

# Poverty Reduction and the World Bank

## Progress and Challenges in the 1990s

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THE WORLD BANK

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# **Poverty Reduction**

**and**

# **The World Bank**

**Progress and Challenges in the 1990s**

World Bank  
Washington, D.C.

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# Contents

Acknowledgments v

Abbreviations and acronyms vi

Executive Summary vii

Introduction 1

- 1 **Worldwide Poverty Trends** 2
- Monitoring poverty 2
  - Recent changes in poverty 4
  - Progress in reducing poverty 5
  - Conclusions 9
- 2 **The World Bank's Support for Efforts to Reduce Poverty: Five Years**
- After World Development Report 1990* 10
- Including the poor in growth 10
  - Human capital development 18
  - Safety nets 23
  - Progress in fiscal 1995 25
  - Conclusions 30
- 3 **Impact of Strategies and Interventions on Reducing Poverty** 31
- Aggregate impact of all interventions 31
  - Impact of adjustment on poverty 32
  - Impact of projects on poverty 40
- 4 **Lessons Learned and Future Directions** 46

## Annexes

- A Program of targeted interventions, fiscal 1995 51
- B Poverty-focused SALs and SECALs, fiscal 1995 62
- C Annual lending to selected sectors, fiscal 1995 67
- D Poverty assessments completed in fiscal 1989-95 and scheduled for fiscal 1996-99 69
- E Poverty assessments, completed fiscal 1989-95, with report titles 70
- F Analytical work on poverty and summaries of completed poverty assessments, fiscal 1995 72
- Poverty Assessment Summaries
    - Argentina 76
    - Brazil 79
    - Cameroon 81
    - Colombia 83
    - Comoros 87
    - Dominican Republic 89

Fiji	91
Ghana (update)	93
Guatemala	95
Honduras	98
Jordan	100
Kenya	102
Kyrgyz Republic	105
Mauritania	108
Mauritius	110
Nicaragua	111
Poland	115
Russia	119
Senegal	122
Sri Lanka	123
Vietnam	126
Zambia	129
Zimbabwe	132

Notes	135
-------	-----

Bibliography	139
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Note to all Operational Managers and Staff: Poverty Reduction in Bank Operations	141
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#### Tables

1.1	Social Indicators: the narrowing gap between rich and poor	3
1.2	Population living below US\$1 a day in developing and transitional economies, 1987-1993	4
3.1	Incidence of social sector subsidies on the poorest and richest quintiles, selected countries	35
3.2	Performance of ongoing PTI projects, by region, fiscal 1993-1995	43

#### Boxes

1.1	Purchasing power parity (PPP) and poverty in China	6
2.1	A growing challenge—urban poverty	12
2.2	Supporting development of poor regions in a country	13
2.3	Financial services for the poor	14
2.4	New approach to land reform	15
2.5	Integrating the poor in the market economy	17
2.6	Recent support for basic education	20
2.7	Promoting the education of girls	21
2.8	Using analysis to design country assistance strategies to reduce poverty	26
2.9	Participation in selected fiscal 1995 projects	28
3.1	Private sector development and poverty reduction	36
3.2	How international trade can help poverty reduction efforts	37
3.3	Impact of structural adjustment on women	38
3.4	Poverty and adjustment in Tanzania	39
3.5	Adjustment and public expenditures in the Middle East and North Africa	40
3.6	Review of the impact on poverty in some IDA-8 projects	42

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## *Abbreviations and acronyms*

AGETIP	Agence d' Exécution de Travaux d' Intérêt Publique
ARPP	Annual Report on Portfolio Performance of the World Bank
CGAP	Consultative Group to Assist the Poorest
CAS	Country assistance strategy
CFA	Communauté financière africaine
GDP	Gross domestic product
EAP	East Asia and the Pacific
ECA	Europe and Central Asia
ERL	Emergency recovery loan
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
LAC	Latin America and the Caribbean
LSMS	Living Standards Measurement Study
MENA	Middle East and North Africa
NGO	Nongovernmental organization
OED	Operations Evaluation Department of the World Bank
PA	Poverty assessment
PER	Public expenditure reviews
PHN	Population, health, and nutrition
PPA	Participatory poverty assessment
PPP	Purchasing power parity
PSP	Poverty and Social Policy Department of the World Bank
PTI	Program of targeted interventions
RIL	Rehabilitation import loan
SAL	Structural adjustment loan
SAS	South Asia
SECAL	Sectoral adjustment loan
SDA	Social Dimensions of Adjustment
SPA	Special Program of Assistance
SSA	Sub-Saharan Africa
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WDR	<i>World Development Report</i>



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# *Executive Summary*

## **Poverty reduction: the most urgent task**

Poverty reduction is the most urgent task facing humanity today. It is a challenge that no country, developed or developing, has overcome. The World Bank, other international institutions, governments, NGOs, and local communities all need to redouble their efforts if there is to be measurable poverty reduction over the next decade. In addition, because resources are inevitably constrained for each of us, working in partnership will be all the more important if, together, we are to be successful in reducing the misery and poverty faced by more than a billion people in the world today. This report, one in an annual series from the World Bank, offers an update on progress being made in the fight against poverty.

Certainly, over the last twenty-five years the developing countries have made tremendous progress in improving living standards. Infant mortality has been halved, and on the average, people can expect to live nearly ten years longer. Even in Sub-Saharan Africa where progress in reducing poverty has been slowest, infant mortality rates have decreased by a third, and life expectancy has risen from forty-four years to fifty-two. Average incomes per person in the developing world have also doubled—a feat that took the United States nearly forty years, and the United Kingdom sixty years, to achieve.

And yet, despite this progress, more than 1.3 billion people in the developing world still struggle to survive on less than a dollar a day, and the number continues to increase. Every year nearly 8 million children die from diseases linked to dirty water and air pollution, 50 million children are mentally or physically damaged because of inadequate nutrition, and 130 million children—80 percent of them girls—are denied the chance to go to school. The shocking fact is that a child born in Sub-Saharan Africa today is still more likely to be malnourished than to go to primary school and

is as likely to die before the age of five as to enter secondary school.

Clearly, the primary responsibility for fighting poverty lies with the governments and people of the developing countries themselves. Institutions such as the World Bank have an important supporting role to play by providing information, analysis, and finance and by working in partnership with others to coordinate international action to reduce poverty. The International Development Association (IDA)—the Bank's concessional arm for lending to the world's poorest countries—is particularly vital in this effort.

## **Global poverty trends**

Poverty reduction efforts have been more successful in some regions than in others, and there has also been a varying amount of success within regions. Between 1987 and 1993, the incidence of poverty was on a downward trend in East Asia, in the Middle East and North Africa, and in South Asia. It has remained more or less stable in Latin America and Sub-Saharan Africa and has increased—although from very low levels—in Eastern Europe and Central Asia. About 90 percent of the poor people in the developing world today are located in Brazil, Central America, China, Indochina, Mongolia, South Asia, and Sub-Saharan Africa.

Increasing numbers of poor people live in areas that have little agricultural potential and are environmentally fragile. In fact, current estimates of the number of the poor indicate that poverty remains a rural phenomenon. But future projections show that the number of urban poor will exceed the number in rural areas by early next century. The urban poor generally live in appalling conditions. Infrastructure facilities lag far behind what is needed, and local governments do not have the resources to provide even the most basic services.

Urban poverty is emerging as one of the most serious challenges facing the world as we move toward the twenty-first century.

Since the Bank's *World Development Report* on poverty appeared in 1990, the amount of data available on poverty has increased significantly. This is particularly important because it makes it possible to assess better what is happening to the poverty rate over time. Nevertheless, it should be emphasized that the quality and comparability of the data on global poverty remain a concern, and much more needs to be done to develop systematic and reliable poverty monitoring systems in all developing countries.

## Strategy to reduce poverty

*World Development Report 1990* focused on a strategy to reduce poverty that had the following core elements:

- broad-based economic growth,
- developing human capital, and
- social safety nets for vulnerable groups.

### *Broad-based growth*

There are five areas in particular that are crucial for ensuring that the poor are able to maximize the benefits from growth: (i) providing the necessary framework for broad-based growth; (ii) ensuring access to essential assets; (iii) increasing the productivity of the poor; (iv) making sure that markets work for the poor; and (v) overcoming discrimination against the poor.

- ***Providing the necessary framework for broad-based growth.*** In recent years, the performance of low-income countries in South Asia—especially India, Pakistan, and Sri Lanka—has reaffirmed evidence that rapid labor-intensive growth can lead to sustained increases in productive employment and real earnings. Over the last five years, as its contribution to broad-based, sustainable growth, the World Bank has taken an integrated approach, providing US\$14 billion to support economic reform measures; US\$17 billion to help raise agricultural productivity; almost US\$13 billion to improve transportation; over US\$10 billion to support education; more than US\$7 billion to improve population, health, and nutrition; over US\$6 billion to support urban development; and about US\$5 billion to improve

water supply and sanitation systems. The Bank has also helped to develop data bases and poverty assessments, disseminate cross-country experiences, analyze country-specific situations, formulate strategies, coordinate with other donors, and support capacity building—all of which contribute to a country's efforts to reduce poverty.

In countries where poverty is heavily concentrated in specific regions, the Bank targets resources to a variety of activities in these regions to stimulate growth. For example, one of the most comprehensive rural development programs the Bank supports includes twenty-three different projects totaling US\$3.3 billion in Northeast Brazil where more than half of all poor Brazilians live. Projects in the northern, northwestern and southwestern provinces of China are other examples of how the Bank is helping to focus on especially poor areas. The *Southwest Poverty Reduction Project* in China also provides an example of a new generation of projects that emphasize participation by the poor in both implementation and design. Particular attention is given to ensuring that ethnic minorities and women are actively involved in, and deriving benefits from, the project.

- ***Helping to ensure access to key assets.*** Being poor usually means being without key assets, especially credit and land. Thus, the World Bank is increasing its efforts in these areas. Through a grant from its net income, for example, the Bank supported the successful Grameen Bank of Bangladesh in assisting other countries in replicating or expanding similar programs of making small-scale loans, primarily to poor women. The Bank is also a partner in the development and management of the international Consultative Group to Assist the Poorest (CGAP), which aims to increase access to micro-credit for poor entrepreneurs.

In Niger, the Bank-supported *Irrigation Promotion Project* is supporting a pilot program to help establish sixty savings and credit associations at the grassroots level; in Tunisia, the *Rural Finance Project* supports a program designed to reach credit-worthy small private farmers, fishermen, artisans, and rural women's enterprises; and in Albania, the *Rural Development Project* aims to establish about 135 village credit funds to provide small loans to rural microentrepreneurs.

The Bank is also working with a number of countries to increase the amount of land available

to the poor—working with the governments of Brazil, Colombia, and South Africa, for example, on new “market-assisted land reform” schemes to benefit small farmers.

- ***Increasing the productivity of the poor.*** Investments in basic education and health, agricultural extension, and business training are essential to help increase the productivity of the poor. During the past five years, the Bank has devoted over US\$17 billion to help developing countries increase their agricultural output, a steadily increasing proportion of which is targeted to poor farmers. One study of rural India found that increases in yields due to changes in agricultural technology reduced the incidence of poverty from 56 percent to 30 percent of the rural population. At the same time, Bank-supported projects in Kenya and other parts of Sub-Saharan Africa are focusing on increasing the productivity of microentrepreneurs through training, skills upgrading, and technology development for small enterprises.
- ***Making markets work for the poor.*** The Bank is urging governments to lift unnecessary and burdensome regulations such as licensing and start-up taxes for small firms. Recent infrastructure and transport projects supported by the Bank are increasingly focusing on building and maintaining rural infrastructure and roads in a sustained manner so that poor farmers can get to markets and obtain access to essential goods and services. In Mozambique, the *Second Roads and Coastal Shipping Project* includes a program to open access to remote areas where poor farmers live, which will lower the cost of getting to markets and increase farmers’ incomes and employment opportunities. Another innovative project in Peru, for transport rehabilitation, not only rehabilitates six national road sections that link key agricultural areas in the north with the central coast, but also constructs bicycle lanes to poor residential areas in Lima—because the poverty assessment found that 25 percent of the income of the urban poor was spent on transportation (a revolving fund is also being created under the project for the purchase of low-cost bicycles).
- ***Helping to overcome discrimination against the poor.*** Discriminatory practices keep many poor people from taking advantage of economic growth. Thus, the Bank is increasing its support in this difficult area, particularly by supporting women and indigenous groups. In the case of women, it is supporting appropriate agricultural technology, their

access to and right to own land, child care, education, and employment. Under the *National Land Administration Project* in Bolivia, for example, it was agreed that women and men should receive equal treatment in land allocation. Bank-supported employment projects in Romania and Turkey are also helping to ensure that training and career services are gender neutral.

