3.

Drivers of development transformation

How have so many countries in the South transformed their human development prospects? Given their social and political diversity and their contrasting natural resource endowments, their trajectories have often diverged. Yet some underlying themes have been consistent. This chapter looks at the experience of some of the more successful countries and at three of their common drivers: their proactive developmental states, their capacity to tap into global markets and their focus on social policy innovation.

Many countries have made substantial progress over the past two decades: the rise of the South has been fairly broad-based. Nevertheless, several high achievers have not only boosted national income, but also had better than average performance on social indicators in areas such as health and education. One way to identify high achievers is to look at countries with positive income growth and good performance on measures of health and education relative to other countries at comparable levels of development. These high achievers include some of the largest countries—Brazil, China and India—as well as smaller countries, such as Bangladesh, Chile, Ghana, Indonesia, the Republic of Korea, Malaysia, Mauritius, Mexico, Thailand, Tunisia, Turkey, Uganda and Viet Nam (figure 3.1).

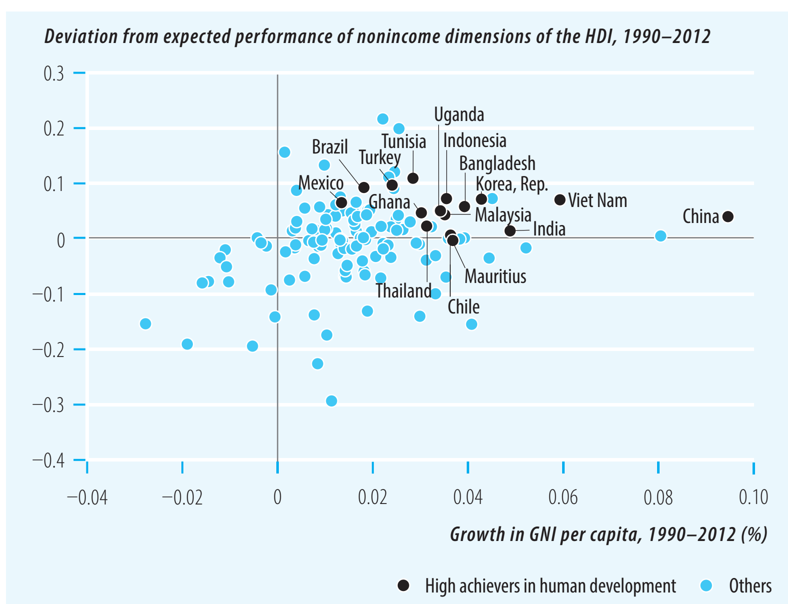
This chapter analyses the performance of a set of countries that, since 1990, have substantially improved both income growth and the nonincome dimensions of human development, namely health and education. Some countries were more successful in one aspect than the other: Brazil and Turkey did better on the nonincome dimensions of the Human Development Index (HDI), whereas China's performance over 1990–2010 was dominated by growth in income (in part because when reforms began in the late 1970s, China's achievements in health and education were already high).[1] Furthermore, as mentioned in chapter 1, the group of countries whose improvements on the HDI stood out relative to the performance of peers between 1990 and 2012 includes least developed countries, such as Lao PDR, Mali, Mozambique, Rwanda and Uganda.

Another way of identifying high achievers in human development is to look for countries that have been more successful in closing the "human development gap," as measured by the reduction in their HDI shortfall (the distance from the maximum HDI score).[2] Table 3.1 lists 26 countries that were among either the top 15 developing countries that registered the largest reduction in HDI shortfall over 1990–2012[3] or the top 15 that registered the highest rates of annual growth in income per capita during the same period.

The first set of countries successfully supplemented fast economic growth with social policies that benefit society more broadly, especially the poor. China, for instance, reduced its HDI shortfall more than all other countries

FIGURE 3.1

Some countries have performed well on both the nonincome and the income dimensions of the HDI



Note: Based on a balanced panel of 96 countries.
Source: HDRO calculations.

TABLE 3.1

Selected developing countries that registered large reductions in HDI shortfall or high rates of growth in gross national income per capita, 1990–2012

Country	HDI (value)		Reduction in HDI shortfall[a]		Average annual growth in gross national income per capita	
			(%)	Rank	(%)	Rank
	1990	2012	1990–2012		1990–2012	
Korea, Rep.	0.749	0.909	63.6	1	4.2	8
Iran, Islamic Rep.	0.540	0.742	43.9	2	2.5	32
China	0.495	0.699	40.5	3	9.4	1
Chile	0.702	0.819	39.4	4	3.8	13
Saudi Arabia	0.653	0.782	37.3	5	0.4	77
Argentina	0.701	0.811	36.9	6	3.5	18
Malaysia	0.635	0.769	36.6	7	3.6	17
Tunisia	0.553	0.712	35.6	8	2.9	29
Turkey	0.569	0.722	35.5	9	2.5	33
Qatar	0.743	0.834	35.3	10	3.2	22
Mexico	0.654	0.775	35.0	11	1.3	58
Algeria	0.562	0.713	34.4	12	1.0	69
Panama	0.666	0.780	34.3	13	3.9	11
Brazil	0.590	0.730	34.1	14	1.7	50
Brunei Darussalam	0.782	0.855	33.4	15	–0.4	87
Viet Nam	0.439	0.617	31.8	21	5.9	3
Mauritius	0.626	0.737	29.8	25	3.6	14
Dominican Republic	0.584	0.702	28.3	28	3.9	12
Myanmar	0.305	0.498	27.8	30	7.9	2
Sri Lanka	0.608	0.715	27.3	31	4.4	7
Guyana	0.502	0.636	26.7	36	5.3	4
Lao PDR	0.379	0.543	26.5	39	4.4	6
India	0.410	0.554	24.5	45	4.7	5
Bangladesh	0.361	0.515	24.1	47	3.9	10
Trinidad and Tobago	0.685	0.760	23.9	49	3.6	15
Mozambique	0.202	0.327	15.6	72	4.1	9

a. Reduction in the distance from the maximum HDI score.
Note: Based on a balanced panel of 96 developing countries.
Source: HDRO calculations.

except Iran and the Republic of Korea. The Republic of Korea, despite lower economic growth than China, had the biggest gains in HDI value. Viet Nam also fared well, ranking third in income growth and among the top 20 in HDI improvement. Sri Lanka, too, has had high income growth as well as a notable reduction in HDI shortfall despite years of internal conflict.[4]

India's economic performance has also been impressive, averaging nearly 5% income growth a year over 1990–2012. Nevertheless, India's per capita income is still low, around $3,400 in 2012; to improve living standards, it will need further growth, since it is difficult to achieve much poverty reduction through redistribution alone at low income. India's performance in accelerating human development, however, is less impressive than its growth performance. Indeed, Bangladesh, with much slower economic growth and half India's per capita income, does nearly as well—and better on some indicators.

Among the top 15 countries in reducing HDI shortfall are Algeria, Brazil and Mexico, even though their growth in income per capita averaged only 1%–2% a year over 1990–2012. Their experience points to the second broad strategy that has paid human development dividends: giving primacy to state investment in people's capabilities—especially their health, education and nutrition—and making their societies more resilient to economic, environmental and other threats and shocks.

There is a lesson here: countries cannot rely on growth alone. As the 1993 and 1996 *Human Development Reports* argued, the link between growth and human development is not automatic.[5] It needs to be forged through pro-poor policies by concurrently investing in health and education, expanding decent jobs, preventing the depletion and overexploitation of natural resources, ensuring gender balance and equitable income distribution and avoiding unnecessary displacement of communities.

This is not to say that economic growth does not matter. Poor countries with many poor people need higher incomes. At the national level, faster growth can enable countries to reduce debts and deficits and generate additional public revenues to step up investment in basic goods and services, especially in health and education. And at the household level, income growth helps meet basic needs, improve living standards and enhance quality of life.

Nevertheless, higher income does not necessarily produce a corresponding improvement in human well-being. Populations in large cities, for example, typically report high income per capita, but they also have high levels of crime, pollution and traffic congestion. In rural areas, farming households may see income grow while lacking a village school or health centre. Initial conditions have considerable influence on the pace of countries' current and future development. Nonetheless, they are not the only things that matter (box 3.1).

In fact, the links between economic growth and human development have snapped several times. The 1996 *Human Development Report* identified six unwelcome types of growth: jobless growth, which does not increase employment opportunities; ruthless growth, which is accompanied by rising inequality; voiceless growth, which denies the participation of the most vulnerable communities; rootless growth, which uses inappropriate models transplanted from elsewhere; and futureless growth, which is based on unbridled exploitation of environmental resources.[6]

What accounts for the superior generation of growth and its conversion into human development? What are the policy lessons from the diverse human development experiences of these countries? Indeed, what are the drivers of transformation? This chapter identifies three:

- A proactive developmental state.
- Tapping of global markets.
- Determined social policy innovation.

These drivers are not derived from abstract conceptions of how development should work; rather, they are demonstrated by the transformational development experiences of many countries in the South. Indeed, they challenge preconceived and prescriptive approaches: on the one hand, they set aside a number of collectivist, centrally managed precepts; on the other hand, they diverge from the unfettered liberalization espoused by the Washington Consensus.

These drivers suggest an evolution towards a new approach, in which the state is a necessary catalyst that pragmatically adjusts its policies and actions in line with new realities and the challenges of global markets. This new perspective recognizes that development does not happen automatically and that transformation cannot be left to markets alone. Instead, the

This chapter identifies three drivers of transformation: a proactive developmental state, tapping of global markets and determined social policy innovation

BOX 3.1

History and initial conditions matter, but they are not destiny

"Initial conditions" have profound impacts, as certain characteristics are not only difficult to change, but also often perpetuated by institutions and policies. In societies that began with high inequality, elites can establish a legal framework that locks in their influence, which in turn enables them to maintain high inequality to their benefit. Take, for example, the Americas, where three distinct types of colonies took shape in the 1700s, depending on the initial conditions of soil, climate and native inhabitancy.

