five-year strategic plan, and we're working on our strategic plan for Nigeria right now. We just had a team of folks go out to look at the overlays between our health programming and ending extreme poverty. Because we have so much health programming in Africa, it's critical that we understand the intersections between the work that we're actually doing in the field in places like Nigeria and the way that that's going to impact the path to getting more Nigerians out of extreme poverty over the next 15 years.

And then, of course, the final question that I think Dr. Shah spoke to a lot is this intersection between extreme poverty, extreme climate, and fragility. That is where the world is going if we are really going to be able to accomplish this objective. And so making it so that we really understand those intersections and where we have and can reach further success is going to be critical to this process.

MS. LOWREY: So I think that we're going to move to Q&A. And I will go ahead and ask the first question, which is that, you know, and to all panelists, so please jump in -- is that, you know, it seems to me that the easiest way to eradicate extreme poverty is to define it away. Right? You can have some PPP adjustments or you can move the line and you can see dramatic shifts in the number of people who fall below it. The second probably easiest way would be just to transfer your way out of it and to completely eradicate extreme poverty, the cost of those transfers is about $50 billion a year. So the United States could easily do it itself, leaving aside the question of how you would actually go ahead and do that.

And I think that that backs into a question that I've heard a lot from developing economists, which is, you know, does the development need to come first or, you know, is there an easy way to kind of just, in almost a charity-like fashion, eradicate this by redistributing the aid resources that are out there given that, you know, the United States is a $16 trillion economy, Europe is an $18 trillion economy, can you just kind of buy your way out of this problem? Which I think Rajiv said that you couldn't, but maybe you can.

MR. RAVILLION: One of the things we don't kind of focus on here, and understandably we don't realize is an enormous amount of infrastructure and data and analysis underpins everything we talked about here. An amazing amount of work. And actually, I think my former colleagues at the World Bank deserve a lot of credit. We invested quite a lot in this back to 1990. And we're seeing the product of that. We can answer questions about how many people are poor, wherever they may be. It's often difficult. We've got large margins for error but the data have improved enormously.

Huge challenges going ahead.

I'm not only more confident we can get that one billion people over $1.25 a day, bring that poverty rate down to 3 percent by about 2030, I'm not any more confident of that. I'm more confident in our ability to determine that we have, in fact, done it. And that's absolutely critical.

That relates to your first point. But on your second point, you know, this idea that we can eliminate poverty by perfectly targeted transfers to people below the poverty line, well, first, it's not 50 billion, it's 200 billion. But nonetheless, that's the aggregate poverty gap in the developing world now. That's about, what, one-quarter of the fiscal stimulus the United States put out in 2008 after the Lehman Brothers collapse. It's not a large sum of money. But that's very deceptive. For a start, if you were to do such perfect targeting, you'd be imposing 100 percent marginal tax rates on poor people. That would mean that if you get a job offering an extra 100 rupees of income, the transfer would fall by 100 rupees. Perfect targeting is a disastrous policy from the point of view of poverty reduction. It's actually creating what we call a poverty trap. That 200 billion would then rise dramatically because you would have destroyed incentives to work. What's the point of working when you're facing a 100 percent marginal tax rate? There's no return. There's no income benefit to that work, extra work. So we don't want to go down that road. This has not worked ever and that's not how we reduce poverty. That's not how we've been successful against poverty in, for example, China, and increasingly throughout the developing world.

MR. THEIR: I just would add to that. One, I think critical thing is domestic resource mobilization. If there is a silver bullet in the long term to the eradication of extreme poverty around the world, it is that countries will be able to access their own resources to do that. And the reason that that's so important is (a) because that is the biggest available pool of resources anywhere in the world to tackle all development challenges. It comes from within those countries. But the second thing, which I think is equally important, is that that in many ways is the root, or it is a manifestation of the root of the social contract. That is the way in which governments become accountable to their people by using their own economy to generate resources and then distributing them for public purposes. And I think what we've seen in every country in the world that has gone through that transformation is that that is the path to sustainability. That is the path to good governance. That is the path to accountability. And there's no way around that. There is no effective system that could ever be had that would sort of wish away the problems of maldistribution of income and so on. It ultimately really has to come from that base. And so insofar as we can work with countries and local institutions to be able to strengthen their ability to do this work themselves, to generate their own resources and to implement them effectively, that's the long-term path that we really seek as a development agency and ultimately what's going to be necessary.

MS. LOWREY: So why don't we pull some questions from the audience as well. This gentleman on the aisle. Stand up.

MR. DAVIS: Thanks. Good morning. Will Davis with the United Nations Development Program Office here in Washington.