### ***Developing the human capital of the poor***

The evidence is now overwhelming that increasing the human capital of the poor is one of the keys to reducing poverty. The capacity to earn income is clearly a major factor in lifting families out of poverty. In order to earn income, however, people need health, strength, and education. Thus, investing in the poor is vital to ensure that they participate fully in the growth of the economy and that they can be productive members of society.

Over the last decade, the Bank’s lending for human capital development has increased more than fivefold in nominal terms. In the period fiscal 1981 to 1983, it averaged 5 percent of lending. By fiscal 1993 to 1995, it equaled 16 percent of lending. In fact, the Bank is now the largest external provider of resources for social investment in the developing world. Basic education is a key element in developing the human capital of the poor, and three areas are particularly crucial in the Bank’s efforts to help poor children: early childhood development, primary education, and education for girls.

- ***Early childhood development.*** By the time a child is four or five years old, his or her major developmental patterns are already set. Thus, integrated interventions that aim to improve a child’s health and nutrition can have a lasting, positive effect. Early childhood development is a relatively new theme for the Bank, but an increasing number of Bank-supported projects are addressing this issue. Between 1990 and 1995, the Bank lent approximately US\$775 million for components in projects that integrated health, nutrition, and early childcare services.
- ***Primary education.*** A fundamental level of education is essential to reduce both individual and countrywide poverty. Although many studies have demonstrated the strong links between education and an individual’s income, more evidence is now emerging that links education and a country’s economic growth. Educating the children of the poor

greatly increases their chances of escaping poverty. Between 1993 and 1995 the Bank's support for primary education as a proportion of its total education lending grew from 34 percent of total education lending to 45 percent. The Bank has also increasingly used its education lending to rationalize postsecondary and higher education spending and to reallocate resources towards basic education. A major policy message behind the Bank's lending has been that supporting primary education is not just about increasing enrollment rates but also about improving the *quality* of the schooling provided. For example, the *Basic Education Project* in Honduras aims to improve the quality of basic education, especially for children in the poorest rural communities—and one of the target populations is indigenous children.

- **Educating girls.** Educating girls has a powerful, catalytic effect on every dimension of development, from lowering fertility rates to raising productivity and improving environmental management. It has become increasingly clear that educating women has an enormous impact on their well-being and productivity as well as on that of their families. *World Development Report 1993* on health found that, in Africa, for example, increasing female literacy by 10 percent could lower infant mortality by 10 percent.

Although most efforts in these sectors benefit both males and females, between 1993 and 1995 the percentage of education projects that contained explicit interventions aimed at benefiting girls and women rose from 39 percent to 58 percent. Because the Bank sees girls' education as having such vast potential, it proposed at the Fourth World Conference on Women in Beijing in 1995 that, by the year 2010, the international community should aim to ensure that all young children—both girls and boys—complete primary school and that an equal proportion of girls and boys (about 60 percent) go on to secondary school. The Bank committed itself to work with both borrowers and donors to shift priorities and mobilize additional resources to achieve these goals.

In addition to this focus on education, the Bank has also been increasing its emphasis on health, nutrition, and family planning services—as crucial means of investing in the human capital of the poor. Particular focus is being given to two areas of primary health care that are especially important to poor families: improving maternal and child health and raising the nutritional status of the poor, particularly

women and children. The Bank's direct support for nutrition, for example, has grown tenfold since 1990 (totaling over US\$1 billion). The scope of nutrition interventions has also broadened. In addition to the traditional population, health, and nutrition projects, nutrition is now frequently incorporated into operations in other sectors, including agriculture and food security, education, and industry projects.

### *Safety nets*

As well as promoting broad-based economic growth and investing in the human capital of the poor, the provision of safety nets for vulnerable groups is an important element in the strategy to reduce poverty. Accordingly, the Bank has become increasingly involved in the analysis and design of safety nets for the sick, the old, the disabled, those in the poorest regions, and those suffering from temporary economic setbacks. In the mid-1980s the Bank supported few safety net operations. Ten years later it was providing approximately US\$2 billion in support of safety-net operations. This support ranges from analysis and technical assistance to investment. For example:

- The Bank has supported short-term job creation as a safety-net measure to provide employment opportunities for the unskilled in urban areas—as in Chad, The Gambia, Mali, and Senegal.
- In Mexico, with support from the Bank, the government is trying to mitigate the effects of economic crisis through the ambitious US\$2 billion *Program of Essential Services*—which combines investments in essential services with short-term public works programs in low-income areas.
- In other parts of Latin America and much of Sub-Saharan Africa, support for safety nets has been in the form of social funds.
- In 1995, almost three-quarters of Bank support for safety-net operations went to countries in the former Soviet Union to help protect vulnerable groups during the economic transition.

### **Progress in fiscal 1995**

The Bank's poverty reduction strategy is prioritized, adapted, and applied to a specific country by means of (i) poverty assessments, social assessments, public expenditure reviews, and other analytical work that identify which elements of the strategy are most relevant to the prevailing country circumstances; (ii) the Bank's country assistance strategy (CAS), which

supports and complements governments' efforts to reduce poverty; and (iii) the lending program. The Bank then defines the most appropriate package of instruments in the context of the CAS. Progress is being made in all of these areas:

**Poverty assessments.** Poverty assessments are one of the main instruments for identifying the key poverty issues for each country and for helping to set the policy agenda for reducing poverty. By the end of fiscal year 1995, the total number of completed poverty assessments was sixty-two, covering 80 to 90 percent of the world's poor. Although progress is clearly being made in this area, delays in completing poverty assessments remain a concern. A higher priority needs to be assigned to completing poverty assessments—by both governments and the Bank.

The quality of the assessments completed in 1995 was considerably higher than in previous years in terms of the breadth of topics covered and the depth of their analysis. In addition, the process of preparing poverty assessments continues to foster cooperation among the Bank, governments, other donors, and civil society in formulating strategies aimed at reducing poverty. For example, the completion of several fiscal 1995 poverty assessments was followed by in-country workshops involving central and local governments, community organizations, non-governmental organizations, and donors. The Bank, governments, and donors also use consultative group meetings to discuss the preliminary or final findings of poverty assessments and to agree on poverty reduction strategies and the contribution of each organization to implementing them.

**Country assistance strategies.** All of the forty country assistance strategy documents that were produced in fiscal 1995 addressed poverty concerns directly. Almost all of the documents fully discussed strategies for improving the health and the education of the poor. While all the CAS documents discussed the policies and programs needed for growth, they did not all explicitly show how the patterns of growth advocated in the CAS documents would affect the poor. To improve the effectiveness of CAS documents, the Bank needs to strengthen the links between poverty assessments and the development and articulation of the poverty-reduction strategy in CAS documents.

**Lending.** In fiscal 1995 about 32 percent of World Bank investment lending, or approximately US\$5.4 billion, met the criteria for inclusion in the poverty-targeted Program of Targeted Interventions (PTI)—

up from US\$4.4 billion or 25 percent during fiscal 1994. For IDA countries, lending for PTI projects was 54 percent of fiscal 1995 IDA investment lending, up from 43 percent in fiscal 1994. Over the four years that the Bank has been monitoring PTI projects, it has contributed loans worth US\$18.4 billion that have leveraged an additional US\$20 billion in support. On average, between fiscal 1992 and 1995, more than a quarter of total Bank investment lending has been devoted to the PTIs. Fourteen of the twenty-seven adjustment operations that were approved during fiscal 1995 were specifically poverty-focused (52 percent). Although this is a decline relative to fiscal 1994 (71 percent), actual lending for poverty-focused operations remained relatively constant (US\$1.67 billion in fiscal 1994 and US\$1.65 billion in fiscal 1995). For IDA countries, the share of poverty-focused adjustment operations increased from 44 to 56 percent.

### Impact of poverty-reduction strategies

It is imperative that the impact of poverty-reduction strategies and interventions be measured to determine how effective they are. However, it can be extremely difficult to distinguish the "on-the-ground" impact of an individual institution's efforts because other factors come into play—such as external economic factors, climatic conditions, the extent of the government's own commitment, its institutional capacity, the political environment, and the role of other donors. Nevertheless, it is possible to estimate some aggregate effects of all interventions within a given country by looking at what is known about the links between growth, poverty reduction, and inequality. It is also possible to evaluate the impact of individual Bank-supported projects.

**Aggregate impact.** Analysis of the most recent data has confirmed a number of important points. No country has been able to sustain its efforts in reducing poverty without continuing positive economic growth. In the vast majority of areas where poverty persists, expected levels of growth have the potential to provide much-needed jobs and higher incomes as well as the additional resources needed to fund human capital development and safety-net programs. Sub-Saharan Africa is an exception, however, with expected levels of growth well below what is needed. Significant efforts will be required in this region to make adequate strides in reducing poverty.

While it is clear that the higher the rate of growth, the more poverty is reduced in a given country, there

is considerable variation across countries in the impact of a given rate of growth on poverty. Income distribution is an important determinant of how growth affects poverty reduction. On the other hand, there is no evidence that growth necessarily exacerbates income inequality. Aggregate growth was associated with a decrease in inequality (fifty-four cases) about as often as with an increase in inequality (fifty-five cases), primarily because the changes in inequality have been small. While more work needs to be done on why the effect of growth on inequality varies, two facts are clear. First, the greater the reduction in income inequality over time, the greater the impact of growth on poverty reduction. Second, studies have found that the level of income inequality during the base year influences poverty reduction in subsequent years. To achieve sustainable growth and poverty reduction, countries must continually adjust to external and internal conditions.

The Bank's support for adjustment operations has become more specifically poverty-focused over time. In addition to including measures to protect or increase social sector expenditures, the Bank's adjustment operations are also increasingly including provisions to put safety nets in place to support those most affected during the process of economic reform and transition. Operations are also including more active measures to reduce economic distortions that disproportionately hurt the poor. The Bank is working to improve, for example, its knowledge of how adjustment affects women and to change its operations to address the issue.

**Impact of projects.** A recent Bank study of sixty-seven IDA-8 projects approved between fiscal 1988 and 1990 was undertaken to assess the impact of projects that aimed to benefit the poor. Overall, the study concluded that the performance ratings of the sixty-seven IDA-8 projects were better than the averages for all IDA-8 projects and all IDA projects ongoing in fiscal 1992–94. However, several common problems were found, including problems with country project management, disbursement and procurement, governments' failure to implement complementary actions, the shortage or absence of counterpart funds, and adverse external factors such as price shocks, war and security situations, and adverse climatic conditions. A review of ongoing poverty-targeted projects in fiscal years 1993, 1994, and 1995 showed that in each year, PTI projects were rated as more likely to achieve their development objectives and less likely to have implementation problems than the average for the Bank's overall portfolio.

Efforts continue to be made to refine the ways in which the Bank evaluates its projects. However, more work needs to be done to devise ways of evaluating whether the outcomes observed are a result of the projects themselves or of other factors, as even project-specific indicators are not immune from being influenced by factors external to the project. The Bank is actively engaged in research to refine these monitoring systems, in particular, by using randomized control designs to isolate the effects of the Bank's projects from the other factors that affect poverty in a given country.

## Lessons learned

The surge in poverty assessments and analysis and the many lessons learned from the experience of the last five years have helped the Bank to refine and tailor its poverty-reduction strategy to different country situations. These lessons have also helped to improve the way in which projects and policies are implemented so as to increase their impact on reducing poverty. As a result, the poverty reduction strategy that the Bank is implementing today—although still relying on broad-based growth, human capital development, and safety nets—is much more refined to the needs of each region and, within regions, to specific country needs.