In the Caribbean, soil and climate made colonies suited for the production of large-scale lucrative commodities. The distribution of wealth and human capital was extremely unequal, advantaging the elite who could assemble large companies of slaves. In Spanish America, abundant in minerals and natives, authorities distributed land resources to the Spanish colonists. Elites served the Spanish crown and maintained their status after independence. Income inequality persisted across racial lines, with ownership of large tracts of land being a requirement for citizenship. In Peru today, as in many other countries, severe horizontal inequalities persist between indigenous populations and those of European descent. In the northern parts of the Americas the native population was not abundant, and soil and climate did not lend themselves to economies of scale. Thus, there was reliance on labourers of European descent with high human capital and more equal distribution of wealth. Because of abundant land and low capital requirements, most adult men operated as independent proprietors.

Haiti today is the poorest country in the Western Hemisphere. On the eve of its revolution in 1790, it was probably the richest country in the New World. Similarly, after the Seven Years War between the British and the French (1756–1763), the British debated whether to take Canada or Guadeloupe as reparation. Several centuries later the former proved to be more successful than other economies in the hemisphere.

Yet history and initial conditions are not insurmountable barriers. About half the progress in development, measured by the HDI, over the past 30 years is unexplained by the initial HDI value in 1980. Countries that start at a similar level—such as India and Pakistan, Chile and Venezuela, Malaysia and the Philippines, or Liberia and Senegal—have ended up with different outcomes. As the 2010 *Human Development Report* argued, if countries with similar starting points go on divergent development paths, but average global achievements have not changed, we can infer that it is national forces policies, institutions, social context and idiosyncratic shocks that drive national development outcomes. No country remains a prisoner of history for long if it wants to break out.

Source: Engerman and Sokoloff 2002; Hoff 2003; Thorp and Paredes 2011; UNDP 2010a.

state needs to mobilize society through policies and institutions that advance economic and social development.

However, this is not a universal prescription. The way these three elements are translated into policies is context-specific, depending on country characteristics, government capacities and relationships with the rest of the world.

Driver 1: a proactive developmental state

Development is about changing a society to enhance people's well-being across generations—enlarging their choices in health, education and income and expanding their freedoms and opportunities for meaningful participation in society.

A common feature of countries that have brought about transformational development is a strong, proactive state—also referred to as a "developmental state"

A common feature of countries that have brought about such transformations is a strong, proactive state—also referred to as a "developmental state". The term refers to a state with an activist government and often an apolitical elite that sees rapid economic development as their primary aim. Some countries go further and add an additional feature: a bureaucracy with the power and authority to plan and implement policies. High growth rates and improved living standards in turn provide the state apparatus and the ruling elites their legitimacy.[7]

In some notable cases, development progress is guided by a long-term vision, shared norms and values, and rules and institutions that build trust and cohesion. Further, viewing development as transformation demands consideration of these intangible factors as well as an understanding of how they affect the organization of society and interact with individual policies and reforms.

Country ownership of development strategy, strong bureaucratic capacities and appropriate policies are essential elements that together shape the transformation process.[8] Policies must be aimed at facilitating transformation by identifying barriers to and potential catalysts of changes. In this process, institutions, societies and individuals need to set their own objectives and identify the strategies and policies that can achieve them. Although not pursued everywhere, broad participation of people, in the sense that they are being listened to, that their views are taken into account in decisionmaking and that they are actively involved in setting the agenda, is conducive to sustainable long-term development—as is consistent political leadership backed by strong technocratic teams that can ensure institutional memory and continuity of policy (box 3.2).[9]

There is no simple recipe for connecting human development and economic growth or for accelerating growth.[10] One study using cross-country data for 1950–2005 found that the vast majority of takeoffs in growth are not generated by substantial economic reforms and that most substantial economic reforms do not yield takeoffs in growth.[11] Successful countries have grown fast by gradually removing binding constraints to progress, not by implementing a long list of policies and reforms. The state has a critical role in that. Countries that have succeeded in igniting sustained growth, have faced different sets of challenges and adopted varying policies on market regulation, export promotion, industrial development and technological adaptation and progress.[12] When a country is already growing fast, the challenge is to remove or anticipate future constraints as they become actually or potentially binding. Positive terms of trade shocks, like the recent commodity boom as a result of the rise of the South, can help begin growth acceleration but not sustain it. However, focused economic and institutional reforms appear to have statistically and quantitatively significant impacts on how sustained growth accelerations are.[13]

In many high-performing developing countries, the state operates differently from the conventional welfare state, which aims to correct market failures and build social safety nets while promoting market-led growth. Instead, developmental states have been proactive: initiating and monitoring transformations in people's lives.[14] Rather than merely being market-friendly, these states have been development-friendly. Those with strong, innovative social programmes are often also people-friendly—a necessary progression in the move from a focus on growth to human development.

BOX 3.2

What is a developmental state? Need it be authoritarian?

The recent literature on developmental states has grown out of the experiences of the East Asian "miracle" economies: Japan before the Second World War and Hong Kong, China (SAR), the Republic of Korea, Singapore and Taiwan Province of China in the second half of the 20th century. Recently, China and Viet Nam (as well as Cambodia and Lao PDR) can be seen as developmental states. Common traits include promoting economic development by explicitly favouring certain sectors; commanding competent bureaucracies; placing robust, competent public institutions at the centre of development strategies; clearly articulating social and economic goals; and deriving political legitimacy from their record in development.

That some East Asian developmental states were not democracies has prompted many to think that the developmental state model is also autocratic. But evidence of the relationship between authoritarianism and development is mixed. Democratic countries such as Japan and the United States have functioned as developmental states. After the Second World War France initiated planning by the Planning Commission, with sectoral industrial policy led by elite bureaucrats and the aggressive use of state-owned enterprises. Since the 1950s, the Scandinavian countries have also acted as a type of developmental state, where political legitimacy is derived from the welfare state and full employment rather than from rapid growth. The Swedish state developed strategic sectors through public-private partnerships (iron and steel, railways, telegraphs and telephone, and hydroelectric power). It also provided targeted protection to support the emergence of heavy industries, promoting research and development. Its welfare policy was closely integrated with strategies to promote structural change towards high-productivity sectors.

The United States has a long history of being a developmental state, going back to the early days of the republic. Alexander Hamilton, the first US treasury secretary, is widely considered the father and inventor of the infant industry argument. Between 1830 and 1945, the United States had some of the highest trade barriers in the world. In the same period it invested heavily in infrastructure (Pacific railways, Midwestern canals and agricultural infrastructure), higher education, and research and development. Even after the Second World War, when the United States had attained industrial supremacy, and despite the rise of market fundamentalism, the developmental state survived.

Block (2008) argues that the state has focused on translating cutting-edge technological research into commercial use through cooperation among a network of people with high levels of technological expertise situated in state agencies, industries, universities and research institutions. Developmentalism has lived in the shadows of US policy because acknowledging the state's central role in promoting technological change is inconsistent with the claim that the private sector should be left alone to respond to market signals autonomously. Yet, although limited in scope due to a lack of legitimacy, unstable funding and other limitations caused by its "hidden" nature, the US developmental state has been quite successful. In many sectors, the United States has developed international competitiveness through public funding for research and development and through public procurement for defence (computers, aircraft, Internet) and health (drugs, genetic engineering).

Source: Evans 2010; Chang 2010; Edigheji 2010; Block 2008.

Another characteristic of developmental states is their pursuit of industrial policies to redress coordination problems and externalities by "managing" comparative advantage.[15] For example, the state may foster industries believed to have a latent comparative advantage or seek to elevate those that are stuck in static comparative advantage. As a result, several industries that benefited from tariff protection subsequently succeeded in world markets.[16] Nonetheless, it can be difficult to attribute the success or failure of a particular industry to specific trade policies because government interventions are guided by multiple motives, from revenue generation to protection of special interests.

Evidence across industries from studies of the benefits of industry protection is ambiguous. However, there is a distinction between the general desirability of "soft" industrial policies, such as improving infrastructure and technological adoption, and "hard" industrial policies, such as direct taxes and subsidy interventions favouring specific industries, whose efficacy depends on country circumstances. There is no global prescription, though: what worked in East Asia may not work in Latin America.

- *Japan*. Japan has long acted as a developmental state. By the 1870s, it had a group of "well-educated, patriotic businessmen and merchants and government that were focused on economic modernization".[17] Many subsequent reforms created the infrastructure of a modern country, including a unified currency, railroads, public education and banking laws. The government built and operated state-owned plants in industries ranging from cotton to shipbuilding. It also encouraged domestic production by raising import tariffs on many industrial products. Since the end of the Second World War, Japan has undergone a fundamental transformation from aid recipient to donor (box 3.3).
- *Republic of Korea*. Between 1960 and 1980, the Republic of Korea had significant

One characteristic of developmental states is their pursuit of industrial policies to redress coordination problems and externalities by "managing" comparative advantage

More important than getting prices right, a developmental state must get policy priorities right. They should be people-centred, promoting opportunities while protecting against downside risks

success. After 1961, the government achieved a position of dominance over its business class through a series of reforms, including measures that increased the institutional coherence of the state, such as the creation of the Economic Planning Board, but centred on control over finance. It also avoided the capture of state policies on subsidies. Subsequently, it was able to guide a shift from import substitution to export promotion.[18]

Other rising countries of the South have pursued similar policies. Governments have partnered with the private sector to develop comparative advantage in the most promising sectors while ensuring effective macroeconomic management and promoting innovation. They have also paid special attention to expanding social opportunities by setting policy priorities, nurturing selected industries, fostering state-market complementarities, committing to long-term reforms, having strong political leadership, learning by doing and boosting public investment.

Setting policy priorities

More important than getting prices right, a developmental state must get policy priorities right. They should be people-centred, promoting opportunities while protecting against downside risks. Getting policies and policy priorities right raises the equally important issue of getting policymaking right. Governing institutions and policies are profoundly and inextricably linked; one cannot succeed without the other. It is thus important to have policy processes managed by committed people in effective and responsive government structures. Policies also change at different stages of development: at early stages, for example, many countries prioritize job creation and poverty reduction.

