FOCUS ON POVERTY
A WORLD BANK PUBLICATION
The Task Force on the World Bank's Poverty Focus included Leif Christoffersen, Anthony Churchill, Aklilu Habte, Mahbub ul Haq, Basil Kavalsky, Herman van der Tak, E. Bevan Waide, and Hollis Chenery, chairman. The report was largely drafted by Norman Hicks, Michael Lipton, and Alexander Shakow, with valuable assistance from many others throughout The World Bank.
Contents

Foreword by A. W. Clausen v

1. Origins of the Poverty Focus 1
   Changes in Development Thinking 1
   Change of Emphasis within the Bank 4

2. Lessons of the 1970s 9
   Agriculture and Rural Development 10
   Urban Poverty Projects 16
   Other Sectors 19
   Bank Style and Project Design 25
   Macroeconomic Policy Dialogue 27

3. Implications for Bank Action 31
   Concerns of the 1980s 31
   Conclusions 33

Notes 36
A key and central aim of the World Bank is the alleviation of poverty. The Bank's objective in any developing country is to assist the country both to accelerate its economic growth and to reduce its level of domestic poverty by increasing the productivity of its poor.

Over the past year the Bank has reviewed its efforts to assist developing countries in undertaking practical and effective measures to alleviate poverty. A task force of senior Bank staff was established to examine the continuing relevance of the antipoverty objective, the Bank's experience in pursuing that objective, and the changes and improvements in the Bank's policies that may be necessary. This report presents the findings and recommendations of the task force as endorsed both by the Bank's management and its Board of Executive Directors representing member countries.

One of the report's principal conclusions is that efficient growth and the alleviation of poverty are complementary objectives. In general, countries that have placed special emphasis on reducing poverty have not sacrificed growth. Experience demonstrates that development strategies that bypass a large segment of a society are not the most effective means to raise a nation's standard of living.

Although there have been mistakes and failures, the Bank's own efforts to alleviate poverty have had many successes. Much has been learned from this experience. Bank projects
specifically designed to increase the productivity of the poor have achieved rates of return as high as other projects and have resulted in broad benefits to large numbers of poor people. The Bank has pioneered many innovative techniques for reaching the poor, but many difficult problems remain. The Bank has also introduced concern about poverty into its country economic work and its policy dialogue with member governments. Where this has occurred the result has been beneficial. The report recommends that the Bank give greater attention in its macroeconomic and sectoral policy analysis to measures that can increase the productivity and incomes of the poor.

The report comes at a time when the Bank’s member countries face such immediate problems as large debt repayments, high energy costs, and the necessity of undertaking difficult structural adjustments in their economies. These are urgent priorities, and, understandably, there is a temptation to put aside longer-term objectives such as the reduction of poverty, especially given the scarcity of external financing. But that is a temptation we must all firmly resist. Necessary short-term adjustments should not distort longer-term development programs that pursue both growth and the alleviation of poverty. Quick-fix relief through disproportionate cutbacks—in, for example, education or rural development—may well have lasting negative consequences for the entire economy.

In short, careful analysis indicates that a balanced strategy of pursuing faster economic growth combined with pragmatic measures to reduce poverty is the most effective framework for development in the 1980s. The Bank will continue to commit its intellectual, technical, and financial resources in pursuit of these twin development objectives.

A. W. CLAUSEN
President
The World Bank

December 28, 1982
ORIGINS
OF THE
POVERTY FOCUS

Thinking about development has changed gradually over the past several decades. Experience has taught us to appreciate more fully the complexity of the development process and to pay more attention to the question of who benefits from growth. In the 1950s and 1960s, most analysts focused on the need to accelerate economic growth in poor countries. They presumed that poverty would then be reduced. Growth was to be achieved—and poverty eliminated—by more and better investment, the amount increased by domestic and foreign savings, and the quality improved by technical assistance and education.

CHANGES IN DEVELOPMENT THINKING

By the late 1960s, it was clear that economic growth alone would not reduce poverty at an acceptable rate, and so the complementary objectives of expanding employment and raising the productivity of the poor were added to the development agenda. At first, emphasis was laid on increasing employment by removing price distortions that tended to promote capital-intensive and inefficient development. Importance was also given to limiting population growth. It was soon recognized, however, that the problem was not mainly one of unemployment as such. The poor and uneducated often worked long hours, but because they were not very productive and owned few assets, their returns were low.
As the disparities of income grew more acute within developing countries, emphasis gradually shifted from relative to absolute poverty. The new goal was to raise the poorest groups above the poverty line, which defines the income necessary for some minimal standard of living. In addition, it became clear that a simple transfer of income would not provide a permanent solution. Rather, the need was to get extra productive assets into the hands of poor people as the total stock of assets grew. Increasing the productivity of poor, small farmers was particularly effective; evidence mounted that they were efficient users of land and capital, responsive to changes in incentives, and willing to adopt new techniques when the benefits were clear. It was harder to apply similar approaches to the landless poor or urban workers who owned few productive assets. For these people, programs for basic shelter, health, and education came to be seen as especially important ways to improve productivity.

While not universally accepted, growth with poverty alleviation became the stated approach to development of most countries—lenders and borrowers alike—during the 1970s. The World Bank's approach developed along similar lines, and its policy positions and papers often influenced other agencies and governments. Through research, reports, and speeches, the Bank expressed increasing concern for the problems of employment, income distribution, and the large numbers of people living in absolute poverty. In 1973 the Bank announced a major new direction in its lending: rural development programs to raise the productivity of small farmers and give the rural poor greater access to public services. By 1975, increased attention was also being given to the need to assist small-scale industries and to redesign and expand low-cost, replicable programs for urban shelter and public services.

By the late 1970s, research and experience provided strong evidence that outlays on primary education, family planning, basic health care, and nutrition produced gains in
productivity that made them worthwhile economic investments as well as valuable humanitarian endeavors. The Bank's programs to implement these broad policies were tailored to suit the particular needs of individual borrowers.

Many developing countries, assisted by the Bank and other donors, have made progress in reducing the incidence of poverty. Some examples are Brazil, Indonesia, Kenya, Mexico, Nigeria, and Thailand. But the long-term character of the development process and the distance yet to go are demonstrated by the hundreds of millions of people, most of them in low-income countries, who are still in poverty. Their number is not yet declining, and without the shift toward poverty-focused strategies, it would now be much greater.

Growth is needed for the permanent elimination of poverty. But the ideal balance between the two objectives is elusive. Although country experiences provide some guidance, they are too varied to yield simple prescriptions. At the extremes there is surely a tradeoff: massive social expenditures can undercut investment and thus jeopardize sustainable economic growth; unlimited emphasis on growth can leave too few resources to improve poor people's living standards. Either extreme runs the risk of social and political instability.