The most pressing need now is to integrate the findings of poverty assessments into country assistance strategies—including both lending and nonlending services. This should be followed by effective monitoring of the impact of projects and programs on poverty reduction. The following outlines the six most important lessons learned. Each carries important implications in terms of the Bank's effectiveness in helping its member countries to reduce poverty:

- *First, analysis of the most recent data has improved our knowledge of how important growth is to reducing poverty; cross-country and time-series analysis of new data has confirmed that growth is critical in the fight against poverty in every single region of the world.*
- *Second, specific country analysis in the form of poverty assessments can contribute greatly to improving the impact of actions to reduce poverty by improving our understanding of country poverty issues and identifying those that are most important, thus providing a basis for more informed dialogue, helping to fine-tune Bank interventions, and better coordinating donor and government actions to reduce poverty.*

- *Third, to maximize the impact of country-specific analysis on helping countries reduce poverty, experience to date shows that much more work needs to be done to ensure better links between the findings of poverty assessments, the country assistance strategies, the resulting lending program, the dialogue with governments, and the follow-up analysis to ensure that a cohesive and comprehensive poverty reduction strategy is pursued.*
- *Fourth, governments and donors need to know the impact of their efforts to reduce poverty in order to monitor progress, but much more remains to be done to establish effective poverty monitoring systems.*
- *Fifth, because the Bank as an institution needs to be able to monitor how its projects are helping in the fight against poverty, it is important to devise better methods of measuring the “on-the-ground” impact of the Bank’s interventions.*
- *Sixth, there remain several essential prerequisites to maximizing the impact of any donor’s interventions to*

*reduce poverty—government commitment, available institutional capacity, and participation of the people.*

## Conclusion

Learning from past experience is essential to the effort to help countries reduce poverty in the future. Governments, donors, and the nongovernmental community must build on what has worked. Where strategies or interventions have been unsuccessful, new and creative solutions need to be piloted. This learning process must involve the participation of the poor themselves so that they can better understand and have input into the government’s program to generate growth and reduce poverty. This will enhance both the effectiveness and the sustainability of all actions to reduce poverty. Renewed efforts are critically needed at this juncture if the lives of more than 1.3 billion women, men, and children are to escape from the poverty they suffer today.





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# Introduction

Reducing poverty in developing countries is the most persistent challenge facing the world today. The governments and civil societies of developing countries are in the forefront of the battle to reduce poverty. Institutions such as the World Bank are working to improve their efforts to help governments. The Bank works with governments in supporting poverty reduction objectives in a wide variety of ways, including by providing information, analysis, and financial assistance and by liaising with other donors.

The World Bank's efforts are continuing to evolve from the framework established in *World Development Report 1990: Poverty*. That WDR took stock of country experiences in reducing poverty from around the world and found that success in reducing poverty resulted from two complementary approaches: supporting growth that both reached the poor and encouraged their participation in growth and making adequate investments in the human capital of the poor. On the basis of this finding, the Bank crystallized its previous efforts to help governments to reduce poverty (as outlined, for instance, in *WDR 1980*) and adopted a more comprehensive approach based on promoting broad-based growth, investing in basic services that benefit the poor, and providing safety nets for the most vulnerable members of society. Although the Bank's actions can be categorized under these headings, being poor is a complex state and, therefore, in practice, the Bank's approach consists of many diverse elements.

In this context, this report examines how far developing countries have come since 1990 toward meeting the challenge of reducing poverty and how the Bank's support for their efforts has evolved. The

report concludes that some progress has been made in reducing poverty in the developing world since the late 1980s, although there have been important regional variations in both outcomes and circumstances. It confirms the crucial importance of growth for reducing poverty, but it recognizes that other measures will be required to raise significant numbers of people out of poverty. Two additional conditions must be met. First, *prevailing conditions must enable the poor to participate in economic growth*. Second, in many countries, it will only be possible to make radical reductions in poverty in the future if the *benefits of growth favor the poor disproportionately*. The report also finds that the Bank has made good progress in implementing its poverty reduction strategy at the country level in much of its work, both in the five years since the strategy was adopted and in fiscal 1995 in particular, but the challenge remains substantial.

The report is organized as follows. Chapter 1 examines worldwide trends in poverty and welfare indicators from the late 1980s to the mid-1990s and assesses the extent to which poverty has fallen. Chapter 2 outlines how the Bank has been supporting government efforts to reduce poverty at the country level since 1990 and reports on progress made by the World Bank in fiscal 1995. Chapter 3 uses the latest household survey data and other sources of information to explore the impact that various key factors (growth, adjustment reforms, public expenditures, and projects) have had on reducing poverty. Finally, Chapter 4 discusses important lessons learned about reducing poverty and highlights several areas that need to be given more emphasis in the future.

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# 1 Worldwide Poverty Trends

Being poor is related to a wide range of factors including income, health, education, access to goods, geographical location, gender, ethnic origin, and family circumstances. It is difficult to measure poverty in such a way as to capture its multidimensional nature, but a commonly used measure of poverty is the income or consumption of individuals or households. However, to get a clearer picture of poverty, it is also important to take into account social indicators such as life expectancy, infant mortality rates, and school enrollment rates.

Regardless of which indicators are used, it is clear that tremendous progress has been made over the last few decades in raising living standards in developing countries. In the past twenty-five years alone, average per capita incomes in the developing world have doubled—a feat that took the United States nearly forty years and the United Kingdom sixty years. When income measures are supplemented with other indicators of human welfare, it also becomes clear that people in the developing world today are living longer, healthier, and better-educated lives than they were a generation ago (see table 1.1) and have more access to such services as electricity and running water.

Nevertheless, much remains to be done. In 1993, an estimated 1.3 billion people in the developing world still lived on less than a dollar a day. Over the past 30 years, incomes in the countries with the richest 20 percent of the world's population grew nearly three times faster than in those countries with the poorest 20 percent (although this trend was reversed in 1994, with low- and middle-income countries growing faster than high-income countries). Half a million women die each year from maternity-related complications, 7 million people still die every year from easily preventable diseases, and nearly 8 million children die every year from diseases linked to dirty water and air pollution. Moreover, 50 million children are mentally or physically impaired because of inadequate nutrition, and 130 million children—80 percent of them girls—are denied the chance to

go to school. The challenge can be illustrated by the fact that a child born in Sub-Saharan Africa today is more likely to be malnourished than to go to primary school and is as likely to die before the age of five as to enter secondary school.

## Monitoring poverty

To understand better how the benefits of growth are shared within societies, household surveys of living conditions are essential. Such surveys can help to answer such questions as how the poor share in the benefits of growth, how much they lose from aggregate economic contraction, whether initial inequality impedes the prospects for a pro-poor pattern of growth, and whether households have access to or utilize social services, as well as how affordable these services are to them.

Tremendous gains have been made in collecting information to answer such questions. Since the first poverty progress report, which looked at poverty trends (*Implementing the World Bank's Strategy to Reduce Poverty: Progress and Challenges*, World Bank 1993b), the amount of data that is available has increased significantly. The number of low- and middle-income countries with household survey data on income and/or consumption expenditures has more than doubled from thirty-one to seventy-one,<sup>1</sup> and the number of countries with data available for at least two points in time has quadrupled over this period from eleven to forty-four.<sup>2</sup> This is particularly important because having surveys (that are roughly comparable) at two or more different points in time makes it possible to assess what has happened to the poverty rate over time.<sup>3</sup>

The time lag between when the survey is completed and when analysts can obtain and use survey results has been reduced.<sup>4</sup> The quality of surveys has also improved, although this is more difficult to measure. Efforts to improve data quality and increase country coverage have been made by the United Nations (under

the National Household Survey Capability Programme) and the World Bank (under the Living Standards Measurement Study, and in Sub-Saharan Africa, the Social Dimensions of Adjustment Project).

Nevertheless, the quality and comparability of data (over time and place) remain a concern. Generally, the poorer a country is, the less is known about how poor its people are and whether or not any improvements are being made. With respect to distributional data, many past estimates (for the 1960s and 1970s) for such indicators as the poverty rates and the Gini index of inequality were synthetic estimates built from sources other than household surveys. The regional estimates of poverty used in the first progress report (World Bank 1993b) were produced

by supplementing survey data with synthetic estimates of country poverty rates obtained by linking the relatively few survey observations that were available to a number of social and economic variables, including the growth in mean consumption, and then extrapolating to get the poverty rates for those countries for which no surveys were available.<sup>5</sup> Even among the survey-based estimates, the measures of living standards often differ greatly (for instance, some are based on household income and some on expenditures), resulting in differences across countries, or even within countries, that do not relate to changes in actual inequality or poverty.<sup>6</sup> Likewise, even for countries in which multiple surveys have been carried out, the methodology and vari-

**Table 1.1 Social indicators: the narrowing gap between rich and poor**

<i>Region</i>	1970	1982	1987	1993
<b>Infant mortality rate (per 1,000 live births)</b>				
East Asia and the Pacific	77	48	44	35
Eastern Europe and Central Asia	46	33	29	24
Latin America and the Caribbean	83	57	49	43
Middle East and North Africa	135	90	67	53
South Asia	138	110	97	84
Sub-Saharan Africa	132	112	103	93
Developing Countries	97	71	63	54
OECD	19	20	8	7
<b>Life expectancy (years)</b>				
East Asia and the Pacific	59	65	67	68
Eastern Europe and Central Asia	67	68	69	69
Latin America and the Caribbean	61	65	67	69
Middle East and North Africa	53	59	63	66
South Asia	49	55	57	60
Sub-Saharan Africa	44	48	50	52
Developing Countries	56	61	63	65
OECD	72	75	76	77
<b>Gross primary school enrollment ratios (percent)</b>				
East Asia and the Pacific	88	111	125	118 <sup>a</sup>
Latin America and the Caribbean	99 <sup>b</sup>	105 <sup>c</sup>	105	107 <sup>d</sup>
Middle East and North Africa	68	91	94	96 <sup>a</sup>
South Asia	67	77	88	106
Sub-Saharan Africa	50	74	69	67 <sup>e</sup>
Developing Countries	78	95	105	107
OECD	104 <sup>f</sup>	102	103	103 <sup>d</sup>

*Note:* Declines in gross enrollment ratios that are over 100 do not necessarily mean a decrease in the proportion of school-age children going to school. They might reflect a reduction in the numbers of over-age children as a result of improvements in quality and increases in efficiency as fewer children start school late or repeat grades.

<sup>a</sup>1992    <sup>b</sup>1975    <sup>c</sup>1980    <sup>d</sup>1991    <sup>e</sup>1990    <sup>f</sup>1965

*Source:* World Bank economic and social data base.

ables used to determine living standards can be different across surveys, making it difficult to make comparisons.<sup>7</sup>

### Recent changes in poverty

In order to evaluate how successful worldwide poverty reduction efforts have been, it is useful to track the number and percentage of the world's population who are poor. This can be difficult for several reasons. First, the basis upon which poverty lines are created differs among countries. Poverty lines in some countries cover more goods and services than poverty lines in other countries. Second, the incidence of poverty can be sensitive to where the poverty line is set. Third, survey methodologies and indicators of welfare often differ from country to country.

To develop a consistent poverty line that allows comparisons to be made across countries (meaning that a poor person in Africa has approximately the same standard of living as a poor person in South Asia), the *World Development Report 1990* (World Bank 1990) and *Implementing the World Bank's Strategy to Reduce Poverty* (World Bank 1993b) used US\$1 per person per day as a minimum poverty line for consistent international comparisons.<sup>8</sup> Purchasing power parity (PPP) indices based on consumption are used to convert the US\$1 per person per day standard into local currency. The level of poverty reported in the current report may be different for some regions than previously reported because of (i) the increase in coverage with new household survey data becoming available; (ii) a change in methodology, which now avoids many of the extrapolations used

**Table 1.2 Population living below US\$1 a day in developing and transitional economies, 1987–1993**

Regions	Population covered by at least one survey (percent)	Number of poor (millions)			Headcount index (percent)			Poverty gap (percent)		
		1987	1990	1993	1987	1990	1993	1987	1990	1993
East Asia and the Pacific (excluding China)	88.0 (61.5)	464.0 (109.2)	468.2 (89.3)	445.8 (73.5)	28.2 (23.2)	28.5 (17.6)	26.0 (13.7)	8.3 (3.8)	8.0 (3.1)	7.8 (3.1)
Eastern Europe and Central Asia	85.9	2.2	n.a.	14.5	0.6	n.a.	3.5	0.2	n.a.	1.1
Latin America and the Caribbean	83.9	91.2	101.0	109.6	22.0	23.0	23.5	8.2	9.0	9.1
Middle East and North Africa	46.7	10.3	10.4	10.7	4.7	4.3	4.1	0.9	0.7	0.6
South Asia	98.4	479.9	480.4	514.7	45.4	43.0	43.1	14.1	12.3	12.6
Sub-Saharan Africa	65.9	179.6	201.2	218.6	38.5	39.3	39.1	14.4	14.5	15.3
Total	85.0	1,227.1	n.a.	1,313.9	30.1	n.a.	29.4	9.5	n.a.	9.2
Total (excluding ECA)	85.0	1,224.9	1,261.2	1,299.3	33.3	32.9	31.8	10.8	10.3	10.5

n.a. Not available.