- *Indonesia.* From the mid-1970s, supported by revenues from newfound oil wealth, Indonesia complemented import-substituting industrialization with a major thrust in agriculture and rural development (see box 3.4 for the transformative potential of strategic investments in agriculture). This strategy of balanced growth increased the demand for labour, thus reducing unemployment and increasing real wages.[19] Then in the mid-1980s, as oil income began to decline, Indonesia shifted from import substitution to outward-oriented industrialization, drawing in surplus labour from agriculture to work in manufacturing, which offered higher wages. By the early 1990s, when the supply of surplus labour had been exhausted, poverty reduction continued primarily through wage increases.

BOX 3.3

Akihiko Tanaka, President, Japan International Cooperation Agency

Japan and triangular cooperation

Bolstered by the remarkable economic performance of emerging countries, South–South cooperation and triangular cooperation have grown rapidly in recent years. They have outgrown their traditional role as complements to North–South cooperation and are now an indispensable source of knowledge sharing and innovation for many developing countries.

There are four virtues and merits of South–South and triangular cooperation: the benefits accrued from sharing knowledge and experience among peers to find more effective solutions; sharing appropriate technology and experience that can promote convergence with North–South cooperation goals; respecting real ownership, with the South in the driver's seat; and developing countries' rapidly emerging as new donors.

As early as 1975, Japan recognized the value of South–South and triangular cooperation and began a large-scale triangular training programme. Japan had experienced a development trajectory similar to that of some emerging countries today, having first been a net foreign aid recipient then playing a dual role as aid recipient and emerging donor for a number of years before finally becoming only a donor as the first Asian member of the Organisation for Economic Co-operation and Development in 1964.

This development pathway led Japan to believe that sharing development experience, knowledge and appropriate technology among developing countries can play a very useful role in development cooperation and thus warranted donor support.

A prime example is the cooperation among Brazil, Japan and Mozambique. Japan helped Brazil develop its own tropical savannah region, known as the Cerrado, making it a leading producer of soybeans and other agricultural products. The two countries now extend collaborative support to Mozambique to develop that country's vast savannah.

An emerging challenge now is to scale up South–South and triangular cooperation as a central approach in development cooperation, while avoiding excessive aid fragmentation among an increasing number of development actors.

BOX 3.4

Investing in agriculture

Strategic investments in the agricultural sector can have transformative effects. Higher crop yields not only lead to improved livelihoods for farmers, they also increase demand for goods and services in rural areas, giving rise to new opportunities for economic development. They may also lead to lower food prices, reducing the share of food in household expenditures and creating markets for other sectors of the economy.

Agricultural research is a public good and tends to be underprovided by the private sector. Consequently, governments can make useful contributions in this area. Recent studies on several African, Asian and Latin American countries show that increased public spending on agriculture is particularly good for promoting growth. Disaggregating agricultural expenditure into research and nonresearch spending shows that research spending is especially effective. Provision of other public goods, such as agricultural extension services and irrigation systems, is also beneficial.

China has the world's largest agricultural research and development system in the world. Its research is based at the Chinese Academy of Agricultural Sciences, universities and the Chinese Academy of Science, which together comprise of more than 1,100 research institutions. China is becoming a leader in South–South cooperation with African countries, many of which are now benefiting from its research.

Agricultural technology has also been a strength of Brazil, where an estimated 41% of 2006 agricultural research spending in Latin America occurred. The System for Agricultural Research and Innovation has contributed greatly to the nearly fourfold growth in agricultural efficiency per worker. The Brazil Agricultural Research Corporation, a state-owned enterprise, has been instrumental in increasing the land area used for cultivation. Similarly, many of Brazil's agricultural programmes were developed with sustainability in mind. For example, to qualify for price support and credit programmes, farmers must respect zoning laws. Another programme, Moderagro, provides farmers with credit to improve agricultural practices and preserve natural resources, Produsa provides credit for planting on agricultural land that has degraded soil and Propflora uses credit to encourage the planting of forests (particularly palm oil).

Source: OECD 2006, 2011a; Fan and Saurkar 2006; Fan, Nestorova and Olofinbiyi 2010; Stads and Beintema 2009; World Bank 2012a.

Each phase thus involved a people-centred approach in which the growth strategy was modified in response to changing conditions.

Enhancing public investment

Traditional economic and social policy thinking, as emphasized by the "Washington Consensus", focused on getting economic fundamentals right as a precondition for economic growth, arguing that other human development improvements would follow. A human development approach, on the other hand, demands that improvement in poor people's lives not be postponed. Thus, people-friendly developmental states are those that expand a number of basic social services (box 3.5).[20] In this view, investing in people's capabilities—through health, education and other public services—is not an appendage of the growth process but an integral part of it.

In addition to the levels of public expenditures, their composition and the efficiency with which they are delivered, all taken together, influence the effective delivery of public services and expansion of capabilities. The effectiveness of public expenditure differs across countries. A global cross-country analysis shows a positive correlation between previous public expenditure per capita on health and education and current human development achievement (figure 3.2). Also, higher previous public spending per capita on health is associated with better child survival and lower under-five child mortality rates (figure 3.3). Such outcomes naturally depend on a country's stage of development and on how well the money is spent. Countries should put in place checks and balances to prevent reckless borrowing sprees and wasteful spending.

There has been much debate about whether public investment crowds in or crowds out private investment. Both outcomes are possible because of the many different uses of public capital in developing countries. From the lower levels of health, education and infrastructure development in South Asia and Sub-Saharan Africa than in the high-performing countries of East and Southeast Asia, it is reasonable to infer that public investment, as well as its composition, performs a critical role.

- *Bangladesh.* Bangladesh has sustained growth in part by increasing the rate of public investment over time while avoiding the fiscal deficits that have plagued the rest of the region.

Investing in people's capabilities—through health, education and other public services—is not an appendage of the growth process but an integral part of it

BOX 3.5

Eastern Europe and Central Asia: where North meets South

Connecting the North and the rising South is the transforming East. Eastern Europe and Central Asia accounts for 5% of world population and output. Its experience in managing a rapid transition from centrally planned to market economies holds useful policy lessons for developing countries elsewhere. The first phase of the transformation began with a sharp drop in living standards and human development. While each country managed a subsequent recovery under varying political and economic conditions, the overall experience underscores the importance of social inclusion and a responsible role of the state.

The 2011 *Regional Human Development Report for Europe and the Commonwealth of Independent States* showed a negative correlation between Human Development Index values and measures of social exclusion in Eastern Europe and Central Asia. It noted that economic variables accounted for less than a third of the risks contributing to individual exclusion. Labour informality, corruption and lengthy procedures for business startups were associated with high social exclusion. By contrast, because employment facilitates inclusion, functional and accessible labour market institutions were found to be important. A major lesson from two decades of transition is that the state has a critical role in creating an environment for inclusive growth and societies. Abruptly abandoning areas of responsibility by the state or insisting on rapid privatization of all state-owned companies may prove very costly for societies in the long run. Yet at the same time, retaining these responsibilities does not mean keeping the earlier structures intact. On the contrary, reforms to strengthen national institutions' transparency and accountability and to limit the scope of corruption are necessary to improve the quality of governance and efficiency of governments.

Many countries of the region are now active members of the European Union. They, together with Croatia, Kazakhstan, the Russian Federation and Turkey, have also become emerging donors, with aid disbursements exceeding $4 billion in 2011. The emerging donors are also active in bilateral or trilateral exchange of knowledge with countries with common heritage or beyond. In recent years Romania has shared its experience conducting elections with Egypt and Tunisia, Poland has helped Iraq with small and medium-size enterprise development, the Czech Republic has cooperated with Azerbaijan on environmental impact assessments and Slovakia has assisted Moldova and Montenegro in public finance management.

Source: HDRO; UNDP 2011b.

- *India.* India increased central government spending on social services and rural development from 13.4% in 2006–2007 to 18.5% in 2011–2012.[21] And social services as a proportion of total expenditure rose from 21.6% in 2006–2007 to 24.1% in 2009–2010 and to 25% in 2011–2012.

Nurturing selected industries

Governments can encourage a market-disciplined private sector by adopting a dynamic view of comparative advantage, nurturing sectors that would not otherwise emerge due to incomplete markets.[22] Although this poses some political risks of rent seeking and cronyism, it has enabled several countries of the South to turn industries previously derided as inefficient and unable to withstand foreign competition into early drivers of export success once their economies became more open.

A dynamic view of comparative advantage has enabled several countries to turn inefficient industries unable to withstand foreign competition into drivers of export success once their economies became more open

- *India.* For decades after independence in 1947, India followed a strategy of state-led, import-substituting industrialization. It inhibited the private sector while bestowing wide powers on technocrats who controlled trade and investment, creating a system that became increasingly laden with bureaucratic intricacies (the "licence Raj").[23] During these years, however, there was a deliberate policy to build human capabilities and invest in world-class tertiary education, though perhaps neglecting primary education. Following the reforms of the 1990s, these investments paid off when India was unexpectedly able to capitalize on its stock of skilled workers in emergent information technology–enabled industries, which by 2011–2012 were generating $70 billion in export earnings. Another industry built during the inward-looking years is pharmaceuticals. India granted patents only to processes, not to products, which encouraged firms to reverse engineer and become world leaders in generic drugs.[24] Similar tales of capacity building can be told for India's automobile, chemical and service industries, now vigorously tapping into world markets.
- *Brazil.* For long stretches, Brazil also experimented with inward-oriented economic strategies. During these periods, individual firms that benefited from large

domestic markets were not encouraged to export and compete globally. But when they did so, they were able to rely on capacities built up over decades. Embraer, for example, is now the world's leading producer of regional jet commercial aircraft of up to 120 seats.[25] The country's steel and shoe industries also grew under public ownership, with research and development augmenting capabilities for domestic innovation.