Furthermore, governments must always choose among programs, some of which have more impact on productivity and others more on poverty. This choice is made more difficult because some social programs (such as primary education) take longer to raise productivity and are more difficult to assess than others. No precise prescriptions or absolute answers can be given.

What evidence exists, however, suggests large areas of complementarity between the two objectives of growth and poverty alleviation. In general, countries that have placed special emphasis on alleviating poverty have not sacrificed growth; on the contrary, they have achieved average or
somewhat above average growth rates. This is consistent with World Bank project evaluation data, which indicate that projects of greatest direct benefit to the poor have returns equal to or greater than those from other kinds of investments. In addition, reduction of poverty and more equitable income distribution can help avoid political tensions which disrupt steady growth. Experience suggests that development strategies which bypass large numbers of people are not the most effective way for developing countries to raise their standard of living.

CHANGE OF EMPHASIS WITHIN THE BANK

During the 1970s the Bank’s policy gave strong emphasis to poverty alleviation. To what extent were there changes in the Bank’s lending program and country and economic sector work?

Because most poor people live in poor countries, the World Bank Group—which includes the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)—redirected its country lending program. IBRD/IDA commitments to low-income countries (with per capita annual incomes below $680 in 1979) increased from 37 percent of the total program before 1968 to 58 percent in the 1979–83 lending program. IDA now lends only to this group. The share of IBRD lending to low-income countries has increased from 29 percent before 1968 to 39 percent now—a 34 percent increase, despite the considerations of creditworthiness which impose limits on IBRD lending to many poor countries (see Table 1). According to the most recent budget plans, the share of IBRD/IDA commitments to low-income countries reflected in Table 1 will be maintained in the 1982–86 period; IBRD lending to this group will increase to about 44 percent.

The World Bank also increased its lending for sectors and subsectors widely considered to offer the most direct benefits to the poor—notably rural development, primary education, population, health and nutrition, small-scale in-
Table 1. **IBRD/IDA Allocations to Low-income Countries**  
(percentage of total)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group I (up to $390)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td>19</td>
<td>11</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>IDA</td>
<td>80</td>
<td>80</td>
<td>86</td>
<td>89</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>31</td>
<td>33</td>
<td>39</td>
</tr>
<tr>
<td><strong>Group II ($391–$680)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td>10</td>
<td>12</td>
<td>19</td>
<td>22</td>
</tr>
<tr>
<td>IDA</td>
<td>6</td>
<td>10</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>12</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total of Groups I and II</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td>19</td>
<td>23</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>IDA</td>
<td>86</td>
<td>90</td>
<td>98</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td>43</td>
<td>50</td>
<td>58</td>
</tr>
</tbody>
</table>

*a. 1979 per capita GNP.*

Industry, water supply and waste management, and urban development. Their share of IBRD/IDA lending has increased from 5 percent in 1968 to 30 percent in 1980, with major reductions in the shares—though not absolute amounts—of lending for electric power and the transportation sector (see Table 2).

In recent years the Bank has tended to describe projects in these growing sectors and subsectors as “poverty” lending, and the rest as “nonpoverty” lending. This useful shorthand has suggested degrees of emphasis on activities especially likely to benefit poor people. It should be used carefully, however, since it would be misleading to imply that only selected sectors or programs have a significant impact on poverty. It also tends to downplay the often important direct and indirect effects of other sectors and programs. For example, the Bank defines rural development projects as those based on agriculture and with over
<table>
<thead>
<tr>
<th>Sector</th>
<th>Fiscal years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directly poverty-oriented</td>
<td></td>
</tr>
<tr>
<td>Rural development</td>
<td>3.2</td>
</tr>
<tr>
<td>Education (primary and nonformal)</td>
<td>0.2</td>
</tr>
<tr>
<td>Population, health, nutrition</td>
<td>—</td>
</tr>
<tr>
<td>Small-scale industry</td>
<td>—</td>
</tr>
<tr>
<td>Urbanization</td>
<td>—</td>
</tr>
<tr>
<td>Water supply and sewerage</td>
<td>1.6</td>
</tr>
<tr>
<td>Subtotal</td>
<td>5.0</td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>16.1</td>
</tr>
<tr>
<td>Energy (power)</td>
<td>24.6</td>
</tr>
<tr>
<td>Energy (oil, gas, coal)</td>
<td>0.3</td>
</tr>
<tr>
<td>Industry (including DFCs)*</td>
<td>15.7</td>
</tr>
<tr>
<td>Transportation</td>
<td>27.5</td>
</tr>
<tr>
<td>All other</td>
<td>10.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
<tr>
<td>Total lending (million current dollars)</td>
<td>1,641.5</td>
</tr>
</tbody>
</table>

| a. Development finance companies. |

50 percent of their benefits going to the rural poor. Initially Bank monitoring focused only on these projects, without taking account of large numbers of beneficiaries in more traditional agricultural projects. Since 1980, however, a requirement for poverty analysis has been incorporated into the analyses of all agricultural projects (see Table 3).

To help focus its lending program, the Bank has attempted to determine who benefits from poverty-oriented projects. Per capita income benchmarks below which people are considered to be in absolute poverty (mainly for
Table 3. **IBRD/IDA Agricultural and Rural Development Lending: Appraisal Data**

<table>
<thead>
<tr>
<th>Fiscal years</th>
<th>Projects (number)</th>
<th>Loans or credits (million dollars)</th>
<th>Poor beneficiaries (million families)</th>
<th>Projects (number)</th>
<th>Loans or credits (million dollars)</th>
<th>Poor beneficiaries (million families)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970–73</td>
<td>47</td>
<td>496</td>
<td>—</td>
<td>104</td>
<td>1,723</td>
<td>—</td>
</tr>
<tr>
<td>1974–77</td>
<td>157</td>
<td>3,484</td>
<td>6.7</td>
<td>113</td>
<td>3,265</td>
<td>1.0</td>
</tr>
<tr>
<td>1978–81</td>
<td>186</td>
<td>6,939</td>
<td>12.2</td>
<td>159</td>
<td>6,267</td>
<td>4.1</td>
</tr>
</tbody>
</table>

a. At appraisal; direct beneficiaries only—that is, farm families with incomes below one-third of borrowing country’s GNP per head and/or in absolute poverty.

low-income countries) or relative poverty (mainly for middle-income countries) are estimated by Bank country economists. In principle, the absolute poor are defined as people whose income is too low to afford an “adequate” diet. The relative poor are more simply defined as those with incomes below one-third of the national average. Both approaches have been difficult to apply in many countries where data on household incomes or expenditures are weak. Useful definitions of the poor have often relied on an approximate identification of a target group such as small farmers, urban slum dwellers, or those lacking adequate water or access to primary schools; these descriptions are used in parallel with the poverty-line measure. It is generally agreed that improvements in the measurement system are required to make it more simple, practical, and reliable. Alternative methods are being examined; meanwhile, spuriously precise estimates should be eschewed.