*Note:* These estimates revise and update those in *Implementing the World Bank's Strategy to Reduce Poverty* (World Bank 1993b). There are a number of differences between these numbers and previous estimates, including those in *World Development Report 1990*. New household surveys have become available; a total of 122 surveys for sixty-seven countries were used in constructing the above estimates. They also incorporate new estimates of PPP exchange rates for converting US\$1 per day (in 1985 prices) into local currencies. And the numbers are estimated from those countries in each region for which at least one survey was available during the period 1985–94. The proportion of the population covered by such surveys is given in column 1. Survey dates often do not coincide with the dates in the above table. To line up with the above dates, the survey estimates were adjusted using the closest available survey for each country and applying the consumption growth rate from national accounts. Using the assumption that the sample of countries covered by surveys is representative of the region as a whole, the numbers of poor are then estimated by region. This assumption is obviously less robust in the Middle East and African regions. The headcount index is the percentage of the population below the poverty line. The poverty gap index is the mean distance below the poverty line (zero to the nonpoor) expressed as a percentage of the poverty line. Further details on data and methodology can be found in Ravallion and Chen 1996 and in endnote 11.

in earlier estimates; and (iii) the switch to new PPPs. The poverty estimates presented here differ in methodology in that they are based entirely on household surveys rather than synthetic estimates. This methodology, which will be used consistently in the future, is an advance because it is grounded on survey data rather than on modeling estimates. Regional coverage of the surveys is quite high for most regions.<sup>9</sup> This report also uses the most recent PPP estimates, which are significantly different from the PPPs used in the reports mentioned above. One area where the change in the PPP has made a tremendous difference is in East Asia because of the revision of the China PPP. If the old PPPs are used, the incidence of poverty in East Asia, including China, is 14 percent (1987), 14 percent (1990), and 11.6 percent (1993),<sup>10</sup> as opposed to 28 percent (1987), 28 percent (1990), and 26 percent (1993) using the new estimates. The revised PPP rates lower the estimate for India, and hence bring down the South Asia aggregate, and lower the rates for the Middle East and North Africa (MENA). The numbers for Latin America and Sub-Saharan Africa are affected very little by the revisions to the PPPs.

One final note of caution is that these numbers often differ from those quoted in other studies because different poverty lines are used. In Latin America, for instance, a poverty line of US\$2 per person per day is often used. Likewise, in Europe and Central Asia, a poverty line of close to US\$4 per person per day is frequently used, reflecting the higher average levels of income in the region. China's official poverty line has been approximately US\$0.60 per person per day. As a result, it needs to be reiterated that this report uses the US\$1 per person per day figure to ensure that a consistent poverty line is used to make comparisons among developing countries throughout the world.

### Progress in reducing poverty

Inroads have continued to be made in reducing the incidence of poverty throughout the world, although overall the gains have been modest (see table 1.2).<sup>11</sup> While the incidence of poverty fell slightly from 30 to 29 percent of the world's population between 1987 and 1993, the number of people living on less than a dollar a day continued to increase. Poverty reduction efforts have been more successful in some regions than in others, and within regions there are also variable track records. Nevertheless, many poverty issues are

common to the vast majority of countries, including such important issues as the misallocation of social expenditures, the special problems faced by poor children, and the education of girls. The following section discusses the progress made and the lessons learned over the last few years by region.

### *East Asia and the Pacific (EAP)*

East Asia accounts for approximately a third of the world's poor (who are mainly located in China and Indochina). The trends in the incidence of poverty in the region show a modest overall decline between the late 1980s and the early 1990s. China's large population weight in the region (approximately 70 percent) heavily influences the overall regional trends. However, experience within the region has been diverse and, if China is excluded from the estimates, the reduction in poverty for the region is dramatic, declining from 23 percent to just under 14 percent between 1987 and 1993 alone.

For China, the most dramatic reduction in poverty occurred early in the 1980s, following reforms in agriculture. Between 1978 and 1985, the number of poor declined from 270 million to less than 100 million, according to the national poverty threshold of US\$0.60 per day (see box 1.1). Since then, poverty reduction has continued at a slower rate despite rapid overall growth. Periods of macroeconomic tightening have led to temporary setbacks in poverty reduction. Overall progress has also slowed owing to declining gains in agricultural productivity and relatively limited rural outmigration to fast-growing urban and coastal areas. The estimate of the number of poor people in China is very sensitive to the choice of poverty threshold. Although in 1993, some 350 million Chinese lived below the international standard of US\$1 per day, fewer than 100 million of them would be considered poor by the more stringent standard of US\$0.60 per day, suggesting that there are a large number of people who are close to being poor by the national standard of absolute poverty. While the range of estimates of the number of the poor is large, there is no uncertainty about trends. The share of the Chinese population living below the US\$1 per day level fell modestly from 31.5 percent in 1987 to 29.4 percent in 1993, but declined strongly to an estimated 26.9 percent in 1994. The share of the population below the poverty threshold of US\$0.60 per day declined similarly, from 8.4 percent in 1987 to 8.1 percent in 1993 to an estimated 6.9 percent in 1994.

**Box 1.1 Purchasing power parity (PPP) and poverty in China**

The new Penn World Table (PWT 5.6)—the most authoritative source of PPP indices—reduces substantially the Penn team's previous estimate (PWT 5.0—Summers and Heston 1991) of China's PPP GDP, on the basis of improved price indices and a revised estimation of growth. This lower estimate of per capita income results in a near tripling of the percentage of China's population living under US\$1 per day (in 1985 prices). By this international yardstick, China's poverty incidence is now estimated to be 31.5 percent in 1987 and 29.4 percent in 1993, and 26.9 percent in 1994. While this adjustment constitutes a significant improvement over earlier estimates, a fully reliable PPP

estimate will be available only after China carries out the necessary price and expenditure surveys.

The government uses a more stringent definition of absolute poverty for the purposes of targeting its social expenditures. The national poverty line reported in World Bank 1992 is based on the cost of a subsistence consumption basket comprising essential food (2,150 calories per day) and nonfood items. This poverty line translates into US\$0.60 per day in 1985 international prices. By this measure, the incidence of severe poverty in China, now located primarily in regional pockets, has fallen from 8.4 percent in 1987 to 8.1 percent in 1993 to an estimated 6.9 percent in 1994.

Overall, this region, which grew faster than any other region of the world between 1965 and 1990, continued to grow at a rate of between 6 and 10 percent each year between 1991 and 1994. This success can be explained by the rapid accumulation of human and physical capital and the allocation of that capital to highly productive investments (see World Bank 1993a). Impressive though this record is, much remains to be done. Many of the region's poor live in low-income member countries, including six economies in transition (Cambodia, China, the Lao People's Democratic Republic—PDR, Mongolia, Myanmar, and Vietnam). Moreover, even those countries that are doing well, such as Indonesia, still have annual per capita incomes of under US\$1,000.

Clearly, it is appropriate for governments in the region to continue to pursue policies that promote broad-based, labor-intensive growth and widespread access to basic services. In China, more work is needed to understand why the tremendous gains in poverty reduction during the 1970s and early 1980s have slowed. However, continued growth alone cannot be relied upon to reduce poverty in countries where poverty is concentrated in remote areas of the region. Narrowly targeted programs will be necessary to reach the remaining pockets of poverty. Also, for those countries in transition, success in sustaining high rates of growth will depend critically on their completing the necessary legal, budgetary, and governance reforms that market economies require.

***Latin America and the Caribbean (LAC)***

Poverty in LAC increased substantially during the debt crisis of the 1980s, but has stabilized with the resumption of growth in the early 1990s. Robust rates of economic expansion in recent years in countries

like Chile and Peru, the payoffs from economic reforms in Argentina and elsewhere, and the decrease in civil strife in parts of Central America have all helped to reduce poverty. The Mexican peso crisis in 1995 was a countervailing negative factor, but the worst effects of the crisis on the poor now seem to have been contained by a combination of government policies and international support.

Although LAC is not the world's poorest developing region, about a quarter of its population live on less than one dollar a day. The most widespread poverty is in Central America, where approximately 60 percent of the population is considered poor. Poverty in the region is predominantly urban. The majority of the increase in poverty in the region over the last ten to fifteen years has been in the cities. The urban poor include a disproportionate number of single mothers, parents with little or no education, and young people for whom there are insufficient jobs. However, in most of the region, the poorest 10 to 20 percent of the population are found in rural areas and are often indigenous people. This rural poverty tends to be concentrated in remote areas with low agricultural productivity and few nonfarm jobs.

This situation is compounded by the fact that income distribution in LAC approaches the most unequal in the developing world. In countries with large indigenous populations (for example, Peru), the income of the wealthiest 10 percent of the population can be eighty times the income of the poorest 10 percent. There are several reasons for this. First, the levels of educational attainment are low on average. The adult population of the region as a whole has an average of only 5.2 years of education. The majority of children in the region do not even complete primary school, and the average quality of the primary

schooling that is provided is dismal. Second, there is also considerable inequality in access to, and quality of, education. Enrollment in secondary school, for example, is a privilege largely confined to middle- and upper-income groups. Currently, low-quality public schools coexist with first-rate private schools, thus perpetuating social inequalities into the next generation.

One key lesson of Latin America's development experience since the 1980s is the reaffirmation of the crucial importance of macroeconomic stability and economic growth for reducing poverty, as illustrated in the cases of Mexico and Peru. Increasing access to education and improving its quality are also vital prerequisites for reducing poverty in the region. This will require both an increase in funding and the reallocation of existing resources within the sector toward primary education and away from subsidizing university education for the rich. Reducing urban poverty will involve: increasing employment opportunities for the urban poor; targeting urban services to those most in need; making social safety nets more effective and reforming existing social security systems; reducing street crime, violence, drugs, and prostitution; and reforming municipal administration. Reducing rural poverty will require eliminating regulatory barriers to enable the agricultural sector to take advantage of trade liberalization and open markets. Increasing the access of the rural poor to land is another important requirement for rural poverty reduction. "Market-based" land reform that sets up incentives for owners of large, inefficient estates to sell some of their land and helps small farmers to purchase this land is one promising approach.

### *Middle East and North Africa (MENA)*

The incidence of poverty in the MENA region has consistently declined between 1987 and 1993 although the absolute numbers of poor have not declined. Compared to the rest of the world, poverty is limited in this region, with fewer than 5 percent of its population living on less than a dollar a day. Income inequality is low relative to other regions. Poverty is most pronounced in rural areas. Nevertheless, urban poverty is rising as earning opportunities remain constrained in rural areas and poor people move to the cities. Poverty is especially prevalent among the self-employed who are engaged in small trading activities. Pockets of poverty also exist among female-headed households, the disabled, and the elderly. Lack of education is one of the most important characteristics of the poor. In Tunisia, for

example, more than 90 percent of the heads of poor households have not completed primary education.