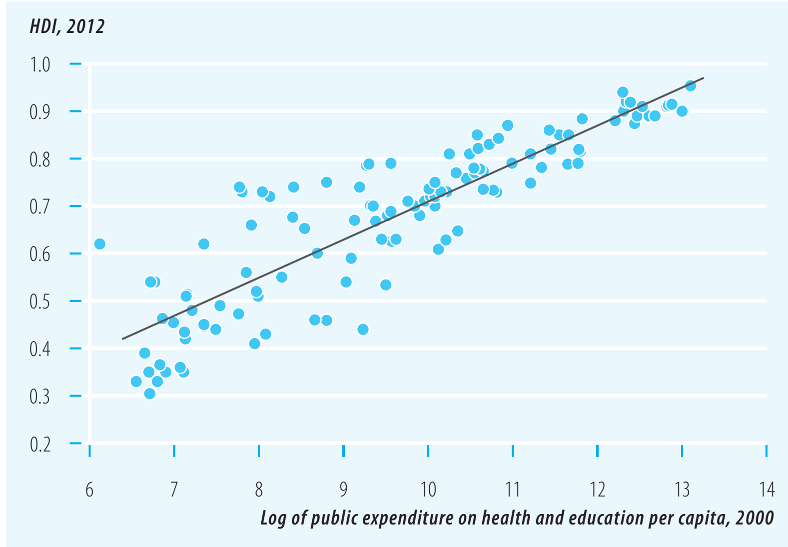
Prioritizing job creation

Pragmatic policies aimed at creating secure and remunerative jobs are likely to strengthen the link between economic growth and human development. Evidence from Asia suggests that countries with simultaneously high rates of growth and poverty reduction also rapidly expanded employment. This was true for Malaysia and Thailand in the 1970s, China and Indonesia in the 1980s and India and Viet Nam in the 1990s.[26] The first generation of fast-growing Asian economies—Hong Kong, China (SAR), Republic of Korea, Singapore and Taiwan Province of China—expanded employment 2%–6% a year before the 1990s, while raising productivity and wages. Such patterns of growth were often led by small-scale agriculture as in Taiwan Province of China and by labour-intensive export-oriented manufacturing in Hong Kong, China (SAR), the Republic of Korea and Singapore.[27]

The success of some Asian countries—such as the Republic of Korea and later Thailand—holds lessons for less developed economies, especially in Sub-Saharan Africa, because they created jobs two to three times faster when they were at a comparable level of development. For example, over the past 10 years, Africa's labour force expanded by 91 million people but added only 37 million jobs in wage-paying sectors.[28] With proactive government policies in labour-intensive subsectors of manufacturing and agriculture, as well as retail, hospitality and construction, Africa is projected to create up to 72 million jobs by 2020, an additional 18 million jobs over present growth levels.[29] Such policies, however, require not only investing in young people's education and training, but also

FIGURE 3.2

Current HDI values and previous public expenditures are positively correlated . . .



Source: HDRO calculations and World Bank (2012a).

FIGURE 3.3

. . . as are current child survival and previous public expenditure on health

Source: HDRO calculations based on World Bank (2012a).

improving infrastructure aimed at economic diversification and removing obstacles to private entrepreneurship, such as lack of finance and onerous regulations.[30]

- *Mauritius.* The possibilities of labour-intensive growth are higher when countries are at a lower level of industrialization. Analysing the performance of Mauritius over two decades, one study finds that during the first decade (1982–1990), 80% of annual economic growth was accounted for by new employment and capital accumulation.[31] Unemployment dropped from 20% to below 3%, with the number of jobs growing 5.2% a year. Economic growth in the next decade (1991–1999), however, was driven less by accumulation of capital and more by the productivity growth of workers, a result of investment in human capabilities.[32]

- *Bangladesh.* The more rapid decline in poverty in the 1990s compared with the 1980s[33] was attributed to both the expansion of labour-intensive exports (such as garments and fisheries) and the increase in employment in the rural nonfarm sector (comprising small and cottage industries, construction and other nontradable services). The stimulus, however, came less from productivity improvements within this sector than from rising demand facilitated by an increase in crop production, an inflow of remittances and growing exports.[34]
- *Rwanda.* Expansion in jobs does not always have to come from export-oriented manufacturing. In Rwanda, jobs in tourism services have increased over the past decade. The sector now sees export earnings that exceed those from coffee and tea and employs nearly 75,000 people.[35]
- *Uganda.* Like Rwanda's, Uganda's high growth during the 1990s was poverty alleviating because of income growth in agriculture through large scale absorption of labour, especially in the cash crops sector that was buoyed by world prices and improvement in agriculture's terms of trade.[36]
- *Thailand.* Developing countries endowed with arable land can continue to create stable jobs in agriculture, even though its share in total output typically declines over time. This is the case in Thailand, whose employment pattern of the 1960s is comparable to that of many Sub-Saharan African countries today. While Thailand has since become a manufacturing powerhouse, millions of stable jobs continue to be created in nonmanufacturing sectors such as retail, hospitality and construction, as well as in commercial farming: the number of stable jobs in agriculture increased from 519,000 in 1960 to nearly 3 million in 2008. Overall, in the 1990s alone, Thailand increased its share of stable jobs by 11 percentage points (as Brazil did between 1970 and 1988).[37]
- *Indonesia.* Indonesia before the 1997 Asian financial crisis stood out for pursuing growth that had a high labour intensity. Real wages increased at an average annual rate of 5% for two decades preceding the crisis. Between 1990 and 1996 alone, formal nonagricultural employment increased from 28.1% of the workforce to 37.9% and the share of workforce in agriculture declined from 55.1% to 43.5%.[38] Post-crisis, when some of the development gains were reversed, the proportionate increase in poverty was lowest for agricultural workers.[39]

States have to be conscious that the nature of growth (and the intensity of labour use in sectors that drive growth) evolves as the economy transforms, and to respond with matching investments in people's skills

As these examples suggest, patterns of growth are rarely consistently pro-poor over consecutive decades. This is because developmental transformation is synonymous with the change in the structure of production and sectors differ in their capacities to create jobs. Skilled and unskilled jobs, for example, require a different mix of complementary inputs, such as formal education and industry-specific training. The larger point is that human development–oriented policies require both growth and an equitable expansion of opportunities. Developmental states, therefore, have to be conscious that the nature of growth (and the intensity of labour use in sectors that drive growth) evolves as the economy transforms, and they need then to respond with matching investments in people's skills.

Fostering state–market complementarities

Both markets and governments can fail, but there are synergies when they work together. Development progress cannot be left to markets alone. Some markets not only fail to function, but may not exist at all at early stages of development. Most successful developmental states have introduced industrial and related policies that enhance the private sector's potential to contribute to human development, especially by creating jobs in new sectors.

- *Turkey.* The state created favourable economic conditions that encouraged construction and the manufacture of furniture, textiles, food and automobiles—all industries with a high capacity to absorb labour. Turkey's export basket has since moved towards products that involve more processing, higher technology content and the use of skilled labour.[40]
- *Tunisia.* Since the early 1970s, Tunisia has relied on financial and fiscal incentives to attract foreign and domestic capital to export-oriented industries, particularly for garment production.[41] Various forms of business–government relations have enhanced industrial upgrading and promoted industry clusters. Today, Tunisia is among the top five exporters of apparel to the European Union.[42] It also has the potential to export health services by providing treatment to visitors from neighbouring countries, to a value equivalent to a quarter of Tunisia's private health sector output.[43]
- *Chile.* After returning to democracy in the 1990s, Chile encouraged investment and technological upgrading in sectors where the country had an intrinsic comparative advantage. It subsidized the formation and operation of innovation-based consortia between private firms and universities and engaged in other innovation-promoting activities.[44]

Committing to long-term development and reform

Achieving enduring transformation is a long-term process that requires countries to chart a consistent and balanced approach to development. Some technical or managerial solutions may appear to be attractive quick fixes, but they are generally inadequate.

- *China.* Since market-oriented reforms in the late 1970s, China has experienced a "complex and interlocking set of changes: from a command to a market economy; from rural to urban; from agriculture to manufacturing and services; from informal to formal economic activities; from a fragmented set of fairly self-sufficient provincial economies to a more integrated economy; and from an economy that was fairly shut off from the world to a powerhouse of international trade".[45] The scale of these changes required a committed state pursuing a long-term vision to build the necessary institutions and capacities. The leadership deliberately replaced the old guard, who might have been expected to resist change, with a younger, more open and better educated government bureaucracy. By 1988, a remarkable 90% of officials above the county level had been appointed since 1982.[46] Capacity upgrading is still a priority, and the education levels of officials have risen continuously. The Chinese bureaucracy has been designed with a strong results orientation, linking career development to the achievement of central objectives of modernization and economic progress.[47]

People-friendly developmental states need strong political leadership committed to equity and sustainability

People-friendly developmental states need strong political leadership committed to equity and sustainability. Effective leadership aligns the long-term goals of policymakers and enables constituencies to appreciate the state's work in fostering individual capabilities and social integration for human development. This requires a balanced approach to development and an ability to convert crises into opportunities for introducing broad-based economic reforms.

- *Brazil.* By the time the Brazilian transformation to a developmental state began (around 1994), the government had implemented macroeconomic reforms to control hyperinflation through the Real Plan and concluded the trade liberalization that had begun in 1988 with tariff reductions and the removal of other restrictions.[48] Trade openness and prudent monetary and fiscal policy followed, as did innovative social programmes that reduced poverty and income inequality.

In large and complex societies, the outcome of any particular policy is inevitably uncertain. Developmental states need to be pragmatic and test a range of different approaches.

- *China.* China's reform and opening resulted from an explicit choice in the late 1970s to relax constraints on people's participation in economic decisions. But the institutional innovations that went on to underpin China's transformation resembled Deng Xiaoping's approach to "crossing the river by feeling the stones".[49] Between 1979 and 1989, no fewer than 40% of China's national regulations were deemed experimental. The first set of agrarian reforms permitted farmers to lease land, submit a share of produce at fixed prices to the state and sell the surplus. Next came the expansion of the township and village enterprises.[50] The gradual approach reflected the pragmatism of Chinese leaders. Another reason for this pragmatism was the perception that the transition was impossible to plan, compounded by disillusionment with the whole planning system.