Bank country economic and sector work (CESW) has moved toward consideration of poverty issues more slowly than has project lending. Some economic reports in the early 1970s contained important sections dealing with employment and income distribution, but their coverage was un-
even. Toward the end of the decade numerous reports on poverty appeared, partly as an outgrowth of the Bank’s work on basic needs.4

In the past year or two, specific poverty-related studies have received less attention in economic work. In part this is because the reports of the late 1970s provided still valid background for sectoral reviews and development of the lending program. Some previously planned poverty studies have been delayed or replaced, however, by work on structural adjustment and energy questions. Although attention to longer-term development issues may thus have suffered in the face of urgent short-term requirements, regional CESW projections for FY1983 provide a more encouraging picture. Nearly all regions propose to increase manpower allocations for work on poverty, basic needs, and related topics—from 11 percent of total allocations in 1982 to 16 percent in 1983.
Most projects with a special emphasis on poverty did not begin until the mid-1970s and are still being implemented. Few have therefore been evaluated. Because development programs achieve their full effects over the long term, only a preliminary assessment is possible of how well these projects have benefited the poor. As stressed above, however, projects with particular emphasis on poverty appear to have benefited large numbers of poor people and to have rates of return at least as good as other Bank projects, regardless of any special weight that might be given for their poverty emphasis. There are, of course, unsuccessful projects, but the proportion is small—and no higher for poverty-focused projects than for others. According to the Operations Evaluation Department (OED), poverty and nonpoverty projects have similar appraisal times, delays and problems in implementation, cost overruns, and Bank supervision time per project or per beneficiary (though these rates are higher per dollar loaned for so-called new-style projects because they tend to be smaller than traditional projects).

Recognizing that new-style projects were experimental, the Bank has been careful to finance pilot projects in small amounts and to replicate them on a larger scale only when the techniques proved viable. In this way, successful projects tend to dominate the project portfolio by value, keeping the average rates of return high. In addition, initial project “failures” have sometimes been turned into successes over time, although
the opposite is also occasionally true. In general, the Bank has learned much from experience—with both successes and failures—which should help reduce poverty and stimulate growth in the 1980s.

AGRICULTURE AND RURAL DEVELOPMENT

The Bank's lending for agriculture and rural development projects has increased dramatically from $2,200 million (19 percent) in FY1970–73 to more than $13,200 million or 31 percent of total IBRD/IDA lending in FY1978–81 (see Table 3). A rising share of this total supported the poorest countries, and there has been greater emphasis on crops most likely to be grown or eaten by the poor.

In the next five-year period, however, there may be some reduction in the share of agriculture and rural development in the total IBRD/IDA lending program. This sector has attracted a good deal of cofinancing by public agencies. Since 1973, total public cofinancing for agriculture and rural development projects was $2,600 million, with an eightfold increase from FY1973–75 to FY1979–81. Over 60 percent has gone to poverty-oriented projects.

Agriculture and rural development are central to poverty alleviation. In developing countries, some 70 percent of poor people depend on farm incomes, and a similar percentage of poor people's income is spent on food. Projects that increase the productivity of the rural poor—particularly small farmers—not only contribute to poverty alleviation but also supply food, inputs, and markets for overall national growth and development. Yet rural productivity—and incomes per head—are typically only 30 to 40 percent of urban levels.

The World Bank's Rural Development Policy Paper (1974) specified:

- Approximately half of planned lending for agriculture and rural development should consist of projects to benefit the rural poor by increasing their productivity.
- Such poverty-oriented rural development projects should
reach large numbers of the poor at a cost per beneficiary low enough to allow replication, given the availability of additional resources.

- Rural development projects should make contributions to economic growth no smaller than those of traditional agricultural projects. They would thus be required to show economic rates of return at least equal to the opportunity cost of capital.

This last stipulation was firmly based in experience and research. Small (family) farmers usually work land and capital more labor-intensively than big ("commercial") farmers. As a result, they generally obtain higher output per farmed acre and per unit of capital. Though slower to adopt risky innovations, small farmers do so at least as intensively as larger farmers in the medium term. Partly for these reasons, small farmers usually show considerably lower ratios of defaults to borrowing (although the administrative cost per dollar loaned to them is often rather higher).5

The background, then, seemed favorable; but did the actual experience of Bank rural development projects bear out these expectations of small-farm success? Appraisals of agricultural and rural development projects approved since FY1974 estimated that about 24 million poor families would benefit directly. Assuming five individuals per family, this translates into about 120 million beneficiaries. In the limited number of OED audits of completed poverty-oriented projects, direct beneficiaries appear to have exceeded appraisal estimates.

OED audits also found that average rates of return in poverty-oriented rural development projects—those expected to provide at least half their benefits to the rural poor—were at least as good as those on other agricultural projects, and in the case of small farmers, returns were slightly higher. Bank projects for small farmers reach large numbers. For instance, those audited in 1979 reached 660 farmers for every $1 million loaned (at a cost of $1,500 per
farmer), compared with 47 farmers per $1 million (at $21,000 per farmer) in other agricultural projects. While these data cover a wide range of individual results, the emphasis on small farmers has seldom conflicted with economic and financial efficiency.

The evidence suggests that poverty-oriented projects have successfully met their primary objective of increasing the productivity and incomes of the small farmers. It is, however, important to emphasize that many projects were experimental and open-ended. For example, in the Upper Volta Rural Development Fund projects, farmers' reactions to early components of the project affected the design and implementation of subsequent components. In IDA's Sierra Leone Integrated Agricultural Development project, expectations about labor availability, the impact of land tenure, price policies, and crop mix had to be substantially revised during implementation; as a result, the audited rate of return (20 percent) actually exceeded the appraisal rate (15 percent). Bank support for pilot projects such as the PIDER in Mexico and the Lilongwe in Malawi formed the basis for broader projects and national programs. In India's Rajasthan Dairy project, on the other hand, Bank lending built on successes already established by national and local efforts.

Despite considerable accomplishments in many areas, at least four extremely difficult problems persist in poverty-oriented rural development programs. First, there are severe technical constraints. Low-risk "packages" appropriate for small farmers in rain-fed areas, particularly in Africa, are frequently not available. In major irrigation systems, the techniques of water management and inadequate or corrupt practices often deny water to both poor and downstream farmers. Economic, labor-intensive remedies to these problems need to be identified and field-tested.