A recent study on poverty in MENA (van Eeghen 1995) showed that, consistent with international experience, growth effects have been more important than redistribution effects in reducing poverty. The pattern of growth, however, remains important. In both Morocco and Tunisia, for instance, growth has been essentially labor intensive, which has benefited the poor. In the region as a whole, macroeconomic and structural reforms have changed the incentive structure, exports have become more competitive, and the price of labor relative to capital has decreased. As real wages have been kept in check, employment has expanded rapidly. These jobs consist mostly of temporary and low-skilled, low-wage jobs in export-oriented manufacturing sectors such as textiles, leather, and agroindustries. Employment has also increased in the informal sector. There is little room for complacency, however. With respect to social indicators, although they continue to improve in the region, they remain below the levels achieved in countries with comparable per capita income levels.<sup>12</sup>

Because poverty levels in the region are closely linked to growth rates, countries need to continue to pursue policies that will stimulate growth and employment opportunities for the poor. To continue generating employment, experience has shown that it will be important to keep wages flexible. Increasing growth is also essential in order to raise resources to be spent on efforts to improve social indicators. However, there are significant biases within the public social sector budgets in most countries in the region in favor of higher levels of service that benefit the nonpoor at the expense of basic education and health services, which benefit the poor. Thus, public expenditures need to be reallocated in favor of the levels of service that most benefit the poor. The private sector currently provides a large percentage of the total health and education spending in most of the countries in the region, and its efforts and impact could be increased by improving the right kinds of incentives.<sup>13</sup> Targeted interventions will also be required where pockets of poverty remain, even in countries with high growth rates.

### *Sub-Saharan Africa (SSA)*

Between 1987 and 1993, the incidence of poverty remained at around 39 percent in Sub-Saharan Africa. Although there was an increase during the late 1980s, the incidence of poverty remained relatively steady

in the early 1990s. There have been some gains for the poor. The reduction in poverty in Nigeria and Ghana, which together account for about a fifth of the region's population, explain in part the reduction in the incidence of poverty overall in this region in the early 1990s. Unfortunately, the drop in Nigeria's poverty rate has probably not been sustained since 1993 because the government has reversed its reform efforts and economic growth has declined. Out of forty-three countries in Africa for which information was available, twenty-three had negative growth in per capita consumption during 1989–1992, and only five countries had per capita growth rates above 2 percent a year. Reducing poverty in Africa remains a tremendous challenge.

There can be little doubt that the people in Sub-Saharan Africa remain among the poorest in the world. Poverty in this region is characterized by a lack of access to productive resources and services, severely limited employment opportunities, limited access to land and capital, markets that are frequently biased against the poor (particularly women), and inadequate education, health, and water and sanitation services, which are especially bad in rural areas. Progress in reducing poverty in the region as a whole has, for the most part, been negligible, and social indicators remain extremely low compared to other regions. In Sub-Saharan Africa, as in most regions, there is a consistent relationship between social indicators and levels of income as measured by per capita GDP. Most poverty in the region is rural. Income distribution is an important issue, while gender inequities are particularly prevalent. (Several reports have delved into the poverty problems of Africa. See, for example, World Bank 1994d, World Bank 1995g and World Bank 1996c.)

Reducing poverty in Sub-Saharan Africa will require renewed commitment on the part of governments to achieve sustainable growth that creates jobs and raises the returns to agriculture, thus enabling the poor to participate in growth. Access to basic social services will need to be increased, especially for women; primary school enrollments, especially for girls, need to be raised; and the availability and use of local health services will need to be increased. Because institutional capacity in the public sector is very weak in almost every Sub-Saharan African country, capacity building and training, as well as increased coordination and work with communities, nongovernmental organizations (NGOs), and churches, are essential elements of any poverty reduction strategy in this region.

### *South Asia (SAS)*

The incidence and depth of poverty in South Asia have gone down since the late 1980s, but the number of poor people has increased. By current estimates, the South Asia region has one of the highest aggregate poverty levels in the world. While South Asia is home to a quarter of the world's population, it accounts for 39 percent of the world's poor. Reducing poverty and improving living conditions are central objectives for countries throughout the region. It is now universally recognized that high and sustained economic growth is necessary for reducing poverty and that sound economic management is essential for growth. South Asia's growth record was good during the 1980s and there is convincing evidence that these high growth rates were reflected in rising household incomes and falling poverty levels. However, the growth of the 1980s was not sustainable, in large part owing to increasing fiscal and balance of payment difficulties. In response, governments in Bangladesh, India, Nepal, Pakistan, and Sri Lanka all initiated, renewed, or expanded economic reform programs in the early 1990s. Economic recovery has been steady but slow, which in large part explains the sluggish rate of poverty reduction in the early 1990s.

Further success in reducing poverty depends critically on the success of ongoing reforms. There is encouraging evidence that these reforms have begun to bear fruit in the form of accelerated growth. However, the poor in South Asia tend to be located mainly in rural areas, to be largely illiterate, and to depend on subsistence agriculture and low-skill wage employment for their livelihood. Agriculture and associated trade reforms have been uneven, and emphasis must be given in the future to policies that increase agricultural output and rural employment and earnings. Efforts are also under way to create an enabling environment for growth in rural areas, for example, by increasing investment in rural infrastructure and by reforming rural credit institutions. Urban poverty is a significant and growing problem—particularly in some of India's largest cities where hundreds of thousands of poor people live on the streets—and the burgeoning population is placing overwhelming demands on a very limited infrastructure base. Sustainable urban growth requires a dynamic private sector. There has been some progress, but much remains to be done to create an enabling environment for private sector development in South Asia (in other words, improving the business environment by deregulating, by introducing trade and exchange rate reforms, and by developing the financial sector).



Clearly growth alone will not be sufficient to meet the needs of South Asia's poor. South Asia's social indicators are among the worst in the developing world, and in many parts of the region, the economic growth of the 1980s was not accompanied by concomitant improvements in living standards. Out of every twelve children born, at least one is expected to die before reaching the age of one, and nearly half of all children do not finish primary school. The status of women is of particular concern; in many parts of South Asia, they are less well educated, more frequently ill, have lower life expectancy, and work far longer hours than men. Increasing their access to services—particularly to basic education, health services, nutrition, water and sanitation, and family planning—and improving the quality of those services are both essential. As part of their ongoing reform programs, most countries in South Asia have taken steps to shift the pattern of public spending in favor of services that meet the needs of the poor. The fact that many women are among the beneficiaries of these initiatives reflects a growing and welcome commitment to increasing economic and social opportunities for women. In addition, efforts are under way to increase the effectiveness of safety net programs.

### *Europe and Central Asia (ECA)*

The incidence of poverty in ECA remains the lowest for all regions when defined according to the US\$1 per day standard, reflecting its relatively high per capita income. However, poverty has increased sharply in this region since the late 1980s, primarily as a result of an overall decline in income and employment, compounded by worsening income distribution, following the change from planned to market economies.

In most countries in this region, poverty is shallow, with many households being concentrated around the poverty line. However, some pockets of deep poverty have appeared, both in low-income countries such as Kyrgyz Republic and in middle-income countries such as Hungary. There is also evidence of considerable movement in and out of poverty on the part of households. The new poor are largely working families with children. They often have limited education, which reduces their ability to adjust to the changing labor market. Other vulnerable groups include elderly nonworking pensioners, especially in those countries of the former Soviet Union where minimum pensions have not been

protected, and households where some of the members are unemployed. Health issues are also increasingly important in some countries, such as Russia and Georgia, where mortality rates are increasing and life expectancy is declining.

The key to reducing poverty in the ECA region is to restore growth, particularly of the kind that creates employment. Those countries that advanced early and boldly towards liberalizing their economies and reforming their financial systems (for example, Albania, the Czech Republic, Estonia, Hungary, and Poland) have resumed growth in output for the past two to three years, sometimes at very high rates. The shallowness of the income poverty in the ECA region implies that even a relatively small increase in growth can lift significant numbers of people out of poverty. In the short term, safety nets have a vital role to play in protecting low-income recipients of social transfer programs and in targeting assistance to those most in need. While human capital is relatively well developed in this region, it is important to avoid the collapse of education and health services and to facilitate retraining to qualify workers for the types of jobs emerging in the transition to market economies.

### **Conclusions**

Some inroads have been made in reducing poverty in the developing world since 1987, but overall the gains have been small. Although the overall incidence of poverty is declining, the number of people living on less than one dollar a day continues to increase (from 1.23 billion in 1987 to 1.31 billion in 1993). Poverty reduction efforts have been more successful in some regions than in others. Poverty rates are on a downward trend in East Asia, in the Middle East and North Africa, and in South Asia; they are more or less static in Latin America and Sub-Saharan Africa, but are rising in Eastern Europe and Central Asia. There has also been a varying amount of success within regions. About 90 percent of the poor in the developing world are located in South Asia, Sub-Saharan Africa, Indochina, Mongolia, Central America, Brazil, and the hinterland provinces of China. In all of these areas, except Sub-Saharan Africa, expected levels of growth will provide a solid foundation for government efforts to fight poverty. In Sub-Saharan Africa, however, growth rates of 6.5 percent per year would be necessary in most countries to achieve any substantial reduction in poverty.<sup>14</sup> Significant efforts will need to be made to help this occur.

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## 2 *The World Bank's Support for Efforts to Reduce Poverty: Five Years after WDR 1990*

This chapter of the report examines each element of the World Bank's poverty reduction strategy and the diverse ways in which it has been applied at the country level since 1990, using just a few examples from the wide range of the Bank's operational and analytical work. Thus, it discusses in turn how to include the poor in the growth process, how to develop their human capital, and how to provide safety nets for them when needed. The chapter ends with a summary of how these elements have been brought together in the country assistance strategy according to each country's specific needs, and looks at Bankwide trends in analysis and in lending for direct poverty interventions in fiscal 1995.

### **Including the poor in growth**

Developing countries, as a group, have experienced moderate rates of economic growth. However, this growth by itself does not automatically translate into the fastest possible rate of poverty reduction in a specific country, and reducing poverty is a long process. While economic growth remains the cornerstone of the Bank's strategy for reducing poverty in developing countries, measures can be taken to maximize the benefits received by the poor from growth. There are constraints that mute the poor's and the very poor's contribution to growth and their ability to take full advantage of the opportunities produced by growth. If these constraints are removed, thereby allowing the poor to receive more of the benefits of growth, this will also be a step towards reducing income inequality. Therefore, much of the Bank's recent support for governments in the area of poverty reduction has concentrated on removing these constraints. This section looks at five areas that are especially important for ensuring that the poor maximize their benefits from growth: (i) providing the necessary underpinnings for growth; (ii) ensuring access to essential factors of pro-

duction; (iii) increasing the productivity of the poor; (iv) making markets work for the poor; and (v) overcoming discrimination against the poor.

### *Providing the necessary framework for broad-based growth*

No country has had a sustained impact on reducing poverty without continuing positive economic growth (see, for example, Ravallion and Chen 1996). Broad-based growth that generates demand for the factors of production owned by the poor reduces poverty. A growing economy is also essential to sustain any expansion in employment opportunities. In addition, growth provides governments with resources that enable them to spend adequate amounts on basic social and other services. The factors contributing to this type of growth are complex. Both economic theory and economic history point to appropriate macroeconomic and sectoral policies; adequate investment in essential sectors such as infrastructure, agriculture, health, and education; well-functioning institutions; and good governance as important prerequisites. The performance of low-income countries in South Asia, especially India, Pakistan, and Sri Lanka, in recent years provides evidence that rapid labor-intensive growth can lead to sustained increases in productive employment and real earnings. Recent employment growth has been high, and wages have been maintained in the face of population growth at rates exceeding 2 percent annually. Employment in India's modern sector grew at more than 2 percent per year, but the informal sector grew at more than twice that rate. The liberalization measures taken in the early 1990s have spurred the growth of exports that are largely labor intensive.

The World Bank works with governments and increasingly with civil societies in each of these ar-

ways to determine the best way to achieve sustainable growth. In the last five years, the Bank has provided US\$14 billion to support economic reform measures; US\$17 billion to help to raise agricultural productivity; almost US\$13 billion to improve transportation; over US\$10 billion to support education; more than US\$7 billion to improve population, health, and nutrition;<sup>15</sup> over US\$6 billion to support urban development; and about US\$5 billion to improve water supply and sewerage systems. In addition to its financial support, the Bank also helps to develop data bases, disseminate cross-country development experiences, analyze country-specific situations, formulate strategies, coordinate with other donors, and support capacity building—all of which contribute to a country's efforts to reduce poverty.