Driver 2: tapping of global markets

As countries develop, they tend to dismantle trade barriers and become more open

A common element of the fast-developing countries of the South has been to strengthen the capabilities of people and the competencies of firms while embracing global markets. This has enabled them to source intermediate inputs and capital goods at competitive world prices, adopt foreign knowhow and technology and use them to sell to global markets.[51] All newly industrializing countries have pursued a strategy of "importing what the rest of the world knows and exporting what it wants".[52] Indeed, few countries have developed successfully by shunning international trade or long-term capital flows; very few have sustained growth without increasing their trade to output ratio, and there is no evidence that in the post-war period inward-looking economies have systematically developed faster than those that have been more open.[53]

This experience does not mean, however, that countries can ignite growth simply by dismantling trade and investment barriers. Some influential cross-national studies in the 1990s purported to show that rapidly opening up would automatically lead to high economic growth. But these were subsequently found to have significant methodological limitations.[54] In particular, growth cannot be sufficiently explained by average tariff and nontariff barriers.[55]

Actual development experiences from the South have demonstrated a more nuanced consensus.[56] In this view, successful and sustained progress is more likely to be the result of gradual and sequenced integration with the world economy, according to national circumstances, and accompanied by investment in people, institutions and infrastructure.[57] Country studies confirm that what is needed is a package that involves the interaction of reforms in trade, exchange rates, and fiscal, monetary and institutional policies.[58] A recent study finds that more decisive benefits come from trade liberalization embedded in broader reforms: in the post-liberalization period between 1950 and 1998, the countries that were considered to have implemented such policies posted growth rates that were 1.5 percentage points higher, investment rates that were 1.5–2 percentage points higher and trade to output ratios that were 5 percentage points higher.[59]

As countries develop, they tend to dismantle trade barriers and become more open.[60] HDRO analysis of the association between the change in trade openness and relative improvement in HDI value between 1990 and 2010 supports this conclusion (see box 2.1 in chapter 2). Not all countries that increased trade openness made big improvements in HDI value relative to their peers. But those that did make big improvements in HDI value typically increased their trade to output ratio or established a global network of trade links of substantial bilateral value. In a sample of 95 developing countries and transitional economies, the average increase in trade to output ratio of countries considered to be rapid improvers on the HDI between 1990 and 2012 was about 13 percentage points higher than that of more modest improvers.

As discussed in box 2.1 in chapter 2, almost all countries with substantial improvement in HDI value over the past two decades have also become more integrated with the world economy. Table 3.2 reconfirms this for a selected group of high human development–achieving countries discussed in this chapter, which have vigorously tapped opportunities presented by globalization by expanding their share of exports in world markets between 1990 and 2010. The only exception in this group is Mauritius, one of the first countries in the South to pursue an export-oriented development strategy, whose share in world exports peaked in 2001.[61] As the more populous countries deepen their integration with the world economy, they have accelerated their structural diversification in manufacturing and services and boosted agricultural productivity, helping lift hundreds of millions of people out of poverty in a few decades.

Gradual and sequenced integration

Rather than opening suddenly to world markets, some of the more successful countries have opened gradually, as the situation demanded.

- *China.* A rapid opening up in China would have shut down state enterprises without creating new industrial activities, so the state reformed gradually. To attract foreign direct investment (FDI), create jobs and promote exports, the state established special economic zones, often in less built-up areas.[62] At the same time, China increased the competencies of its workers and firms by requiring foreign firms to enter joint ventures, transfer technology or meet high requirements for domestic content. By the early 1990s, China was ready to expand its external interactions, building on investments in health and education during the 1960s and 1970s and on the newly acquired competencies of farmers and firms. Between 1993 and 1996, China was already the destination of more than 10% of worldwide FDI inflows.[63] Its trade to GDP ratio nearly doubled, from 21.7% in 1980 to about 42% in 1993–1994. By 2011, China had completed 10 years of membership in the World Trade Organization and overtaken Germany as the second-largest exporter of goods and services.[64]
- *India.* Domestic reforms began in India in the mid-1980s and expanded after the 1990–1991 external payments crisis. Before the reforms, India had import quotas and high tariffs on manufactured goods and banned imports of manufactured consumer products.[65] Early reforms focused on dismantling the systems of licences for industrial activity and ending restrictions on investment.[66] Quantitative restrictions on manufactured capital goods were ended in 1993. Tariffs on manufactured goods were reduced quickly from 76.3% in 1990 to 42.9% in 1992, but further cuts were spread over the next two decades to reach about 8% in 2009. Restrictions on manufactured consumer products were gradually lifted and phased out by 2001, 10 years after the reforms began.[67] In 2010, India's trade to output ratio was 46.3%, up from only 15.7% in 1990. FDI also reached a peak of 3.6% of GDP in 2008, up from less than 0.1% in 1990.[68]

TABLE 3.2

Share of world exports of goods and services of high achievers in human development, 1985–1990 and 2005–2010 (%)

Country	1985–1990	2000–2010
Bangladesh	0.042	0.089
Brazil	0.946	1.123
Chile	0.232	0.420
China	1.267	8.132
Ghana	0.029	0.041
India	0.519	1.609
Indonesia	0.624	0.803
Malaysia	0.685	1.197
Mauritius	0.038	0.027
Thailand	0.565	1.095
Tunisia	0.116	0.118
Turkey	0.449	0.852

Note: Values are averages for 1985–1990 and for 2005–2010.
Source: World Bank 2012a.

Building up industrial competencies for global markets

Several countries have built up industrial competencies under periods of import substitution that they have subsequently used to supply overseas markets.

- *Turkey.* Trade performance after the 1980s rested on production capacities built in the pre-1980 era of import-substituting industrialization in Turkey.[69] Between 1990 and 2010, its trade to GDP ratio rose from 32% to 48%, a substantial jump for a middle-income country with a large domestic market. In 2011, the top exports—automobiles, iron and steel, and household appliances and consumer electronics—were all from industries that had grown under trade protection.

Several countries have built up industrial competencies under periods of import substitution that they have subsequently used to supply overseas markets

Having weathered the Asian financial crisis in 1997, Indonesia today stands out for effectively managing its commodity exports

- *Republic of Korea.* When the Republic of Korea and some of the other East Asian economies went through a phase of moderate import substitution for consumer goods, they did not protect domestic producers of capital goods.[70] Even when they were ambivalent about FDI in the 1980s, they chose to import technology under licensing agreements and to develop links with multinational firms. The goal was to build indigenous capabilities for the long haul by borrowing and assimilating foreign technologies.
- *Thailand.* Thailand's manufacturing prowess continues to strengthen through the country's participation in international production networks. In 2009–2010, its exports of parts and components—notably in the automotive and electronics industries—were valued at $48 billion, a quarter of its merchandise exports. The government is keen to establish Thailand as the "Detroit of Asia", not only a cluster for logistics, but also a high-tech hub that forges research collaboration among firms, universities and the public sector.[71]
- *Malaysia.* Malaysia's pre-eminence in the electronics industry began in the early days of the international division of labour, with its courting of multinational companies from countries in the North. Free trade zones, established primarily for manufacturing electronic goods,[72] helped the country develop rapidly between the 1970s and the 1990s. Today, however, Malaysia's economy is seen to be in a "middle-income trap", no longer able to compete with low-cost production in neighbouring countries and lacking the skills for high-end tasks in global production networks.[73] The government's own advisory council is concerned that a slowdown in FDI inflows could affect the prospects for graduating to high-income status.[74] Malaysia's good record in secondary education does not seem to have produced a strong enough base for an innovation-driven economy: Malaysia's future progress is hampered by inadequate research and development capacity and a lack of design and process engineers and technical and production workers.[75]
- *Indonesia.* In the 1990s, to avoid the high costs associated with aspects of protection, Indonesia and some other East Asian countries established export processing zones, bonded warehouses and duty drawback systems—all requiring a competent bureaucracy. When countries felt they lacked that capacity, they resorted to unconventional approaches. For a period Indonesia even privatized its customs administration.[76] Having weathered the Asian financial crisis in 1997, Indonesia today stands out for effectively managing its commodity exports.[77]

Piggybacking on niche products

One option for smaller economies is to tap into world markets for niche products. The choice of successful products is not accidental; it is often the result of years of state support and facilitation that build on existing competencies or the creation of new ones.

- *Chile.* With active support from the state, Chilean firms have had major success in expanding exports of processed agricultural food and beverages and forestry and fish products. For example, in the 1960s, there was substantial public research and development in the cultivation of grapes for wine production. There has also been a long history of subsidized plantations in forestry, and the state has made major efforts to turn the wood, pulp and paper, and furniture cluster into a major export industry.[78] Similar support from a nonprofit corporation, Fundación Chile, has helped make the country's commercial salmon cultivation one of the most prolific in the world.[79]
- *Bangladesh.* Bangladesh took advantage of market distortions in world apparel trade.[80] But without the initiative of its entrepreneurs, it could easily have squandered the opportunity. In 1978, the Desh Company signed a five-year collaboration agreement with Daewoo, a Korean company, that connected Bangladesh to international standards and a network of apparel buyers. Daewoo trained Desh employees in production and marketing in the Republic of Korea. Within a year, 115 of the 130 trainees had left Desh to start their own garment export firms.[81] By 2010, Bangladesh's share of world apparel

exports had increased to about 4.8%, from about 0.8% in 1990.[82]

- *Mauritius.* With limited arable land, an expanding population and overreliance on one commodity (sugar), Mauritius had to seek a larger, overseas market. Asian garment exporters, constrained by quotas, were attracted to the country. Until the 1990s, Mauritius was one of the most protected economies, but it provided duty-free access to imported inputs, tax incentives and flexible labour market conditions, including supporting the entry of women into labour-intensive jobs in the export processing zones.[83]
- *Ghana.* Cocoa has been at the heart of Ghana's economy for decades. In the 1970s and early 1980s, however, the sector faced near-collapse. Ghana restored its international competitiveness with reforms begun in 1983, especially by devaluing the currency, increasing the capacity of the private sector in procurement and marketing, and giving farmers a much higher share of prices received. Between 1983 and 2006, the country doubled its production of cocoa per hectare, and today the sector supports the livelihoods of 700,000 people.[84] Over the past 10 years, Ghana has also diversified into services, with the telecom sector growing fast and augmenting the capacity of farmers to connect to sources of market information. A recent survey found that around 61% of cocoa farmers owned mobile phones.[85]

A common thread that runs through the economies that have had meaningful engagement with the world is their investment in people. Tariff reform, at home or in partner countries, may provide an unexpected opening into export markets; some countries may enjoy resource windfalls or ride a wave of short-term success by mimicking others. However, the lesson is that development cannot be sustained without adequate investment in people's skills to constantly upgrade the quality of products and production techniques. The countries discussed here began from diverse initial conditions and have become adept at tailoring nurtured domestic strengths to reap external opportunities presented by world markets.