Second, since the Bank's rural development strategy concentrates on improving farm productivity, the projects have provided few direct benefits for the landless, for tenants
unable to offer collateral for loans, and for the near-landless farmer who finds it hard to borrow, acquire inputs, and take risks. Nonfarm components of rural poverty projects might help these groups, but such components amounted to only about 14 percent of project value (excluding contingency costs) in FY1979–81, and half their value was devoted to rural roads and little to off-farm enterprises. Some of the landless people find employment during the construction stages of projects involving irrigation, land settlement, or other public works. As farm output expands in the wake of a project, employment of farm laborers usually rises as well, although much more slowly.

Rural development projects also generate indirect benefits: farmers buy more inputs, require processing for outputs, and use income to buy consumer goods. The makers of such items should gain. However, the poor are seldom the beneficiaries. For example, although the Muda project in Malaysia generated about 80 cents of indirect benefits for every dollar of direct benefit, little of this reached the poor.

A small minority of Bank projects appears to have made the landless worse off. In some instances, financing for combines, tractors, or modern rice mills has reduced employment, thereby adding to rural poverty. Mechanization has also encouraged landlords to evict tenants to permit more capital-intensive farming on larger holdings. In the Muda project, the introduction of combine harvesters on large farms displaced landless migrant workers (although small farmers tended to hire more labor); in the nearby Kemubu project, where land distribution was more equal, there was much less mechanization, similar rates of return, and a wider spread of benefits. These projects were approved before the Bank’s special emphasis on poverty alleviation began, but similar problems have occurred elsewhere.

Since farmers are not equally endowed with skills and resources, some successful projects will inevitably increase inequality. However, inadvertent and unnecessary harm to
poor people can be avoided. Greater Bank involvement with rural works projects, off-farm employment, labor markets and worker mobility, and especially land and tenancy reform can in some circumstances increase the productive potential of the poor. In particular, as noted in the Bank’s Land Reform Policy Paper (1975), “technical assistance and finance should give overt priority . . . to those countries and projects which meet land reform criteria.” The Bank should “not lend for projects if tenurial arrangements are so bad that they frustrate the achievement of the Bank’s objectives” and prevent the bulk of project benefits from reaching the poor. Through both policy dialogue and specific projects, the Bank is prepared to support well-planned land reform programs.

The third major difficulty in rural programs is that the pricing and postharvest policies of a borrowing country can undermine the success of some projects aimed at the rural poor. Especially in some African countries, inadequate price incentives have jeopardized small-farm projects. In postharvest projects and dialogues with governments about price incentives, policies that discourage or harm small farmers should be avoided. Bank projects have often emphasized raising productivity at the expense of arrangements for marketing the increased output. Yet even when the Bank has supported marketing and distribution systems for crops, the results have sometimes been disappointing. Large-scale storage projects, including some shown by OED to have very low returns, too often shift grain from efficient small-farm stores to less efficient centralized systems. These are complex issues because the farmers’ loss is the consumers’ gain when food prices are low. Greater emphasis on price policy analysis and marketing would strengthen some of the Bank’s rural development activities.

A fourth difficulty in poverty-oriented projects is that their success depends much more on sociological, cultural, and political factors than does that of traditional Bank lending. Although these difficult areas are increasingly rec-
ognized in policy and practice, they deserve much more attention. For example, in one substantial East African project, inadequate attention to the social and political context helped create a system of absentee landlords, sharecropping tenants, and migrant farm laborers. Community cooperation and responsibility were damaged, and wealth disparities, social stratification, and ethnic conflict have increased. Other projects have ignored the role of women in the production process and, by changing techniques and cropping patterns, adversely affected women's income-earning capacity.

Local participation, though an extremely important objective, is not a simple solution: it all depends on who participates and how. Male participants can skew projects against women; landlords, against tenants; and bigger farm lenders and water sellers, against smaller farm borrowers (as in the otherwise successful integrated rural development program in Comilla, Bangladesh). To ensure that the poor benefit, it may be necessary to mix participation with instruction, as in the effective Training and Visit System of agricultural extension in Rajasthan, India; or perhaps with some measure of outside organization and paternalism, as exemplified by the successful Bank-supported Indian dairy cooperative based in Anand.9

To support and selectively finance rural development activities that benefit poor people, the Bank should increase its understanding of patterns of social organization in project areas. This requires more reliance on local socioanthropological expertise than is usually the case. Successes and failures in participatory activity with the rural poor should be reviewed and this learning incorporated in future projects.

Recognition of these four problem areas—technical gaps, inadequate gains for the very poorest, pricing and post-harvest policies, and limited sociocultural knowledge—should not detract from the main conclusion here: Bank-supported rural development projects have generally been
successful in increasing the productivity and incomes of large numbers of small farmers in a cost-effective fashion.

**URBAN POVERTY PROJECTS**

It is harder to attack poverty in towns than in rural areas by increasing the productivity of the poor. Urban investments in industry, power, and transport are often efficient only if large in scale, and not especially focused on employment or poverty. Yet several regions are now more than half urban, and all are expecting large increases in urban populations—especially of poor people—over the next two decades.

The Bank's 1972 Urbanization Sector Working Paper noted the growing shortages of shelter—and of supporting services, especially sanitation and drinking water—affordable to the urban poor. Since housing constituted the largest part of their physical assets by value, upgrading and servicing housing seemed a promising way to raise incomes. In the 1960s, however, most "low-cost" urban housing was in fact built to high standards of Western design. Such housing was usually accessible only to the richest 20 percent of urban people—despite heavy subsidies that made the approach inapplicable on any large scale.

These conditions led the Bank into one of its more innovative contributions to development. Since 1972, it has strongly endorsed and supported the provision of sites and services rather than structures. Later its urban housing activities encompassed the upgrading of squatter settlements, which reached far more poor people per dollar and avoided unpopular slum clearance by bulldozers.

These urban programs applied six key concepts: low-cost housing built by self-help labor, rather than high-standard, contractor-built public housing affordable only by the middle class; secure land tenure to give settlers, particularly squatters, adequate incentives to build permanent housing on sites close to employment and services; appropriate design standards for housing and infrastructure to make them
affordable; and cost recovery to reduce the drain on funds from other high-priority areas and make broad replication easier.

Over time, the Bank has developed several project types: shelter projects, regional programs, free-standing urban transport projects, and integrated urban programs including transport and social services. Some efforts—thus far not very successful—have been made to generate employment directly. About 1.9 million households, or over 10 million people, are benefiting, or expected to benefit, from forty-nine projects with major urban shelter components. The Bank’s investment in these projects was about $1,600 million, matching $2,000 million of cofinanced and domestic investment. Appraisal data suggest that 70 percent of all Bank urban projects devote more than 40 percent of total costs to the poor. At appraisal, their rates of real economic return were expected to be well over 20 percent, although with much variation among projects. As the program has broadened in many countries to address citywide problems and the development of stronger urban institutions and policies, the direct impact on poverty has been somewhat reduced.