Ensuring that growth is broad-based requires different policies in different countries, depending on each specific situation. Currently, in terms of aggregate numbers, the majority of the world's poor still live in rural areas. Thus, in those countries where rural poverty is more prominent, measures to ensure broad-based growth and improve the economic opportunities available to the poor need to focus on problems in rural areas. Because countries and regions vary greatly with regard to conditions of their rural economies and their rural development needs, there is no simple approach to rural development that will work for all countries. In some, land tenure may be important, in others managing scarce water resources is the main issue, while in still others redefining the role of the state and of parastatals is the key concern. Among the important issues for the poor are access to and productivity of land, rural credit, rural infrastructure, and the modification of policies that heavily tax rural producers. To look specifically at the rural sector issues in developing countries, each country region within the Bank has prepared its own action plan for supporting the rural sector based on the endowments, distribution of assets, and functioning of markets and incentive systems for the allocation of resources within their client countries (for further details see World Bank 1996b).

In other countries, such as many in Latin America where urban poverty is more pronounced, issues of access to basic infrastructure, such as water and sanitation, environmental pollution, and regulations that disadvantage microentrepreneurs, are of tantamount importance to ensuring broad-based growth. Obviously, country circumstances should dictate the specific blend of policies, between rural and urban ar-

reas, that are needed. However, because of changing demographics, including migration, urban poverty is an ever-growing challenge. By the early part of the next century, the majority of the poor are expected to be living in urban areas. This will pose a new set of challenges as discussed in box 2.1.

*Increasing the productivity of the poor in environmentally fragile or resource-poor areas.* Increasing numbers of poor people live in areas that have little agroclimatic potential and are environmentally fragile. It is thus important to ensure that the productivity of the poor is increased in an environmentally sustainable way. While outmigration may be important in some areas to reduce pressure on the land, investments will still be necessary for those who remain to meet basic needs, to maintain or increase yields, and to preserve natural resources. The Bank addresses these issues in a variety of ways, for example, by supporting improvements in overall environment management, promoting area development projects, and targeting actions to specific ethnic or socioeconomic groups (see World Bank 1995c for a full description of the Bank's work on environmental issues).

Projects in China, Indonesia, and Lao PDR exemplify this approach.<sup>16</sup> Box 2.2 shows how the Bank is working in two resource-poor areas of the world.

### *Helping to ensure access to essential factors of production*

One of the distinguishing characteristics of being poor is being without assets. Without factors of production and human capital (this element will be addressed below), it is extremely difficult for the poor to break out of the cycle of poverty. This cycle can be broken by increasing the access of the poor to two important inputs—credit and land.

*Access to credit.* Without having access to affordable credit in the form of small, short-term loans, the poor often do not have the means to acquire vital physical assets. The Bank is working in many ways to increase the access that the poor have to credit. In fiscal 1994 the Bank allocated US\$2 million from its net income to the Grameen Bank of Bangladesh, which has a very successful program lending primarily to poor women, for Grameen to assist similar credit programs in other countries. The Bank is also a leading force in the development and management of the Consultative Group to Assist the Poorest (CGAP), which aims to increase the amount of resources reaching the poorest of the economically ac-

**Box 2.1 A growing challenge—urban poverty**

The current estimates of the number of the poor indicate that poverty is, in fact, a rural phenomenon. But the aggregate trends and future projections show that the number of urban poor will exceed that in the rural areas by early next century. In Latin America, the absolute number of urban poor already surpasses the number of rural poor. Ninety percent of population growth in the next thirty years is expected to take place in cities. The proportion of the urban population in 2025 is expected to vary from more than 80 percent in Latin America and the Caribbean to 54 percent in Asia and Africa. In Asia and Africa, which contain most of the poor of the world, urban areas are growing at an annual growth rate of 4 percent. In some of the least developed countries, such as Afghanistan, Burkina Faso, Mozambique, and Nepal, urban growth rates have exceeded 7 percent per year. The urban poor generally live in an appalling environment and, in the absence of adequate family support systems or social security, are often unable to satisfy their basic needs. Infrastructure facilities such as road networks lag far behind what is needed. Local governments are often strapped for cash and do not have the resources to provide for even the most basic services—water supply and sanitation. In 1994 some 30 percent of African urban residents were not served by municipal water services in any form. There is also unemployment, which is a significant problem in most cities because the formal sector is unable to absorb the enormous influx of workers. Most of the poor lack education, skills, and assets and are likely to end up in low-pro-

ductivity informal sector jobs. The implications of these rising inequities for social stability are profound.

The future agenda for combating urban poverty is, therefore, daunting. The analytical work carried out at the World Bank and elsewhere identifies some of the essential problems that need to be tackled first. These are:

- provision of basic services such as water, sanitation, drainage, and roads in the slums and poor neighborhoods. The costs of providing these services are relatively low, in the order of 0.2–0.5 percent of GDP phased over fifteen years;
- taking action on the top three threats to human health in cities—lead, dust, and microbial diseases—will relieve the poor of the worst environmental problems. This measure is also relatively cost effective.
- making municipal finance more businesslike and inclusive. This requires that local governments are able to raise resources and manage them more effectively.

Success in all these areas is attainable. But it will not be achieved without tapping the creative energies of people in cities. Strong partnerships for civic action that include people in communities, those with commercial, financial, and industrial interests, and central governments will be the key ingredient in meeting the challenge of urban poverty in the twenty-first century.

tive poor. This program, which will be anchored by a Bank contribution of 30 percent (up to US\$30 million of IBRD income transfers), will support programs operating in various parts of the world that have a proven track record of successfully delivering financial and related services to the very poor.<sup>17</sup>

The Bank also supports operations at the country level that, among other things, train farmers in the management of credit, test different ways to deliver credit to the poor, help to establish credit or savings and loan organizations, and support ongoing programs. In the last two years alone, the Bank has supported such operations in Albania, Bulgaria, the Central African Republic, Côte d'Ivoire, Egypt, Guinea, Latvia, Morocco, Niger, Tunisia, Vietnam, and Zambia.<sup>18</sup> These projects have all been aimed at the rural poor, particularly smallholders and others involved in agricultural production. Several recent examples are shown in box 2.3.

The Bank has a fairly long history of lending for small enterprise development, which has been ana-

lyzed in a recent study.<sup>19</sup> On the basis of the lessons learned from this experience, in 1990 the Bank began to make smaller loans targeted to the poor. In order to reach poor populations and to concentrate on capacity development, these loans are devoted to microenterprise development, microcredit, and technical assistance. Between 1989 and 1993 the Bank has supported approximately US\$1.7 billion worth of micro- and small-enterprise development loans.<sup>20</sup> The new experiments—based on the experience of Grameen Bank, BRAC, Acción, and others that specialize in group lending by nongovernmental institutions—are a sustainable way to target credit to the poorest of the poor, particularly women (Khandker and Khalily 1996 and Khandker, Khan, and Khalily 1995).

*Access to land.* Increasing access to credit is a promising way to increase economic opportunities for the poor, but access to land can also increase the productivity and incomes of the poor. In Kenya, a significant rise in agricultural output followed the subdivision of large estates in the 1960s. Recent studies of

### Box 2.2 Supporting development of poor regions in a country

An increasing number of poor people in certain countries are concentrated in areas that are resource poor, have low growth rates, and do not have the social or physical infrastructure needed to help them out of poverty. The World Bank has increased its efforts to target these areas. By helping governments to target resources to these pockets of poor people, the Bank seeks to increase the opportunities for the poor to be able to participate in economic growth.

In China, for example, poverty is concentrated in remote, resource-deficient, rural areas in the interior provinces of northern, northwestern, and southwestern China. The Bank's poverty reduction activities in these areas cover a wide range of sectors, including health, education, rural water supply, and hygiene, and numerous agricultural projects and subcomponents. The *Rural Health Workers Development Project* (IDA, fiscal 1994) aims at better-quality health services and improved health status in the poorest rural areas in these regions. The *Basic Education in Poor and Minority Areas Project* (IDA, fiscal 1995) will help to improve primary and lower-secondary education in schools in poor and minority counties and villages. Various agricultural development projects focus on

these areas, such as the *Loess Plateau Watershed Rehabilitation Project*, (IDA, fiscal 1994) which seeks to promote sustainable agriculture in this poor and ecologically fragile region. The recent *Southwest Poverty Reduction Project*, (IDA and IBRD, fiscal 1995) which adopts a multisectoral rural development project approach to poverty reduction, will upgrade social services and rural infrastructure and include land and farmer development and poverty monitoring. Two upcoming projects, the *Shanxi Poverty Alleviation Project* (IDA, fiscal 1996) and the *Gansu Hexi Corridor Project* (IDA and IBRD, fiscal 1996) will further extend the Bank's poverty reduction efforts in the North-western provinces.

Similarly in Brazil, more than half of all poor Brazilians live in the northeast. One of the Bank's most comprehensive rural development programs focuses on northeast Brazil and includes twenty-three projects totaling US\$3.3 billion. These include seven rural development projects, three education projects, an irrigation project, two health care projects, and a recently approved poverty alleviation project. All of these projects cover the northeast area as a whole, while some also target specific vulnerable groups within the area.

Latin American countries also indicate that productivity is higher on small farms than on large farms. Thus, a case can be made for transferring land from large estates to small farmers and the landless. However, land redistribution has always been a sensitive issue throughout the world, and there is little consensus on how to address it. Experience suggests, however, that land reform is best executed within a market framework, with willing buyers and sellers, rather than by expropriation. The Bank is working with governments to develop such market-assisted land reform. Box 2.4 describes this approach in more detail.

The Bank also promotes the *redistribution of land* through both adjustment and investment operations. The *Honduras Agricultural Sector Adjustment Credit* (IDA, fiscal 1994) supports measures to give priority in the land reform process to smallholders and women who were previously deprived of full land ownership rights. The *Bolivia National Land Administration Project* (IDA, fiscal 1995) supports land titling for smallholders, the identification of approximately 500,000 hectares of public land to be distributed to smallholders, and the legal recognition of the rights of indigenous people over well-defined territories.

The Bank supports increasing the poor's access to land in two other main ways: improving the titling of land and reclaiming otherwise unusable land

that could be used by the poor. Improving the *titling of land* to the poor has multiple benefits. It can increase the efficiency of land markets, alleviate social conflicts over land, increase the value of land, widen access to credit, and provide incentives for investing in the land. The *Land Administration Project* in Indonesia (IBRD, fiscal 1995) is expected to benefit approximately 4 million people who currently have little protection against unfair land acquisition, many of whom are presumed to be from low-income households, through land registration. It is also expected to strengthen the legal position of women since land registered in their name prior to marriage remains their individual property. Recent projects in Bolivia, the Dominican Republic, Nicaragua, and Thailand also support land titling.<sup>21</sup> Property rights are not always just a problem for the rural poor. A project under consideration in Peru is exploring ways to increase the property rights of the urban poor.

*Land reclamation* is another way to increase the amount of land available to the poor. The Bank helps countries to do this in two ways: reclaiming completely unusable lands and increasing the productivity of marginal lands. A project in Indonesia, the *Integrated Swamps Development Project* (IBRD, fiscal 1994), is helping to expand the amount of land available to the poor by supporting the

### Box 2.3 Financial services for the poor

In Niger, the *Pilot Private Irrigation Promotion Project* (IDA, fiscal 1995) is supporting a pilot program to test and promote viable instruments for providing financial services to rural clients, educating the beneficiaries on the principles and practices of mutual savings and credit schemes, and working to establish sixty savings and credit associations at the grassroots level.

In Tunisia, the *National Rural Finance Project* (IBRD, fiscal 1995) supports a supervised credit program that is designed to reach creditworthy small and medium private farmers, fishermen, artisans, and rural women's enterprises. In addition, it is supporting the development of a pilot program for establishing group lending schemes at the village level.