I'll direct this primarily for Alex but would welcome the thoughts of any of the panelists. The administrator presented a very compelling case for the new model, and I think here in the United States you see remarkable buy-in across the political spectrum that there is consensus on this, at least in theory, if not resourcing. But on the international level I'd be very curious to hear your thoughts on countries, like say a China, that is not exactly in lock step with this approach or with no shortage of countries that don't hesitate to whip out the sovereignty red flag when you get into discussion of governance or peace and security in a development context. I'd like to hear your thoughts on how the global community is moving towards this new model. Thanks.

MR. THEIR: Thanks, Will.

You know, I think that, first of all, if there is one fundamental axiom of development it is about local ownership and local partnership, and so there is not a path to success unless you have meaningful local partnerships. One of the reasons why I really believe so strongly in the new deal for fragile states and the process that came out of Bussan is because it takes account of a couple of fundamental things that we have seen over and over again in fragile environments that is absolutely necessary if we are going to be good partners and if we are going to have good partners.

The first is that fundamental local commitment to actually moving forward, and not just moving forward on things like income, but moving forward on critical things like gender, like sexual violence, all of the types of things that we've seen that hold societies back and making those a part of this bargain is essential. It's also really fundamental that we as donors -- I'll tell you as somebody who has done a lot of work in fragile states over the years, I've been in that situation where you're sitting in the office of the development minister or the finance minister and there's a row of seats next to you that say France, Germany, Japan, and so on, and they're all sitting there to see the same minister.

We have to be more than just coordinated. We actually have to move towards joint action as donors and partners in these environments if we're going to be effective. By coming up with mechanisms for pooled resources, you know, let me give one of my favorite examples because I lived it in Afghanistan. You know, one of the hidden secrets about Afghanistan, and this was the Human Development Report the UNDP put out last year. Afghanistan has made more development progress than any nation on earth in the decade between 2002 and 2012. And yes, there's been a lot of money spent, and not all of it entirely well, but the fundamental point there is that

Afghanistan demonstrates that you can actually do good development in fragile context. And one of the ways that we go there was by investing in local institutions early on in Afghanistan. If you look at something like the basic package of health services that USAID and other donors invested in, we moved access to health services in Afghanistan from 6 percent to over 60 percent in the course of 10 years that raised life expectancy 15 to 20 years in one decade. And we did that by investing through the Afghan Ministry of Public Health to work with that institution and to help build it. So it can be done, but we really have to have that degree of mutual accountability with our partners and being good partners in order to make it happen.

MR. CHANDY: Can I jump in with one addition to that? I agree that that project that you talk about in Afghanistan is a fantastic one. I just want to make a couple of points. One, that a few years ago you used to hear this almost like a cliché, this remark often expressed about fragile states. No fragile state has ever achieved a millennium development goal. Well, the World Bank, we ran the numbers a few months ago and it turns out a lot of fragile states have met a lot of Millennium Development Goals. The problem is that some of those gains are temporary. We see periodic reversals. The data for fragile states also tends to be worse. That's not a surprise. Sometimes we just don't really know what's going on. But it gets back to this point about when we look at progress in poverty reduction in fragile states, we do see fragile states occasionally making progress against poverty, but often after a few years, you know, conflicts are up and that progress is unwound. Sometimes we see it sustained, but usually after it's been sustained for 10 or 20 years, that country is no longer considered fragile. So this gets back to this point. Are we going to try to expect to see progress in fragile states despite fragility? Or to expect to achieve progress in fragile states by ending fragility? I'm not sure which one it'll be.

MS. LOWREY: Yes, go ahead.

SPEAKER: (Inaudible) from the World Bank.

Question for Laurence. You mentioned the poverty reduction and the poverty made for the fragile state, the full median right now and the full median, I don't know, maybe in the future there's no change. But here I want to ask you a question. Do you know what percentage of the people leaving the fragile state are covered by the household survey? Because our knowledge about poverty and the situation is based on the data. However, for the fragile state, the household survey coverage is the lowest one for today. It's only 28 percent. So that means the underlying assumption is we're assuming the risk of 72 percent of the population behaves the same as this 28 percent covered by the survey. So any conversation we got based on this kind of data is questionable.

So, to follow up Martin's comment, basically, nobody is taking about, besides Martin, is how we improve our knowledge about the poverty and how we improve the data, especially the household survey data for the poorest countries for the fragile state country, and in the World Bank, we have done in the past a lot of (inaudible) to improve the coverage for the household survey data. So for the international developing community, I think we should put efforts together to improve this. Otherwise, what we know for these fragile states is (inaudible). Thank you.

MR. CHANDY: Well, I completely agree, and I was pleased I was managed to get a remark in just before then about the data weaknesses in fragile states.

I'd make a couple of points. One, I think we've seen a lot more success when we do a big push on data in organizing surveys rather than institutionalizing the process of regularly conducting surveys. So a lot of our data, as you say for fragile states, if it exists, it's old because there was a large push to get coverage around eight years ago. There may well be a big push in the next couple of years to establish some kind of baseline for 2015, but it would be sad if we got to 2025 or 2030 and we felt we needed to establish another baseline to find out where we were.