Because most projects are not yet completed, evaluations of actual performance are few. A recent intensive evaluation of early projects in four countries, however, concluded that they were remarkably successful. In Zambia, for example, the switch to self-help measures raised the national production of low-cost housing by 50 percent; beneficiaries have been stimulated to invest money and time in further improvements.

Sites-and-services projects have reached many poor urban households—not those in the poorest quintile of the income distribution, but those in the second and third poorest quintiles; most public housing rarely reaches these groups at all. Some projects (for example, two Zambian sites-and-services projects) even managed to serve the poorest of urban households, but most have done little for this group.
Schemes to upgrade squatter settlements have done somewhat better. The main benefits for the poorest have come indirectly, as project strategies have been changed to encourage direct beneficiaries to employ labor and to rent out rooms. It is not feasible, however, to target many benefits only to the poorest groups.

Cost recovery for sites-and-services projects has generally been quite good. Poor people in these projects have not been less reliable debtors. If cost recovery has sometimes suffered, it was not from an incapacity of the poor to pay, but because maintenance and social services were not provided as promised. Upgrading schemes have done less well on cost recovery because squatter households selected for improvements did not always agree on either the need for upgrading or the obligation to pay. This apart, cost recovery requires local enforcement, better record-keeping, and clearer communication of intentions to beneficiaries. Perhaps the biggest problem is that some municipalities lack a tradition of paying taxes or the political will to collect them.

As the record of the sites-and-services projects shows, the urban poor need and effectively demand simple improvements in their dwellings. Housing is an asset that provides shelter (income in kind) to the occupants, monetary income when rental occurs, and collateral for loans to finance education or small business ventures.

Urban projects have also attempted to increase employment and income through a variety of approaches, including loans to small enterprises. These have so far been rather unsuccessful because of lack of markets, inadequate organizational support, inefficiency in public services, and unrealistic assessments of the support such enterprises need. In poor (and rich) countries, small formal enterprise is plagued by poor management, diseconomies of scale, marketing weaknesses, and hence frequent bankruptcies; there may be more scope for support of informal, family enterprises (see below). Problems in assisting small enterprises
are part of the broader problem of improving urban productivity, and experiments continue; the Philippines Urban Project III seems especially promising.

The Bank has encouraged recipient governments and other donors to produce and finance innovative ways to shelter large numbers of the urban poor. By initiating official support for private self-help by the poor, Bank programs have dramatically changed the accepted view of low-income housing in many countries. Sometimes, as in the Philippines, Bank projects have moved from successive loans, via institution building, to regional urban planning that has been a base for national programs to make cities more efficient. Even where pilot projects have not gone well—as in Senegal—governments have adopted the more affordable sites-and-services approach. Improvements in urban policies have occurred in the wake of Bank projects in some thirty-five countries.

Better and more healthful shelter should indirectly increase the productive capacity of the poor. Building on experience of the 1970s, the Bank will need to assist borrowers in replicating successful approaches on a broader scale. It should also continue to improve not only services to, but also the long-run employment and productivity of, the urban poor. To achieve this, Bank research and policy dialogue will need to assist governments in modifying their policies on technology, licensing, and pricing in employment-creating ways. Great care should usually be taken, however, to avoid subsidizing urban employment (or wage rates) relative to rural incomes. This would encourage migration to the towns and fail to reduce urban unemployment and poverty—apart from being inefficient.

OTHER SECTORS

To discuss the full range of Bank projects with an impact on poverty would require a review of the entire portfolio. Instead, this section concentrates on areas of special importance in this regard.
Small-scale nonfarm enterprises. Small-scale enterprises can be a cost-effective way of helping to increase employment opportunities. In most countries and industries, the capital cost per job is lower in such firms, especially the smallest. With low cost per job an important criterion of selection, Bank projects that primarily assist small enterprises have grown from virtually none before 1974 to 2 percent of lending in FY1980–81; almost all enterprises assisted are industrial and most are in urban areas.

As a result of problems the Bank has encountered with these firms, project emphasis has been shifting in various ways, according to regional experience. The shift is toward expanding the availability of credit, mostly through commercial banks; toward strengthening advisory and technical services via both private and public organizations; toward developing special schemes to help smaller enterprises, including artisans and cottage industry; and toward eliminating government policies which favor large, capital-intensive enterprises over small firms.

There is some evidence that firms with 1–9 workers may be especially effective in using capital productively to create employment. More than twice as many people work in firms with 1–9 workers in Egypt, Ghana, and Ethiopia as in firms with 10–49 workers.¹ In Malaysia, Mexico, and Pakistan, each unit of fixed capital produced about twice as much value added in the smallest firms, as in firms with 10–100 workers—which did no better than bigger firms.² In India in the early 1960s the very small firms produced most output per unit of capital, labor productivity was highest in big firms—and the intermediate firms excelled in neither.³ In the early stages of industrialization, attempts to train entrepreneurs seem to succeed more often if the work force is not larger than the typical family span of two to seven members.⁴ Moreover, small, not medium, enterprises frequently show the greatest capacity to retain workers, even competing against (or complementing) large enterprises; this is not a temporary feature of early devel-
opment, but applies also in advanced economies such as France and Italy. In small-scale enterprises efficiency and a focus on poverty may, then, normally go together.

Water supply and waste management. In recent years water supply and waste management have absorbed over 6 percent of Bank lending—almost wholly in urban areas. Because of simpler, innovative technologies and pricing procedures, these projects reach large numbers of mostly poor beneficiaries, although, by value, 70 percent of the benefits go to the nonpoor. Through large-scale but simple investments, municipal authorities can provide water and sewerage to the poorest 40 percent of the population at less than a tenth of total outlays, although service standards are lower (for example, standpipes are installed instead of individual connections). Recent technological refinements reduce investment cost substantially, while services remain acceptable and convenient. Households can now upgrade their sanitation facilities as incomes and water supplies permit. The Bank has promoted tariff schedules that enable the poor to purchase essential quantities of water with less than 5 percent of their income; nonessential consumption is then billed at marginal cost, which makes projects financially viable.

Efforts to bring safer water and more sanitary methods of waste disposal to the poor are particularly hampered by deficient financial practices of the agencies responsible. In urban areas, where the problem and solution are shared by rich and poor alike, there has been a vigorous constituency for investment programs. In rural areas, institutional arrangements are inadequate for operating and maintaining the water supply. Not only is better infrastructure required but also increased emphasis on health education, staff training, and institutional development in future lending for water supply and waste management.