Driver 3: determined social policy innovation

Evidence shows that substantial public investment—effectively deployed not just in infrastructure, but also in health and education—is key to achieving and sustaining human development. Development strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. Indeed, there is strong multicountry evidence that promoting higher human development levels helps accelerate economic growth.[86]

Development strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth

A good test of a government's commitment to equality of opportunity is its determination to provide education, particularly to girls. Countries that have sustained high long-term growth have generally put considerable effort into educating their citizens and deepening human capital.[87] Investing in education is important for improving cognitive skills, as measured by the performance of students on mathematics and science tests.[88] However, the benefits derive from investment not so much in the production of specialist skills but in "education for all".[89] Similarly, improvements in public health help growth by boosting labour productivity.[90]

Growth accompanied by high or rising inequality generally involves slower advances in human development, poor social cohesion and slow reduction in poverty. Moreover, it is usually considered unsustainable.[91] Thus the aim should be to create virtuous cycles in which growth and social policies reinforce each other. Growth has frequently been much more effective at reducing poverty in countries with low income inequality than in countries with high income inequality. Growth is also less effective in reducing poverty when the distribution of income worsens over time.[92]

The exceptions seem to be China and Brazil. Over the last 30 years, as a result of very high rates of growth, China has reduced poverty despite increasing income inequality. Similarly, in the early 2000s, Brazil used targeted policies to reduce poverty despite high income inequality—though income distribution became more equal over this period.

Promoting equality—especially equality across groups, known as horizontal equality—also helps reduce social conflict. The sharpest contractions in growth after 1975 occurred in countries with divided societies (as measured by indicators of inequality and ethnic fragmentation). They also suffered from weak institutions for conflict management, with poor quality government institutions that had less capacity to ensure the rule of law, democratic rights and social safety nets.[93]

Education, health care, social protections, legal empowerment and social organization all enable poor people to participate in growth. But even these basic policy instruments may not empower disenfranchised groups. Poor people on the fringes of society struggle to voice their concerns, and governments do not always evaluate whether services intended to reach everyone actually do.[94] Often, problems are exacerbated by external shocks, but in many cases policies are implemented where local institutional capacity and community involvement are low.

- *Uganda.* In post-conflict Uganda, a series of macroeconomic reforms, from the loosening of price control and exchange rates to changes in state-owned enterprises and the civil service, paved the way for a wide-ranging poverty reduction plan in 1997. Uganda went on to become one of the few Sub-Saharan African countries to have halved extreme poverty before the Millennium Development Goal deadline of 2015, from 56.4% in 1992–1993 to 24.5% in 2009–2010. However, increasing income inequality has slowed the pace of poverty reduction.[95] On balance, the economic success of these efforts show that programmes are more effective when the national leadership is committed to reducing poverty, notably by enhancing the consistency of goals and approaches across government agencies.[96] In turn, such progress can have a profound influence on the legitimacy of leaders and their governments.

Providing public services that contribute to a healthy, educated labour force helps build national stability, reducing the likelihood of political unrest and strengthening the legitimacy of governments

Promoting inclusion

All countries have, to a greater or lesser extent, multireligious, multicultural, pluralistic societies, and different groups generally have different levels of human development. Even in advanced countries, there is persistent discrimination against certain ethnic groups in labour markets.[97] Nonmarket discrimination can be equally severe and destabilizing. Moreover, historical discrimination has long-lasting effects. Ensuring nondiscrimination and equal treatment, including providing special programmes for disadvantaged groups, is becoming increasingly critical for political and social stability.

In the South, too, different levels of achievement often have historical or colonial origins—for instance, in India, between upper and lower castes, and in Malaysia, among Bumiputras (Malays), Chinese and Indians. Economic prosperity alone cannot end group discrimination that leads to horizontal inequality. To bridge inequalities and correct historical disadvantages, both India and Malaysia have adopted deliberate policy interventions, such as affirmative action.

Providing basic social services

States can underpin long-term economic growth by providing public services that contribute to a healthy, educated labour force. Such measures also help build national stability, reducing the likelihood of political unrest and strengthening the legitimacy of governments.

Developing countries sometimes receive policy advice urging them to view public expenditures on basic services as luxuries they cannot afford. Over the long term, however, these investments pay off. Although not all services need be publicly provided, a minimum universal level of basic health, education and social security needs to be established to ensure that all citizens have secure access to the basic requirements of human development, whether from public or private providers. Compulsory public primary and secondary education has contributed decisively to human development in Europe and in some developing countries, such as Costa Rica.

Access to high-quality education

Growth in HDI value is associated with growth in public spending on education. On average, countries with higher government expenditures on health and education have experienced high growth in human development, although local variations may remain.

- *Indonesia.* During Indonesia's economic boom years (from 1973 onwards), the government funded the construction of schools for basic education through development programmes, and in the following decade public expenditure on education more than doubled.
- *India.* Following the constitutional amendment to make education a fundamental right for every child, India has taken progressive steps towards ending discrimination in its school system (box 3.6).
- *Ghana.* One of the earliest initiatives in independent Ghana was the 1951 Accelerated Development Plan for Education, which aimed at a massive expansion of primary and middle school education. The 1961 Education Act removed fees for elementary education so that households had to pay only a modest amount for textbooks. Enrolment in public elementary schools doubled over the next six years. Between 1966 and 1970, the public discourse on education moved from access to quality. In the early 1970s, the focus came back to access, this time for secondary education. The next major round of reforms took place in 1987. The most significant aspect of the curriculum reform was to provide children with literacy in three languages—two Ghanaian languages and English—as well as modern farming skills, vocational skills and practical mathematics skills.
- *Mauritius.* The government of Mauritius developed a national consensus on providing high-quality primary, secondary and tertiary schooling free of charge.
- *Bangladesh.* The Ministry of Primary and Mass Education was established in 1992 with the goal of universalizing primary education and eliminating gender and poverty gaps in primary education in Bangladesh. Demand-side interventions, such as the Female Secondary School Assistance Program and the Food for Education programme, broadened coverage, particularly for girls.
- *China.* In 1986, China's National People's Congress passed a law proclaiming the compulsory provision of nine-year basic education regardless of gender, ethnicity or race. From 1990 to 2000, the average years

BOX 3.6

India's Supreme Court issues a progressive verdict mandating seats for disadvantaged children in private schools

Most schools in developing countries are government run, but demand for private schools is expanding in response to the failures of public schools: bad infrastructure, overcrowded classrooms, poor access, teacher shortages and absenteeism. Parents with enough money send their children to private schools, creating a society in many countries divided between public and private school students.

India has made education free and compulsory for children ages 6–14. The vast majority of children are enrolled in government schools, especially in rural areas. But most children from elite households—the rich, the political class, government employees and the growing middle class—are sent to private schools. In many instances, boys are sent to private schools, and girls to free government schools.

To reduce these trends towards segregation, India passed the Right of Children to Free and Compulsory Education Act in 2009. It requires private schools to admit at least 25% of students from socially disadvantaged and low-income households. In turn, private schools are reimbursed for either their tuition charge or the expenditure per student in government schools, whichever is lower. The act was based on the following rationales: schools must be sites for social integration, private schools do not exist independently of the state that provides them land and other amenities, the social obligation of private schools cannot be waived by contending that only children whose parents pay their fees have a right to be in these schools and the requirement to admit at least 25% of students from disadvantaged groups is fair given that these groups constitute around 25% of the population.

In a landmark judgement on 12 April 2012, the Supreme Court of India upheld the constitutional validity of the act, making two points in support of its decision. First, since the act obligates the state to provide free and compulsory education to all children ages 6–14, the state has the freedom to decide whether it shall fulfil its obligation through its own schools, aided schools or unaided schools. The 2009 act is "child-centric" and not "institution-centric". Second, the right to education "envisages a reciprocal agreement between the state and the parents, and it places an affirmative burden on all stakeholders in our civil society." Private, unaided schools supplement the primary obligation of the state to provide free and compulsory education to the specified category of students.

Source: Government of India 2009; Supreme Court of India 2012.

of schooling for people ages 15 and older in rural areas rose from 4.7 years to 6.8.

- *Uganda.* School fees for primary education were abolished in Uganda in 1997 with the aim of universalizing primary education. Initially this strained the education infrastructure.[98] To improve quality, the Ministry of Education emphasized five areas: curriculum development, basic learning materials, teacher training, language of instruction and quality standards. The early drops in quality and completion rates have since been reversed, and the gains have been solidified and extended.
- *Brazil.* State-led investments in education have dramatically improved development outcomes in Brazil. The transformation of education started with the equalization of funding across regions, states and municipalities. The national Development Fund for Primary Education, created in 1996, guaranteed national minimum spending per student in primary education, increasing the resources for primary students in the Northeast, North and Centre West states, particularly in municipally run schools. Funding "followed the student", providing a significant incentive for school systems to expand enrolment. Similarly, states were required to share resources across municipalities so that all state and municipal schools could reach the per student spending threshold. As a result of this investment, Brazil's math scores on the Programme for International Student Assessment rose 52 points between 2000 and 2009, the third-largest leap on record.

Access to high-quality health care

Advancing health requires more than high-quality health services. Many countries are discovering that they need simultaneous interventions on multiple fronts

Advancing health requires more than high-quality health services. Previous *Human Development Reports* have shown that human poverty is multidimensional. Many countries are discovering that they need simultaneous interventions on multiple fronts. Algeria, Morocco and Tunisia, for example, have seen striking gains in life expectancy in the last 40 years. Possible explanations include improvements in health and drug technology, widespread vaccinations, information technology advances, better access to improved water and sanitation, increased energy provision, and public and private investments in health.

- *Bangladesh.* To improve child survival rates, Bangladesh has taken a multisectoral approach: expanding education and employment opportunities for women; improving women's social status; increasing political participation, social mobilization and community participation; disseminating public health knowledge; and providing effective, community-based essential health services (box 3.7).