The other thing I'd say about the data gaps is in the high level panel report, which my colleague Homi was involved in, the panel made this call for data revolution. People seemed very excited about this. Apparently, there was a lot of pent up demand for data which we didn't know about. What worries me is that I think some people think the data revolution will be revolutionary because it will involve less work somehow. We'll find technological solutions to obtaining data, whether it's using satellites or big data or mobile phone surveys, whatever it might be. Some of that data could be really helpful to complement our traditional ways of attaining data, but the old hard slog is still going to be required. There's no real way around that. So I think while people are excited by the idea of a revolution, it may be an incremental revolution, which doesn't sound quite so exciting.

MS. PATTILLO: Just to add on that, we also have identified these data gaps, particularly in Sub-Saharan Africa as really critical in limiting our understanding, and we have a lot of initiatives then joint with a number of development partners than working on some of these basic statistics than GDP statistics which if we don't have this basic number well understood, then a lot of the foundation of what we're talking about is on very shaky grounds.

Price indices then also, one of the reasons for some of the differences in understanding the consumption growth in various quartiles in Sub-Saharan Africa depends on biases in measuring CPI. And you can get big differences then measuring with national CPIs or regional CPIs or measures from the household surveys.

We also are very interested in linking up understanding of macro policies, macro environment changes, and distributional impacts using household survey data. And I think then as has been discussed, you know, that depends on the quality and the availability then of household surveys in a range of countries.

MS. LOWREY: Do we have additional questions? In the middle there.

MS. AFZAL: Madiha Afzal at the University of Maryland and also here at Brookings. And so I think one of the key things that was articulated today which has been really very useful is the link between -- and especially thinking of security as a prerequisite to development. And so I have two related questions about that. One is to what extent is this now being recognized by other interactions like the World Bank, et cetera, which have traditionally separated security and development, really dealt with them separately?

And two, you know, this in some sense as the administrator articulated, will be one of the most difficult things to deal with. And so what does this start to look like on the ground? We know what public-private partnerships look like on the ground, but what does dealing with sort of the security and conflict problem first start to look like on the ground? Thanks.

MS. LOWER: Alex?

MR. THEIR: I'll let someone else start with the World Bank part.

MR. RAVALLION: World Bank. I've heard of that institution. Yeah.

I don't identify with your comment at all, so I don't see that there was a great separation, but I'm not here to defend the World Bank. I don't think -- I think as development specialists we've always understood this. The importance of security. As economists, we've rather neglected the issue and I think that's been true, and I that's probably a little bit the basis of your comment.

That's starting to change. I mean, there is a body of work coming out of economics now trying to better understand how you achieve security, how you develop state capacity in particular. I've been working, for example, in the state of India, Bihar, for some time where security issues are hugely worrying. I mean, my field work in southern Bihar near the Jharkhand border, two years ago I couldn't get permission to go there. I was told I'd be kidnapped or killed. And I went there last year for the first time and I'm here.

It was a scary place. You got a meeting with a local village leader. One of these meetings, the local village leader, I counted five guns, exposed guns. They were there to protect him, not me. But these are scary places. But there's improvement. The Nitish Kumar in Bihar, the government has put this as high priority.

You can do things but it's a long hard slope. And achieving more capable local states I would argue is one of the most important things to do in development. It's so synergistic with everything we've talked about today and so important. You don't just do development from the ground up through voice alone, through participation alone. You have to have capable states to make that happen, to make sure that the redress to grievances to make sure that the law is properly implemented and so on. The idea that we achieve development through voice, through participation on its own without more powerful states, when we return to participation and solution to development problems in the context of weak state capacity is a dangerous idea. I think you need stronger states as well.

MR. THEIR: Let me add to that that, you know, I think that the answer to your question in many ways starts with the fundamental realization that the single most salient characteristic that differentiates countries that are doing well developmentally from those that are not is about governance. And what we need to do, increasingly and not -- I don't want to get thrown out of this room, but there's an excellent book that was written by someone two doors down this year, Tom Carothers, that looks at the relationship between politics and development.

And what that means really is about how we infuse our thinking on how we deal with development challenges, particularly in governance challenged environments by doing more thinking about that, by applying the principles of political economy analysis so that we really understand better what's going on, what the constraints are so that we can better target what we're doing.

You know, very much related to what Martin just said, the experience that I think we've had is that states are not monoliths and they're institutions in states even in the most challenged states that work and can work and that have good leadership, that have capacity, and there are other institutions, perhaps next door, that are terrible and led by corrupt ministers and are not going to get you what you need.

And the ability to be able to differentiate and find partners with whom you can succeed, even in environments that are overall challenged, is critical to our ability to being able to find success in these environments.

MS. LOWREY: Okay. So I think that our time is unfortunately up, but thank you to all of our panelists, and thank you very much to Brookings for hosting.

(Applause)

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