Education. Sound and relevant education programs are essential if poor countries are to make the most of their investments in other sectors. Educational development tends
to improve income, health, mobility of labor, and receptivity to family planning; primary education is especially important and has consistently high returns.\textsuperscript{15}

About 5 percent of Bank lending is for education. In an effort to provide the poor with skills that would improve their productivity and make them more adaptable to change, the Bank has increased the proportion of lending for primary education—to 33 percent of its total lending for education, compared with 8 percent in 1969. This investment benefits the poor, since the better-off usually receive primary schooling already, and not only meets minimum education needs but also promotes equity and efficiency. In the early 1970s, most children in poor countries did not complete primary school, and the quality of primary schooling was poor. For both reasons, secondary (and subsequent) education drew on an inadequate pool of candidates. Despite the large proportion of expenditure in developing countries for nonprimary education, therefore, results were disappointing. There was a strong case for raising the efficiency of the total education system by raising the share of resources for primary schooling.

In many countries, however, rapid growth of primary education has resulted in some sacrifice in quality. Bank projects have recently shifted from increasing the number of pupils to improving textbooks and curricula, teacher training, and student health. The Philippines Education III project helped produce 97 million modern textbooks, which reached almost every child—usually (especially in science and mathematics) with greatest effect on poor children. In Indonesia, IDA credits helped produce 170 million books and texts during the 1970s, half the country’s total. Moreover, once a country has achieved widespread and adequate primary schooling, a renewed emphasis on secondary and tertiary education may be both efficient and—provided access is adequate—beneficial for the poor. For example, income growth in 1970–80 for the earning poor was faster in Kenya than in Tanzania, partly as a result of Kenya’s much faster expansion of secondary schooling.
The increased number of schools and teachers does not ensure that poor children attend. In poor families, children’s earnings are so important that regular school attendance is a problem. In some education projects, therefore, the Bank has helped introduce “school mapping”—planning school locations to minimize travel time—and has suggested shifting school terms away from agricultural peak periods to make it easier for poor children to attend. Costs of books and uniforms, too, can easily deter poor children. Cost recovery—at least from better-off families and in higher education—may become essential, however, if governments are to be persuaded to expand investment in education from scarce budgetary resources. More attention to the problem of long-term recurrent costs, especially for primary schooling, could greatly help the continued expansion in the 1980s of poverty-focused and efficient education programs.6

Population, health, and nutrition. Despite their importance in broadly based programs for poverty alleviation, the areas of population, health, and nutrition still receive less than 1 percent of the Bank’s total lending. Their slow growth in the 1970s suggests that a concentrated effort by the Bank will be required if they are not to be shunted aside in the 1980s because of resource constraints and other pressures on country budget allocations.

Alleviation of poverty is closely linked to a reduction of population growth rates. Very poor families typically contain large numbers of small children and suffer high infant and child mortality. They are locked into two vicious circles. First, families need multiple births in order to maintain earning capacity despite high death rates and poor work prospects; but numerous small children deplete family savings and income, impede improvements in nutrition and prosperity, and thus perpetuate high death rates and family poverty. Second, poor parents have many children to improve their chances of support in old age; yet each couple’s children mean more competition for jobs.7 The link between poverty and high rates of childbearing is fur-
ther strengthened by the fact that the poor have very limited access to modern and simple means of contraception. Therefore, Bank lending to reduce population growth is likely to be most effective where ill health, underemployment, and absence of contraception can be addressed at the same time.

Several countries have made encouraging progress by combining more effective economic development programs with increased access to family planning services, but in most cases, only a small percentage of fertile couples practice family planning. In Africa, few countries have even rudimentary programs; moreover, the growth of food production has fallen behind increases in population. Only $400 million in IBRD/IDA population loans were made (to thirteen countries) in the 1970s, an indication that the Bank has not found this an easy area in which to work. The Bank’s investments in agriculture, education, and other sectors can strengthen the role of women in development and help reduce fertility, but these indirect approaches will not fund the increased access to services that is needed.

Given the large size of most poor families, returns to investment in preventing births are very high, with major gains for the poorest. Existing funding by aid donors and recipient countries (about $1,000 million annually) for all population programs in developing countries provides no more than one-third of the couples of reproductive age with family planning services; as a rough approximation, perhaps one-fourth actually practice family planning. In this context, a major impact with modest increases in investment is possible. This suggests heightened attention to population issues in the Bank’s policy dialogue with borrowing countries and increased lending for population and related projects in the 1980s by all the world’s major development institutions, including the Bank.

In the 1970s, the Bank lent for health services only as a component of projects in other sectors; only recently have separate health projects been started. These projects, and
associated policies and institution-building activities, will be an important part of future programs. It has been demonstrated that improving health contributes to labor productivity and the well-being of the poor, and the Bank is placing more emphasis on primary health care and preventive measures. Although multisectoral nutrition projects have proved hard to administer, persistent Bank project and policy work led to some replication and raised the priority of nutrition in the national policies of several countries, notably Brazil, Colombia, and Indonesia.

Maternal and child health and family planning services need to expand their coverage if they are to be effective in limiting population growth. Public and private expenditure for health services in many countries is substantial, but often excessively directed toward curative rather than preventive medical care. In this, as in other areas related to human resources, the Bank's ability to work closely with finance and planning ministries can be extremely important in assuring more careful planning of budgetary allocations so that they benefit more people.

**BANK STYLE AND PROJECT DESIGN**

Since the early 1970s, annual presidential speeches to the Bank's Board of Governors and many policy papers have focused attention on the magnitude of world poverty and the Bank's firm commitment to attacking it. This public education program has had a significant impact—both within and outside the Bank. Its objectives are as valid today as they were ten years ago. As the Bank continues this important role and its efforts to raise the productivity and living standards of the poor, it should be careful not to raise excessive expectations—for example, regarding its current capacity to make significant inroads against the problems of the "poorest of the poor."

Since the constraints on resources are likely to be a dominant concern in the next few years, it is especially impor-
tant for staff to understand that poverty alleviation remains central to the Bank's objectives. It will be necessary to devote enough staff time to the smaller and riskier projects that are often the precursors of larger projects benefiting substantial numbers of poor people. Similarly, although Bank policies and procedures are in most cases quite flexible in regard to the amount of local cost financing, funding for technical assistance and training, procurement arrangements, and many other factors critical to the success of project implementation, staff may need encouragement to take full advantage of this flexibility, especially for difficult poverty-focused projects.

Poverty projects also tend to have high recurrent costs that persist long after the external donor's involvement ends. Meeting these costs can be a severe strain on government budgets. As international borrowing becomes increasingly expensive, it becomes more and more urgent for governments to contain recurrent costs, improve cost recovery, increase community-level contributions, and collect taxes due. As an emergency measure, some Bank-supported projects which have proven too costly are being stopped. A more positive approach to containing or recovering recurrent costs is needed. Lenders and borrowers need to address the recurrent cost implications of a broad program of investment projects—particularly for large-scale poverty programs—in a coordinated fashion. This topic requires more systematic treatment in Bank analytical work and operations.