Health service provision has been heavily skewed towards the better-off, who have been more likely to have good access to the public services and pay for private ones. Those with greatest access to health care have been workers in the formal sector, who have partly financed their needs with annual contributions. Workers in the informal sector are more difficult to provide for. In India, for example, there are no clearly identified regular employers who can contribute on behalf of the estimated 93% of the workforce in the informal sector.[99]

Everyone should be entitled to the same quality of health care, and several countries have attempted to provide and finance universal health coverage. Some have done so through public health services targeted to the poor. This is neither desirable nor efficient, generally resulting in a health care system in which poor people receive inferior quality services, often in public facilities, while the nonpoor get better health care services from the private sector. Health services targeted to the poor generally remain underfunded partly because the more powerful people who are not poor have no stake in making the system better. Also, special insurance schemes for the poor miss the advantages of pooling risks across the whole population and are thus likely to become financially unviable, often diverting resources from preventive and primary care to more-expensive tertiary care.

Governments also attempt to finance health care through user fees. However, there is near unanimous consensus now that such fees have adverse consequences, especially for the poor. They discourage the poor from using services and generally mobilize little in terms of resources.[100]

BOX 3.7

Bangladesh makes dramatic advances in child survival

In 1990, the infant mortality rate in Bangladesh, 97 deaths per 1,000 live births, was 16% higher than India's 81. By 2004, the situation was reversed, with Bangladesh's infant mortality rate (38) 21% lower than India's (48). Three main factors seem to explain the dramatic improvements.

First, economic empowerment of women through employment in the garment industry and access to microcredit transformed their situation. The vast majority of women in the garment industry are migrants from rural areas. This unprecedented employment opportunity for young women has narrowed gender gaps in employment and income. The spread of microcredit has also aided women's empowerment. Grameen Bank alone has disbursed $8.74 billion to 8 million borrowers, 95% of them women. According to recent estimates, these small loans have enabled more than half of borrowers' households to cross the poverty line, and new economic opportunities have opened up as a result of easier access to microcredit. Postponed marriage and motherhood are direct consequences of women's empowerment, as are the effects on child survival.

Second, social and political empowerment of women has occurred through regular meetings of women's groups organized by nongovernmental organizations. For example, the Grameen system has familiarized borrowers with election processes, since members participate in annual elections for chairperson and secretaries, centre-chiefs and deputy centre-chiefs, as well as board member elections every three years. This experience has prepared many women to run for public office. Women have also been socially empowered through participation in the banks. A recent analysis suggests much better knowledge about health among participants in credit forums than among nonparticipants.

Third, the higher participation of girls in formal education has been enhanced by nongovernmental organizations. Informal schools run by the nongovernmental organization BRAC offer four years of accelerated primary schooling to adolescents who have never attended school, and the schools have retention rates over 94%. After graduation, students can join the formal schooling system, which most do. Monthly reproductive health sessions are integrated into the regular school curriculum and include such topics as adolescence, reproduction and menstruation, marriage and pregnancy, family planning and contraception, smoking and substance abuse, and gender issues. Today, girls' enrolment in schools exceeds that of boys (15 years ago, only 40% of school attendees were girls).

Women's empowerment has gone hand-in-hand with substantial improvements in health services and promotion. With injectable contraceptives, contraceptive use has surged. Nearly 53% of women ages 15–40 now use contraceptives, often through services provided by community outreach workers. BRAC also provided community-based instruction to more than 13 million women about rehydration for children suffering from diarrhoea. Today Bangladesh has the world's highest rate of oral rehydration use, and diarrhoea no longer figures as a major killer of children. Almost 95% of children in Bangladesh are fully immunized against tuberculosis, compared with only 73% in India. Even adult tuberculosis cases fare better in Bangladesh, with BRAC-sponsored community volunteers treating more than 90% of cases, while India struggles to reach 70% through the formal health system.

Source: BRAC n.d.; Grameen Bank n.d.; World Bank 2012a.

The lesson from global experience is that the main source of financing for universal health care should be taxation. Most countries in Southeast Asia, for example, have embraced the idea. Governments have sought to reduce private out-of-pocket spending, increase pooled health finance and improve the reach and quality of health services, although coverage varies.[101] Identifying and reaching poor people remain challenges, and resource-poor developing countries such as Lao PDR and Viet Nam have relied heavily on donor-supported health equity funds.

- *Thailand*. Thailand's 2002 National Health Security Act stipulated that every citizen should have comprehensive medical care. By 2009, 76% of the population, about 48 million people, were registered in the Universal Health Coverage Scheme, which provides free inpatient and outpatient treatment, maternity care, dental care and emergency care. The scheme is fully financed by the government, with a budget in 2011 of $34 million—$70 for each insured person—which accounts for 5.9% of the national budget.[102]
- *Mexico*. In 2003, the Mexican state approved Seguro Popular, a public insurance scheme that provides access to comprehensive health care for poor households formerly excluded from traditional social security. Public resources for health have increased and are being distributed more fairly. Access to and use of health care services have expanded. Financial protection indicators have improved. By the end of 2007, 20 million poor people were benefiting from the scheme.[103] Mexico is a leader in moving rapidly towards universal health coverage by adopting an innovative financing mechanism.
- *Rwanda*. Access to health services has been expanded in Rwanda by introducing community-based health insurance. Health

care providers were given incentives by linking resources to performance. As a result, health care became more affordable in rural areas. And there were visible improvements in health outcomes. Under-five mortality fell from 196 deaths per 1,000 live births in 2000 to 103 in 2007, and the maternal mortality ratio declined more than 12% a year over 2000–2008. Rwanda is on track to reach the Millennium Development Goal for maternal health.

One concern in a number of countries is the emergence of dual-track services. Even if public provision is universal in principle, quality and access may be poor, driving people towards expensive private providers.

- *China.* Much of China's health care success took place between 1950 and 1980, when the government established a three-level system of village clinics, township health centres and county hospitals in rural areas and health centres and district hospitals in urban areas. Since the 1980s, however, the health sector has been driven by a fee-for-service model. As a result, while China's overall health status has continued to improve, disparities have grown between the eastern and western provinces and between rural and urban areas. In many parts of the country quality health care has become unaffordable for the poor.
- *Chile.* Before 1980, Chile's health system was publicly financed through social security and public funds. After health reform in 1981, however, risk insurance was introduced, and market mechanisms began to regulate levels of protection. By 2006, a dual system of coverage was in place. The National Health Care Fund, funded by federal government tax revenues and by premiums from beneficiaries, covered 69% of the population, but its resource constraints have prevented it from ensuring timely and quality services. Private health insurance companies covered 17% of the population. The National Health Care Fund offers a universal health plan. This dual system has been criticized because it leaves low-income and high-risk populations to be treated mainly in the public system, which is poorly resourced and thus tends to provide lower quality service. In 2004, aware of the risks, the state introduced El Plan de Acceso Universal de Garantías Explícitas, which guarantees a medical benefits package consisting of a prioritized list of diagnoses and treatment for 56 health conditions, as well as universal coverage for all citizens.

Universal public health and education policies can be designed and implemented without sacrificing quality for the sake of greater coverage

Providing universal health care and at least nine years of compulsory education requires strong state commitment, involvement and consistency over time. The challenge for countries in the South is to ensure equity in access to health and education services and basic quality standards to prevent a dual-track service industry that provides low-quality public services (or none at all) to the poor and higher quality private services to the rich.

Universal public health and education policies can be designed and implemented without sacrificing quality for the sake of greater coverage. Poor people have no alternatives to a public system, while wealthier people can pay for private services. Such dynamics entrench inequalities, reduce social integration and undermine sustainable human development. New programmes, such as those in China, Mexico and Thailand, illustrate the possibilities of ensuring that basic services are universal and of reasonable quality. When financial resources are adequately provided, publicly provided services need not be inferior to private services.

Increasing social cohesion by broadening development

Transforming development requires that all citizens feel vested in the broader goals of society, showing respect and compassion for others and a commitment to building social cohesion. This requires that states and citizens understand that human development is about more than just enhancing individual capabilities. Individual capabilities are embedded in a broader social system whose health requires enhanced social competencies (see box 1.7 in chapter 1).

More effective social protection systems are also needed to help individuals and communities manage risks to their welfare. Globalization has contributed to the dismantling of some aspects of social protection and social insurance, especially for systems relying on universal coverage and large government expenditures. At the same time, it has increased the need for social protection, as fluctuations in economic activity become more frequent. Thus, social policies become as important as economic policies in advancing human development. In fact, social and economic policies can hardly be disentangled because their goals and instruments are analogous.[104]

In many parts of the South, states have introduced and provided social protection programmes to integrate poor people into the new economy. Cash transfer programmes have been particularly important in reducing poverty and improving income inequality through redistribution. But transfers cannot substitute for public provision of essential goods and services (box 3.8). At best, they can supplement resources of the poor. Offering cash so that households can buy health care of their choice is unlikely to work where high-quality health care is in short supply. Similarly, giving cash to households so that they can choose their school is unlikely to help the poor if few schools offer high-quality education. Nor can cash transfers substitute for incomes earned through decent work.

- *India.* India's National Rural Employment Guarantee Scheme provides up to 100 days of unskilled manual labour to eligible rural poor at the statutory minimum agricultural labour wage. This initiative is promising because it provides access to income and some insurance for the poor against the vagaries of seasonal work and affords individuals the self-respect and empowerment associated with work.[105] In addition, it aims to help build economies in rural areas by developing infrastructure. The scheme has innovative design features such as social audits and advanced monitoring and information systems.

Cash transfer programmes—important in reducing poverty and improving income inequality—cannot substitute for public provision of essential goods and services

BOX 3.8

Cevdet Yılmaz, Minister of Development, Turkey

Strengthening social protection in Turkey

As recently as 2002, an estimated 30% of Turkey's people lived below the government's poverty threshold of $4.30 a day. Government spending on social protection accounted for just 12% of GDP, less than half the EU average of 25%. And expenditures on social assistance for the poor accounted for only 0.5% of GDP, prompting criticism that Turkey's social support systems were both fragmented and insufficient.