The *Albania Rural Development Project* (IDA, fiscal 1995) aims to establish and fund about 135 village credit funds to extend the existing network and provide small loans to farmers and rural microentrepreneurs for income-generating activities. These village credit funds are managed by village credit committees. The small loans provided to farmers and rural microentrepreneurs for income-generating activities will be complemented by business and technical advice to rural microentrepreneurs to help to increase their productivity. The project will also support the rehabilitation of rural infrastructure, which will stimulate increased trade while providing an estimated 550,000 person-days of employment on 190 labor-intensive rural works.

government's efforts to reclaim swamp lands, using environmentally sound practices. Likewise, a project in China, the *Tarim Basin Irrigation Project* (IDA, fiscal 1992) is helping to reclaim and irrigate 80,000 hectares of desert wasteland so that cotton, wheat, fodder, fruit, vegetables, oilseeds, and timber can be grown. Many projects also increase the amount of land available to the poor by increasing the productivity of marginal lands, for example, by terracing hillside lands or improving drainage. The *Loess Plateau Watershed Rehabilitation Project* (IDA, fiscal 1994) in China is one such project where slope lands are being terraced, orchards and grasslands are being planted, and sediment control dams are being built.

#### *Increasing the returns to and productivity of the poor's factors of production*

The Bank supports increasing the productivity of, and returns to, the poor's factors of production in many ways. As labor is often the most important asset of the poor, basic education for the poor is a key element of this strategy (see the next section on human capital development). Increasing the productivity of land is also important. Finally, upgrading the technology of microenterprises is another way to increase the productivity of the poor.

*Increasing the productivity of the land owned and utilized by the poor is an important way to raise the incomes of the poor.* Over the last five years, the Bank has devoted over US\$17 billion to help developing countries increase their agricultural output. The Bank is directing more of its lending to poor farmers. The percentage of agricultural operations that directly aim to reduce poverty (in other words, that are in

the program of targeted interventions—PTI) has increased from 32 percent on average in fiscal 1992–93 to 41 percent in fiscal 1994–95.<sup>22</sup> In addition, changing economywide and sectoral policies that tax agriculture heavily are a key component of a number of structural and agriculture sectoral adjustment loans and credits. A recent study of experience in Africa shows that there is a connection between the adoption of good strategies and agricultural performance.<sup>23</sup> Countries such as Benin, Guinea, Mauritius, Nigeria, Tanzania, and Uganda that had reduced the overall taxation of agriculture during the 1980s and were advancing well in other elements of their agricultural strategy, achieved agricultural growth rates of 3.5 to 5.0 percent, well above historical records.

In addition to supporting such investments as irrigation, the Bank supports increasing the productivity of land by increasing in-country research capacities to do adaptive agricultural research and by improving extension services. One study of rural India found that increases in yields due to technical change reduced the incidence of poverty from 56 percent to 30 percent of the rural population between the mid-1970s and 1990 as a result of both higher farm incomes and a 70 percent rise in agricultural wages.<sup>24</sup> Many recent projects, such as those in Colombia, Mali, Mauritania, and Morocco, support interaction between farmers, extension agents, and researchers to ensure the relevance of research and to accelerate the dissemination of the results to raise productivity and output.<sup>25</sup> Some projects, such as those in Mali and Mauritania, also provide training in participatory methodologies and gender issues.<sup>26</sup>

*Increasing the productivity of microentrepreneurs can also increase economic opportunities for the poor*

**Box 2.4 New approach to land reform**

Land reform, which reallocates land from large holdings to small farms, can increase equity, productivity, employment, and rural growth. Traditionally, governments implemented land reform by expropriating land from large estates, with or without compensation to the landowners in question, and distributing it to the landless. However, landowners tend to resist this move, causing legal delays that can last for decades (for example, Mexico's land reform was contested for more than fifty years).

However, a new approach to the redistribution of land is being explored by the Bank with the governments of Colombia, Brazil, and South Africa. This approach, known as *market-assisted land reform*, aims to encourage willing buyers to negotiate deals with willing sellers. The government would facilitate the process by providing incentives to potential sellers and by helping potential buyers to acquire the means to buy. This is the best way to ensure that the most inefficient large farms will cease to operate and that the most enterprising and skilled poor farmers will be major beneficiaries of the transfer of land. *Market-assisted land reform* is especially appropriate in situations of farm debt crisis when land prices are depressed.

*Increasing supply.* The kind of land that ought to be sold off is land on unviable farms run by inefficient owners (who often bought the land originally as a speculative investment) and maintained solely through government subsidies. These farmers need to cease operating altogether, selling all their land and assets to cover their debts. The government can encourage them to do so by providing exit bonuses, retraining schemes, and loans to start new businesses.

*Increasing demand.* Smallholders and landless workers often would like to buy land but lack either sufficient cash or the credit to do so. To encourage potential buyers, the government could provide grants to poor farmers who would offer their labor as "sweat equity" to help to develop necessary infrastructure (such as roads, water, social services, and marketing facilities) in the land reform areas. Grants could be up to 100 percent for small subsistence plots, and then decrease on a sliding scale for additional land up to a specified maximum, adjusted for land quality. This would both reduce the fiscal burden on the government and act as a self-selecting device to discourage land speculators. Finally, the government could give banks modest subsidies to cover their transaction costs on loans to small farmers.

and their productivity. The informal sector and microenterprises can account for a significant amount of employment opportunities for the poor. For instance, the informal sector has been estimated to account for 75 percent of urban employment in many Sub-Saharan African countries and for 85 percent in Pakistan. The Bank supports the provision of credit, training, and advice for microenterprises. For example, the *Kenya Micro and Small Enterprise Training and Technology Project* (IDA, fiscal 1994) established a training fund for upgrading skills and developing technology for micro- and small enterprises; distributed vouchers to entrepreneurs with low incomes; and promoted women entrepreneurs. A technology information/innovation and research program is being designed to facilitate innovation in product design and quality improvements, while a pilot infrastructure development program will provide productive informal sector activities with legal and secure tenure at worksites.<sup>27</sup>

***Making markets work for the poor***

The goal of economic reforms is to produce growth by promoting an efficient market system in which all members of society can participate. Nevertheless,

there are instances when distance cuts off the poor from markets, when regulations limit their access to productive activities, or when they are faced by circumstances that limit competition. This section looks at three ways in which the Bank is working with countries to ensure that markets do, in fact, work to the benefit of the poor: deregulation, infrastructure, and group associations.

*Deregulation.* Microfirm employment and self-employment provide vital sources of jobs and income for the poor. They are often the main sources of jobs for poor women. If the poor are to participate fully in growth, they must be able to respond quickly and effectively to changing market opportunities. In many countries, small poor producers in the agricultural, manufacturing, or services sectors are constrained by heavy and often incomprehensible bureaucratic regulations and other barriers that can limit their ability to enter into the market economy or to take advantage of new opportunities. Although regulations are essential to society, many, such as registering, licensing, and start-up taxes, can place a disproportionate cost on microfirms and the self-employed. A recent case study for Argentina showed that regulatory costs may absorb as much as 21 percent of a microfirm's expenditures, and, in some sec-

tors such as manufacturing and construction, these costs are as high as 44 percent.<sup>28</sup> These costs can prevent microfirms from expanding while at the same time escalating other problems they face, such as high transaction costs and limited access to inputs. Import licensing, for instance, is often a barrier to small entrepreneurs because they have to buy their imported raw materials and inputs at high prices from large entrepreneurs who have obtained these licenses directly from the government. Import liberalization removes these rents to the larger entrepreneurs and levels the playing field for all producers. Other restrictions, such as access to foreign exchange, can impose exceptionally high costs on small- and microfirms.

The Bank has typically dealt with regulatory issues in its adjustment operations, the vast majority of which have concentrated on the major constraints to growth for all economic actors, both large and small, including measures to facilitate both local and foreign investment, which in turn is vital to providing growth and employment opportunities. The *India External Sector and Investment Liberalization Program* (IBRD, fiscal 1993), for instance, supported changes in government regulations and in the structure of incentives that were expected to benefit the poor by generating a more labor-intensive pattern of production. Lower tariffs on key agricultural inputs were expected to increase agricultural incentives and growth in this sector, which is important for the poor. In addition, better export incentives were introduced to encourage the production of labor-intensive goods, including agricultural commodities, textiles and garments, and gems and jewelry, which are India's fastest-growing exports and which employ many unskilled poor workers, often women.

**Infrastructure.** Physical infrastructure in many developing countries, especially in rural areas, tends to be dilapidated or nonexistent because fiscal pressures have caused governments to cut back or abandon their infrastructure maintenance budgets. The lack of passable roads in many rural areas means that it is difficult for the poor who live there to get their produce to markets or that the costs of doing so are much higher than they would be if transportation were easier. Poor rural infrastructure also means that either traders cannot travel to, or communicate with, rural areas to purchase the output of the poor or only one trader comes to a village to collect produce, thus eliminating competition. Under such circumstances, poor farmers have little power

to negotiate a good price for their produce. Also, in the absence of adequate rural roads, suppliers of inputs are unable to reach the poor or the intermediate costs imposed by bad road conditions raise the price of inputs (and hence lower farmers' returns). Thus, improving rural roads will open up rural areas to competition, giving farmers the opportunity to obtain much better prices for their produce. An additional benefit is that good roads will also give the poor more and better access to essential services such as schools, health care, and productive technology.

A study of the impact of rural infrastructure on the local economy in thirteen Indian states found that lower transport costs increased farmers' access to markets and led to considerable agricultural expansion. At the same time, because better roads lowered banks' costs of doing business, banks increased their lending to farmers, who used the funds to buy fertilizer, thus further increasing yields.<sup>29</sup> Likewise, the Bank's *Agricultural Sector Study* in Tanzania points out the correlation between rural road density and high income in rural areas. It argues that road investments lower transportation costs, increase access to market information, and increase competition among traders of agricultural produce and suppliers of agricultural inputs. In addition, they increase access to off-farm employment. All these effects increase farm family income and farmers' responsiveness to market conditions. Box 2.5 gives some examples of the Bank's support for infrastructure projects that are helping to provide the poor with access to markets.<sup>30</sup>

Recent infrastructure and transport projects supported by the Bank are increasingly focusing on building and maintaining rural infrastructure and roads in a sustainable manner. Many of these projects upgrade auxiliary roads in poor, rural areas and use labor-intensive construction techniques to create local employment opportunities. For instance, the *Albania Rural Roads Project* (IDA, fiscal 1995) will improve 975 km of rural roads in poor areas using contractors who use labor-intensive methods. This project is expected to provide 12,000 person-years of work over three years in twenty districts that together contain 60 percent of the nation's unemployed workers. It also aims to create 500 permanent jobs that will ensure that these assets are maintained.

Rural roads alone, however, are not enough. These roads have to connect with secondary and main roads to complete the system. Many projects contain measures to improve each part of the system.



### Box 2.5 Integrating the poor in the market economy

The Bank supports many projects that are providing infrastructure that will make it easier for the poor to participate in the market economy.

- The *Mozambique Second Roads and Coastal Shipping Project* (IDA, fiscal 1994) includes an emergency program to open access to remote areas, the rehabilitation of major trunk roads, a labor-intensive feeder roads program, and periodic and routine maintenance of roads. These roads will open up agricultural areas where poor farmers live, which will lower the cost to the poor of getting to markets and increase farmers' incomes and employment opportunities.
- The *Tanzania Second Integrated Roads Project* (IDA, fiscal 1994) will include measures to rehabilitate, upgrade, and improve rural roads, culverts, and bridges. It also includes a village travel and transport pilot program to rehabilitate the rural trans-

port infrastructure and increase access to transport and nontransport infrastructure such as water wells so that less time is spent in getting to and from them. This should help to reduce poverty by increasing rural access to markets, providing employment opportunities, and reducing the transport burdens on the poor.

- Improving the right kind of infrastructure can also lower transport costs for the poor in urban areas. One innovative project in Peru, the *Transport Rehabilitation Project* (IBRD, fiscal 1994), not only rehabilitates six national road sections that link key agricultural areas in the north with the central coast but also constructs bicycle lanes to low- and middle-income residential areas in Lima because the poverty assessment found that 25 percent of the income of the urban poor was spent on transportation. A revolving fund is also being created under the project for the purchase of low-cost bicycles.