Poverty programs also usually require above-average amounts of technical assistance. The Bank provides more technical assistance than most people realize, but greater attention to its design and delivery is needed to increase its effectiveness. This is especially true in the poorest countries, which rely most heavily on external assistance. Increased use of nongovernmental institutions and others, both local and international, with proven ability and local knowledge may help the Bank achieve greater impact at
lower cost. In some cases, it may be appropriate for the Bank to augment its resident field staff, choosing people with local experience, sensitive to local conditions, and oriented toward implementation, although this would entail higher administrative costs.

MACROECONOMIC POLICY DIALOGUE

The way the Bank redirects its lending and the lessons learned can serve as useful examples to borrower governments and other donors. Since the Bank’s lending amounts to less than 2 percent of total investment in developing countries, the demonstration effect of its projects is especially important; nonetheless, there are limits to what can be expected from projects. Shifts in resource allocations and general policy changes—for example, the impact on prices and employment of trade liberalization or changes in fiscal policy—are powerful instruments for poverty alleviation. They can have much greater effect on the well-being of large numbers of poor people than most individual projects. Government policies are therefore often crucial to the success of a project in advancing growth and in benefiting the poor.

In a country where the vast majority is very poor, it is sometimes suggested, almost any policy improvement or investment must help. The very poorest countries, however, while achieving real growth, have often failed to reduce the incidence of poverty. In those with the most widespread deprivation, small and powerful elites can obtain most of the benefits from efficient projects and policies. This makes the economic dialogue about poverty that the Bank conducts with borrower governments all the more significant.

This issue cannot be separated from the question of how effective the Bank, as a project-oriented institution, has been in its overall macroeconomic policy discussions with borrowers. The evidence, though mixed, suggests that the Bank has been most effective at the project level. Structural adjustment lending, however, has been useful in strength-
Poverty issues have seldom featured significantly in such dialogues, and the analysis of structural adjustment programs has rarely considered who will carry the heaviest burdens of adjustment. Sometimes the Bank has tried to persuade countries to reallocate public investment expenditures toward sectors (such as agriculture) or subsectors (such as primary health care) with greater direct benefits for poverty groups. Some borrowing countries were ahead of the Bank and other donors on these issues, while other countries, initially reluctant, modified their stance as the decade progressed, to some extent because of the encouragement offered by donors. The Bank and arguments for economic efficiency have supported such shifts in domestic priorities, but additional inquiry is needed to determine how widespread the shift in actual government expenditures in key sectors or subsectors has been.

The policy dialogue in many countries has focused on correcting distortions in capital and labor markets. But the Bank has not developed an effective approach for selecting policies that respect both efficiency and poverty concerns, and, where that is impossible, for analyzing and reducing tradeoffs. The Bank has often failed to raise, at the highest levels, politically sensitive issues of the impact that efficiency adjustments have on poverty. Seldom have poverty and related questions been discussed directly and in depth at Bank-led consortia and consultative groups. While the Bank has argued forcefully for the removal or gradual reduction of subsidies, it has been less effective in finding positive ways of targeting subsidies to low-income consumers or taking other steps that are more convincingly focused on poverty.

Generalizations are risky because of variations over time and within regions and countries, but overall, poverty concerns seem not to have been pressed consistently or often in macroeconomic policy dialogues. The Bank was partic-
ularly reticent to press governments with severe objections to implementing a poverty-focused program. In countries that were reasonably receptive, the Bank tended to emphasize the issues more strongly. In other countries that had already made significant progress in reducing poverty through human resource programs, the policy dialogue shifted to other issues, including control of costs in social sectors and acceleration of growth.

The experience of the 1970s suggests that Bank macroeconomic dialogues would more successfully support poverty alleviation if they stressed that poor people can benefit from the freeing of markets and similar actions only if concomitant structural changes provide the access, assets, or information the poor need to compete in the marketplace. For instance, when the Bank advises governments to raise interest rates to market levels, it could also support schemes to enable commercial banks to lend to (and perhaps offer technical assistance to) very small, labor-intensive enterprises. Or, when the Bank advises governments to remove artificial restraints on prices of food and other agricultural products, it could also advise (and offer loans to support) land reform programs enabling more of the rural poor to grow and sell such products. In this way, sound efficiency arguments would receive poverty-focused policy support.

The ultimate choice, of course, is the government's to make, and the Bank can only suggest sensible approaches. What is right for one country may not be appropriate for another, and as macro-policy advice is an especially sensitive area, the Bank needs to be sure when it engages in a policy dialogue that it has something important to say. But the Bank has considerable prestige and influence, which in many countries it is not using to best advantage. Greater efforts are needed to bring the lending program and policy dialogues into closer alignment if the Bank is to maximize its contribution to growth and poverty alleviation. Bank analytical work should focus more on implementation of the poverty alleviation policy. The current effort to provide
greater analytical capacity for country policy work in Africa should be helpful. The Bank should increase its ability to choose in each country how the poverty objective can best be pursued—at the project, sector, or macro-policy level, or more likely a combination of all three.

On the whole, through its policy dialogues, the Bank has tried to reduce disincentives to production and to employment-intensive activities. It has also opposed subsidies and benefits that went largely to the rich. The dialogues have concentrated heavily on efficiency ("getting the prices right"), an important element in any sound economic program. While stressing efficiency, however, the Bank should also further encourage borrowers to supplement this approach by measures to ensure that greater efficiency provides full benefits to the poor. The other side of the coin—better market access, institutions, and public sector programs for the poor—needs to be stressed.
The World Bank did not originate the concern for poverty. Sometimes leader, sometimes follower, the Bank has been a partner with donors and borrowers in a major effort to promote growth and reduce poverty in developing countries.

Overall, the Bank's poverty strategy in the 1970s produced efficient projects that have reached the poor both directly and through some local replication; the nature of the policy dialogue has shifted in some countries; and experience gained through learning-by-doing has resulted in improvements in development programs. Despite political and other country-specific constraints, the Bank has often succeeded in introducing better management methods to solve difficult economic and social problems. Bank projects have originated approaches and institutions that reached millions of poor people. In some countries the incidence of poverty fell sharply in the 1970s, and poverty alleviation policies, including the Bank's, can take some of the credit.

But massive poverty persists. Further improvements in the Bank's approach based on the lessons of the past are needed, especially because the difficult circumstances of the 1980s present the poor with greater problems and increased risks.