Over the past decade, however, Turkey's strong economic performance, pro-poor approach to social policies and targeted assistance with greater resources have helped accelerate poverty reduction. Key policy changes include systematic strengthening of social assistance programmes, conditional cash transfers, social security reforms and an ambitious transformation of the national public health system. Under the conditional cash transfer programme alone, launched in 2003, more than 1 million children have received health care support, and about 2.2 million have benefited from education aid. School children have received more than 1.3 billion textbooks since 2003 under a new free schoolbook programme, and nearly 1 million now get free transportation to school.

As a result of these and other initiatives, the share of the population living on less than $4.30 a day fell sharply, to 3.7% in 2010, and the share of GDP devoted to poverty assistance and related social services nearly tripled, to 1.2%.

The share of social expenditures in Turkey's GDP is still less than the EU average, and social assistance schemes have not yet had the desired impact on poverty rates. To increase their effectiveness, the government is working on new methods of poverty measurement and social protection, new approaches to in-kind and cash assistance, stronger links to job opportunities and continuing consultations with targeted communities and households.

Similarly, the expansion and modernization of health services have had a direct, measurable impact on public health. Health insurance is now available to the entire population. Under the Health Transformation Programme launched in 2003, family practitioners were assigned to families to strengthen basic health services, with primary and emergency health care provided free of charge. The results have been swift and encouraging. For the first time, almost all children are getting free regular vaccinations. Seven million schoolchildren get free milk every day. Iron and vitamin D supplements are provided without charge to mothers and children. Infant mortality rates have fallen sharply, to 10 per 1,000 live births in 2010, down from 29 in 2003, according to government figures. This two-thirds drop greatly exceeds the reduction targeted under the Millennium Development Goals.

Pro-child policies go beyond health care and education, to broader assistance for their home communities. The government started a new Social Support Program in 2008 to develop social cohesion and ensure social integration, particularly in the less-developed eastern regions of the country. Its projects aim to increase participation in national economic and social life by disadvantaged people marginalized by poverty and social exclusion. The goals of the programme's several thousand projects to date go beyond job creation in these lower income regions to include support for young people and women to express themselves through cultural, artistic and athletic accomplishments.

More important, though, is what these improvements already mean to the lives of ordinary Turkish families. Throughout the country, parents and children alike can now look forward to healthier, more secure, more fulfilling lives—the underlying goal and core principle of human development.

- *China*. The Minimum Livelihood Guarantee Scheme is the Chinese government's main response to the new challenges of social protection brought about by increasing privatization and engagement with the global market. It guarantees a minimum income in urban areas by filling the gap between actual income and a locally set poverty line. So, despite increasing income inequality in China, there is potential for redistributive policies to reduce poverty and enhance food security. In addition, extending equal rights to migrants in cities can have a decisive impact on their ability to access comparable social services.
- *Brazil*. Despite slower economic growth than in China and India, Brazil has reduced inequality by introducing a poverty reduction programme, extending education and raising the minimum wage. Its conditional cash transfer programme Bolsa Escola, launched in 2001, followed the conceptual foundation of others in Latin America, such as Mexico's Progresa (now called Oportunidades; box 3.9). In 2003 Bolsa Escola was expanded to Bolsa Familia by folding several other cash and in-kind transfer programmes into a unified targeting system under streamlined administration. By 2009, Bolsa Familia covered more than 12 million households across the country, or 97.3% of the target population. These programmes have also broken ground in terms of programme administration and female empowerment by developing innovative distribution channels, such as ATM cards for low-income mothers without bank accounts. The result has been substantial declines in poverty and extreme poverty and reduced inequality.[106]
- *Chile*. In response to findings that state subsidies were not reaching the extreme poor, Chile Solidario was launched in 2002 to reach the extreme poor with a combination of aid and skill development. Focusing on household assistance, it takes the view that extreme poverty is multidimensional, extending beyond low income to include other deprivations in basic capabilities such as health and education. Furthermore, poverty reduction requires the mitigation of vulnerability to common events, such as sickness, accidents and unemployment. Together with other social policies, the programme has increased

BOX 3.9

Conditional cash transfer programmes and Mexico's Oportunidades

Conditional cash transfer programmes are designed to increase beneficiaries' incomes and their access to health and education by making transfers conditional on requirements such as visits to health clinics and school attendance. They target certain beneficiaries (typically individuals from low-income or disadvantaged households) and provide support in cash instead of as in-kind benefits, with the transfers conditional on activities related to health and education. Moreover, the programmes can be designed to allow rigorous impact evaluation. For instance, the Tekopora programme in Paraguay has been shown to have positive impacts on nutrition, health, education and poverty reduction without having negative impacts on labour supply.

Mexico's Oportunidades is a conditional cash transfer programme targeted to poor households conditional on children's school attendance and medical checkups and parents' attendance at community meetings where information is provided on personal health and hygiene. The programme is designed to break the intergenerational transmission of poverty. Originally called Progresa, it aims to alleviate current and future poverty by giving parents financial incentives (cash) to invest in the health and education of their children. The programme, which started in 1997, is one of the largest conditional cash transfer programmes in the world, distributing about $3 billion to some 5 million beneficiary households in 2012.

Oportunidades transfers, given bimonthly to female heads of household, have two parts. The first, received by all beneficiary households, is a fixed food stipend, conditional on family members obtaining preventive medical care, and is intended to help families spend on more and better nutrition. The second comes in the form of education scholarships and is conditional on children attending school a minimum of 85% of the time and not repeating a grade more than twice. The education stipend provided for each child under age 18 enrolled in school between the third grade of primary school and the third (last) grade of junior high varies by grade and gender. It rises substantially after graduation from primary school and is higher for girls than for boys during secondary and tertiary school. Beneficiary children also receive money for school supplies once a year.

Conditional cash transfer programmes cost less than traditional in-kind social assistance interventions. Brazil's Bolsa Familia and Mexico's Oportunidades, the two largest programmes in Latin America, cost less than 1% of GDP. In some cases they have been perceived as tools to provide access to universal basic rights such as health and education, but in others they have led to the exclusion of some localities due to the inadequate supply of services.

Source: Hailu and Veras Soares 2008; Ribas, Veras Soares and Hirata 2008.

the take-up of health and education services during boom times, while playing a countercyclical role in economic downturns by providing a much needed safety net to the poor.

The rising South is thus developing a broader social and poverty reduction agenda in which policies to address inequalities, institutional failures, social barriers and personal vulnerabilities are as central as promoting economic growth. This follows from an increased understanding that social challenges extend beyond income poverty; they also include lack of access to education, poor health, social inequality and limited social integration (box 3.10).

* * *

An agenda for development transformation that promotes human development is multifaceted. It expands people's assets by universalizing access to basic social services; extending credit to the population, especially the poor; protecting common resources; and introducing land reform where relevant. It improves the functioning of state and social institutions to promote equitable growth where the benefits are widespread. It prioritizes rapid growth in employment and works to ensure that jobs are of high quality. It reduces bureaucratic and social constraints on economic action and social mobility. It holds leadership accountable. It involves communities in setting budget priorities and disseminating information. And it focuses on social priorities.

Many countries of the South have demonstrated what can be achieved through a developmental state. But even in higher achieving countries, continuing success is not guaranteed. Countries across the world are facing a series of challenges, from rising inequality to spreading environmental degradation. The next chapter addresses these threats and considers what is needed to sustain future progress in human development.

A broader social and poverty reduction agenda is needed in which policies to address inequalities, institutional failures, social barriers and personal vulnerabilities are as central as promoting economic growth

BOX 3.10

Michael Bloomberg, Mayor, New York City

Why New York City looked South for antipoverty policy advice

In New York City, we are working to better the lives of our residents in many ways. We continue to improve the quality of education in our schools. We have improved New Yorkers' health by reducing smoking and obesity. And we have enhanced the city's landscape by adding bike lanes and planting hundreds of thousands of trees.

We have also sought to reduce poverty by finding new and better ways to build self-sufficiency and prepare our young people for bright futures. To lead this effort, we established the Center for Economic Opportunity. Its mission is to identify strategies to help break the cycle of poverty through innovative education, health and employment initiatives.

Over the last six years, the centre has launched more than 50 pilot programmes in partnership with city agencies and hundreds of community-based organizations. It has developed a customized evaluation strategy for each of these pilots, monitoring their performance, comparing outcomes and determining which strategies are most successful at reducing poverty and expanding opportunity. Successful programmes are sustained with new public and private funds. Unsuccessful programmes are discontinued, and resources reinvested in new strategies. The centre's findings are then shared across government agencies, with policymakers, with nonprofit partners and private donors and with colleagues across the country and around the world who are also seeking new ways to break the cycle of poverty.

New York is fortunate to have some of the world's brightest minds working in our businesses and universities, but we recognize there is much to learn from programmes developed elsewhere. That is why the centre began its work by conducting a national and international survey of promising antipoverty strategies.

In 2007, the centre launched Opportunity NYC: Family Rewards, the first conditional cash transfer programme in the United States. Based on similar programmes operating in more than 20 other countries, Family Rewards reduces poverty by providing households with incentives for preventive health care, education and job training. In designing Family Rewards, we drew on lessons from Brazil, Mexico and dozens of other countries. By the end of our three-year pilot, we had learned which programme elements worked in New York City and which did not; information that is now helpful to a new generation of programmes worldwide.

Before we launched Opportunity NYC: Family Rewards, I visited Toluca, Mexico, for a firsthand look at Mexico's successful federal conditional cash transfer programme, Oportunidades. We also participated in a North–South learning exchange hosted by the United Nations. We worked with the Rockefeller Foundation, the World Bank, the Organization of American States and other institutions and international policymakers to exchange experiences on conditional cash transfer programmes in Latin America, as well as in Indonesia, South Africa and Turkey.

Our international learning exchanges are not limited to these cash transfer initiatives; they also include innovative approaches to urban transportation, new education initiatives and other programmes.

No one has a monopoly on good ideas, which is why New York will continue to learn from the best practices of other cities and countries. And as we adapt and evaluate new programmes in our own city, we remain committed to returning the favour and making a lasting difference in communities around the world.