CONCERNS OF THE 1980s

The oil price rises of the 1970s (real oil prices, despite the temporary 1981–82 decline, remain six to seven times higher than in 1972), slower world growth, and the increas-
ing costs of financing development compound the difficulties of alleviating world poverty. Developing countries need to make their use of energy more efficient and adjust their economic structures, because protectionist trade measures and scarcer, costlier inflows of capital now threaten the resources and concern that were previously devoted to poverty questions.

These circumstances heighten pressures on developing-country governments, aid donors, and multilateral institutions to turn away from balanced development programs that pursue growth and poverty alleviation together. Resource constraints create a crisis atmosphere in which budgetary choices tend to stress the reduction of current account and public sector deficits at the cost of longer-term investments in, say, agriculture and education. In these circumstances, the real choice may be for short-term balance rather than for poverty alleviation and growth, although poor people in the poorest countries will suffer lasting damage. Increased flows of external assistance for these countries can help cushion the worst effects of a painful short-term tradeoff, but prospects for substantial additional resources in the near term are not encouraging.

Poverty can be alleviated in many ways even in these difficult times. Individual decisions on projects and programs will have to be made in the context of each government's circumstances and policies. The Bank, however, should seek to minimize the damage to poverty programs and encourage the use of resources—including its own—to protect and raise the productivity and living standards of the poor. The Bank can work with individual governments to develop specific programs and policies in which long-term growth and poverty alleviation are complementary. More attention should be paid, whenever possible, to the country and sectoral policy options regarding these dual objectives.

Budgetary constraints make it even more important to use resources efficiently and to eliminate waste in sectors
that directly meet the needs of the poor or increase their productivity. Constraints on IDA resources may in some cases unavoidably cut total lending to poor countries. The high returns to projects in rural development, urban shelter, primary education, population, and health provide a strong argument for directing scarcer IDA resources, whenever possible, even more firmly toward projects meeting both efficiency and antipoverty objectives.

CONCLUSIONS
A balanced strategy of growth combined with poverty alleviation provides the best general framework for development in the 1980s. This policy remains a key and integral part of the Bank's overall development and lending strategy. On the best available evidence, there are large areas of complementarity between the twin objectives of growth and poverty reduction. This strategy conforms to the stated priorities of many lenders, of most borrowers, and of the United Nations system. It has sound economic and humanitarian bases. This approach is no panacea, nor will it provide precise answers for each country-specific case. No development strategy does. What it does provide is a sound basis for making critical decisions. The Bank's task is to build on the considerable achievements of the 1970s, particularly in project work, and to modify and strengthen the basic approach which now underlies the lending program.

This conclusion has two major implications for Bank policy. First, increased attention should be given to the impact of country and sectoral policy on the productivity and living standards of the poor, and poverty issues should be made an important part of the Bank's policy dialogue with borrowers. While there is still much to learn, structural adjustment programs should consider, as far as possible, how the burdens of adjustment are shared among income groups and how adverse effects on the poor—for example through increased unemployment, higher prices of basic
goods, or higher taxes—can be mitigated. Bank research should give high priority to reducing the gaps in our knowledge of the effects on the poor of macro-policies, including alternative routes toward structural adjustment.

Second, the Bank's project work should be broadened, wherever feasible, to consider poverty and employment in the design of projects in traditional sectors such as power, transport, and industry. Even if measurement has to be highly approximate, project officers should attempt to describe who benefits in the short and long run from a project (and, where possible, from the program of which it is a part). By allowing roughly for employment and other effects, they should also determine whether the poor are likely to gain or to be affected adversely, and whether an alternative project design might be more beneficial to them.

While the distinction between poverty and nonpoverty projects is useful for some purposes, it may be misleading. By suggesting that only a handful of sectors can benefit the poor, it may detract attention from the many ways other projects benefit the poor. The objective should be to support an appropriate blend of growth and poverty alleviation through an increasingly broad range of Bank activities.

It has proved extremely difficult to benefit the very poorest groups who lack productive assets. These include most of the rural landless, urban jobless, adult illiterates, and female-headed households in developing countries. In addition to continued support for rural development, education, and population and health programs, the Bank should intensify its efforts to understand how the productivity and employment of such people can be increased. These efforts should include further experiments in designing projects that benefit the poorest families.

Better analysis of the social environment of a project, assessment of its likely social impact, and well-designed technical assistance are important components of lasting and successful development activities. Projects are more likely to benefit the poor to the extent that they improve
administration and management and build a strong institutional base that will endure after the project is completed. Other suggestions included in the text will be followed up by staff as part of the continuing effort to strengthen policies and programs in support of the Bank's development strategy.
NOTES


3. These percentages represent three-year averages for 1968–70 and 1979–81. The most recent budget projections suggest a slight reduction in shares for these sectors for the next five-year period.

4. In fiscal years (FY) 1978–80, the Bank completed ten country reports on basic needs, five on poverty and income distribution, and six on employment and labor markets. Of forty-nine special economic studies completed in these years, twenty-eight were on poverty-related issues. The countries covered included the most significant Bank borrowers. Nearly all the twenty-six country program papers produced in 1981 mention poverty-related issues, although the extent of coverage varies widely, and the relation of the conclusions to the lending program is often still tenuous.


6. In Bangladesh, for example, landless laborers make up about 20 percent of the rural population; people farming less than an acre of rented land and owning no land, 8 percent; and others farming
less than an acre, 10 percent. F. Tomasson Jannuzi and James T. Peach, *The Agrarian Structure of Bangladesh: Impediments to Development* (Boulder, Colo.: Westview, 1980).


8. These indirect benefits also have costs. About $1.25 of investment, plus labor input, was needed to generate this 80 cents of annual indirect benefits. Clive Bell, Peter Hazell, and Roger Slade, *Project Evaluation in Regional Perspective* (Baltimore, Md.: Johns Hopkins University Press, 1982).

9. This has benefited many thousands of landless persons owning no more than a milch buffalo or two. These people would probably have been subjugated by the local power elite unless protected by the centralized, formal, and almost parastatal organization of the cooperative.


16. Apart from the massive shift toward primary schooling, Bank loans also shifted, on a much smaller scale, toward nonformal and technical education. Evidence does not yet permit assessment of the poverty impact or overall success of such loans.


The basic needs approach to economic development is one way of helping the poor emerge from their poverty. It enables them to earn or obtain the necessities for life—nutrition, housing, water and sanitation, and especially education and health—and thus to increase their productivity. But this emphasis on meeting basic needs has been misinterpreted and abused and has aroused controversy and suspicion among groups across the spectrum of development thought.

In this book Paul Streeten and his coauthors answer these critics. They view the basic needs approach as a logical step in the evolution of economic analysis and development policy and present a clear-sighted interpretation of the issues. Based on the actual experience of various countries—their successes and failures—the book is a distillation of World Bank studies of the operational implications of meeting basic needs.