For example, in Morocco, the *Secondary and Tertiary Rural Roads Project* (IBRD, fiscal 1995) will improve 1,133 km of unpaved rural roads, 96 km of paved rural roads, and 2,219 km of paved branch roads that connect feeder roads to secondary social and economic centers and connect these centers to the main trunk highways.<sup>31</sup>

**Farmers' associations.** Forming farmers' associations or cooperatives can further enhance the poor's position in competitive markets in a number of different ways. First, these associations can give farmers more negotiating power with traders (both domestic and exporters) to obtain a better, but still competitive, price for their output. Second, by pooling their output, poor producers can attract the interest of several traders. Third, buying inputs in larger quantities can lower costs. Fourth, associations can make it easier for farmers to get access to extension services. In several countries, the Bank has been encouraging poor farmers to form cooperatives, and is also supporting existing cooperatives. For example, a livestock project in the Central African Republic, the *Livestock Development and Rangeland Management Project* (IDA, fiscal 1995), contains a grassroots capacity development component to help herders and their wives to organize themselves into groups to participate in policy development as well as in mutual savings and loans organizations. Other recent projects in Chad, Côte d'Ivoire, Dominican Republic, Madagascar, Mexico, and Morocco support ex-

isting associations in such activities as providing technical and managerial support in carrying out commercial and other group activities.<sup>32</sup>

### *Helping to overcome discrimination against the poor*

Unfortunately, even when markets function well and the poor are able to participate in them, discriminatory practices can keep many poor people from taking advantage of economic growth. The Bank is beginning to address this difficult issue, particularly by supporting women and indigenous groups.

**Reducing discrimination against women.** This is an essential element in increasing the economic participation of the poor. Women need to be better educated, better trained, and less constrained by inheritance laws or by being legally barred from using family assets as collateral to obtain loans. Educating women and girls is perhaps the most important measure for improving the economic and living conditions of poor women, children, and families.<sup>33</sup> In addition to this, the Bank supports strategies that promote the economic integration of and opportunities for women, including increasing the general productivity of women, reducing the constraints women face while participating in the labor market, and increasing the efficiency of the labor market.

Appropriate technology is one means of boosting women's productivity. In the *Niger Pilot Private Irri-*

*gation Project* (IDA, fiscal 1995) it is stressed that, since women tend to have smaller plots than men, it is important to identify manual technologies that are acceptable to them. It is widely acknowledged that the provision of gender-neutral agricultural services alone is not sufficient. Empowering women through training programs, developing women's programs as part of extension services, and involving female farmers as participants in the design and implementation of these services will be more effective in enhancing their economic position in the long run. Likewise, helping women to carry out their current tasks more swiftly gives them more time to spend on activities that increase their incomes. For example, rural water supply schemes help to reduce the time that women and girls previously had to spend on fetching water, freeing them for other productive activities or for education. Likewise, providing childcare can reduce a significant constraint that working women face, particularly in urban areas where the woman's extended family is often not available to help. For example, the *Community Childcare Project* in Colombia (IDA, fiscal 1990) provides for the nutrition, health, and early childhood development needs of children aged two to six years old in low-income urban communities under the supervision of trained "community mothers."

Access to land is often a critical barrier faced by women in trying to increase their productivity. Under the *Bolivia National Land Administration Project* (IDA, fiscal 1995), it was agreed that men and women would receive equal treatment in land allocation. An agreement was also reached to include explicit provisions related to women's rights to land in the procedural manual on settlement and in publicity campaigns on land distribution.

Removing policies of segregation and discrimination in order to increase women's access to jobs and making information available to reduce the search costs associated with finding a job are other useful strategies. The *Employment and Training Project* (IBRD, fiscal 1993) in Turkey focuses on women in particular by liberalizing the labor market while also providing information on employment prospects and training requirements. Ongoing projects in Turkey and Romania are ensuring that youth and adult counseling and career services are gender neutral.<sup>34</sup>

**Reducing discrimination against indigenous groups.** This is important<sup>35</sup> as indigenous or tribal people have often been at the losing end of the development process. Many live below the poverty line and, in many countries, they are the poorest of the

poor. Often they experience political discrimination as well as having their resources exploited for the benefit of other groups in society. Because of their unique characteristics—for example, their distinct languages and cultures, their historical identity as distinct peoples, their mistrust of outsiders, their subsistence practices, and their dependence on renewable natural resources—it is essential that they participate in the development process to safeguard their interests and to ensure the sustainability of projects designed to assist them.

In the past decade, there has been a growing recognition of the rights of indigenous people to exercise control over their own economic, social, and cultural development. The Bank has recognized this need, and in Latin America it has launched a capacity-building initiative designed to assist indigenous organizations in defining their development strategies, strengthening their personnel management, training programs, and budgeting, and improving their negotiating skills. The initiative focuses on indigenous values, cultures, and philosophies as well as modern management and development-planning skills.

The Bank also targets indigenous peoples in many of its projects, particularly in its education lending. In Vietnam, the Bank-funded *Primary Education Project* (IDA, fiscal 1994) contains a special component that provides a comprehensive package of educational inputs to minority children while recognizing the importance of the vernacular language and of community participation. In fiscal 1995 the *Bolivia Education Reform Project* (IDA), the *Honduras Basic Education Project* (IDA), and the *Mexico Program of Essential Social Services—PROSSE* (IDA) included bilingual education components, and analytical work is increasingly recognizing the distinctness of indigenous people (for example, LAC's *Guatemala Basic Education Strategy*, fiscal 1995).

## Human capital development

There is overwhelming evidence that increasing the human capital of the poor is one of the keys to reducing poverty. The capacity to earn income is clearly a major factor in raising families out of poverty, but in order to earn income, an individual needs health, strength, and, to increase potential income, education. Thus, investing in the human capital of the poor is vital to ensure that they participate fully in the growth of the economy and that they can be productive members of society.

It should, however, be recognized that investing in human capital can neither compensate for, nor overcome, an environment that is inimical to economic growth. Countries such as Vietnam and the Philippines have high rates of adult literacy and educational attainment. Yet both of these economies have grown relatively slowly, largely because they adopted development strategies—central planning in Vietnam and import substitution in the Philippines—that prevented them from taking full advantage of their stock of human capital. Only in recent years, since they have abandoned their past development strategies, has the interaction between well-endowed human capital stock and good economic policies generated high rates of growth.

Since the early 1980s, the Bank's lending for human capital development has increased more than fivefold in nominal terms. In the period fiscal 1981 to 1983, it averaged 5 percent of lending. By fiscal 1993 to 1995, it equaled 16 percent of lending (see annex C). The Bank is now the largest external provider of resources for social investment in the developing world.

### *Providing education for the poor*

Basic education is a key element in developing the human capital of the poor. First, the poor benefit more from basic education than from any other level as they are rarely able to afford the money and opportunity costs of sending their children to secondary school and beyond. Second, returns as measured by individual wage gains tend to be largest for primary education (both net and gross of all public spending on education) compared to the other levels. Third, as can be seen in the discussion about female education below, basic education has many additional positive benefits. While this section does not attempt to look at all of the areas where the Bank supports poverty reduction efforts in the education sector, it looks at three specific areas that are key to the Bank's efforts to help poor children: early childhood development, primary education, and the education of girls.

**Early childhood development.** Research indicates that the early years of life are critical to the formation and development of intelligence, personality, and social behavior. By the time a child is four or five years of age, his or her major developmental patterns are already set. Inadequate intellectual stimulation coupled with malnutrition or other kinds of physical deprivation during this time can irrepa-

rably damage a child's capacity to learn, grow, and eventually produce and reproduce. Thus, integrated childhood interventions that aim to improve a child's health and nutrition and increase his or her educational development can have a lasting positive effect, especially in the first three or four years of the child's life.<sup>36</sup>

Early childhood development is a relatively new theme for the Bank, but an increasing number of the Bank's projects, many of them in Latin America and the Caribbean, are addressing this issue. Between fiscal 1990 and 1995, the Bank lent approximately US\$775 million for components of projects that integrate health, nutrition, and early childcare services for young children in developing countries. These loans have been made both in stand-alone projects and as part of other social sector projects. Examples include the *Bolivia Integrated Child Development Project* (IDA, fiscal 1990), the *First* (IDA, fiscal 1991) and *Second* (IDA, fiscal 1993) *Integrated Child Development Services Projects* in India, and the *Mexico Initial Education Project* (IBRD, fiscal 1993).<sup>37</sup> Young 1995 explores the theory and how the Bank is putting it into practice.

**Primary education.** A fundamental level of education is essential to reduce both individual and countrywide poverty. While many studies have demonstrated the strong links between education and an individual's income, more evidence is emerging that links education and a country's economic growth.<sup>38</sup> For instance, educated farmers are more likely to adopt new technologies and to have a wider range of self-employment options. There can be little doubt that educating the children of the poor greatly increases their chances of escaping poverty. There are many other benefits to ensuring that people receive a fundamental level of education. For example, one year of a mother's education has been associated with a 9 percent decrease in the mortality rate of children under the age of five, and the children of better-educated mothers, other things being equal, tend to be healthier.

Although developing countries have made massive investments in education, particularly primary education, in recent years, many of them still suffer from low enrollment rates, high dropout and repetition rates, and poor-quality teaching, curricula, and facilities. Moreover, in many countries, higher education is highly subsidized and absorbs much public spending at the expense of primary schooling. This is inequitable because students in higher education tend to come from the highest-income groups.

**Box 2.6 Recent support for basic education**

- The *Basic Education and Training Project* in Cape Verde (IDA, fiscal 1995) has introduced the Integrated Basic Education System, which provides a minimum of six years of compulsory basic education to all children. The key aim of the project is to ensure that about 85 percent of students entering Grade 1 will pass the primary school leaver's exam. This will benefit the poor disproportionately as current structural problems in the education system are particularly disadvantageous to the poor.
- The Honduran *Basic Education Project* (IDA, fiscal 1995) aims to improve the quality of basic education especially for children in the poorest rural communities. Its goals are to increase the access of poor children to community-run preschool education, to expand overcrowded primary schools, and to provide and train additional teachers at both primary and preprimary levels. One of the targeted populations is indigenous children.
- A similar project in Nicaragua, the *Basic Education Project* (IDA, fiscal 1995), aims to increase the coverage of preprimary education to 40 percent of the age cohort. It particularly targets children living in rural and poor urban areas. Education quality improvements include equipping participating schools with furniture and educational materials, training community educators, and involving parents and community organizations in activities to promote child development.

Between 1993 and 1995, the Bank's support for primary education as a proportion of its total education lending grew from 34 percent of total education lending to 45 percent. The Bank has also increasingly used its education lending to rationalize post-secondary and higher education spending and to reallocate resources towards basic education.<sup>39</sup> The policy message behind the Bank's lending has been that supporting primary education is not just about increasing enrollment rates; it is also about improving the quality of the schooling provided. This can be seen in box 2.6, which contains several recent examples of Bank education projects.<sup>40</sup>

**Educating girls.** Educating girls has a powerful, catalytic effect on every dimension of development—from lowering fertility rates to raising productivity and improving environmental management. It has become increasingly clear that educating women has an enormous impact on their own well-being and productivity and on that of their families. For example, mothers' education has a positive effect on reducing fertility rates. As a mother's education and her subsequent earning potential increase, the opportunity cost of having a child rises, meaning that better-educated women marry and start their families later, thereby reducing the health and mortality risks associated with early pregnancies. The increased likelihood of their children surviving into adulthood leads parents to have fewer children. Female education was found to be the dominant factor in fertility declines in an analysis of twenty-five countries carried out by the Institute for Policy Reform. The findings of the study suggest that, if normally closely spaced births were delayed until the mothers wanted them, child mortality would fall by

20 percent. *World Development Report 1993* on health found that, in Africa, increasing female literacy by 10 percent could lower infant mortality by 10 percent (World Bank 1993e). Also, in India and Kenya, about forty-five infant deaths and two maternal deaths would be averted for every 1,000 girls provided with one extra year of primary schooling.

A range of special measures can be adopted to increase the access that girls have to educational opportunities. Scholarships and stipends can be provided. Other measures can include all-girl schools or classrooms, improved sanitary facilities and boundary walls, schools located close to girls' homes, more female teachers, childcare support centers, and flexible school hours to fit in with girls' work schedules at home or in the fields. Gender bias in the classroom can be reduced by making curricula, training materials, teachers, and administrators sensitive to gender issues. These features are being incorporated into many Bank-funded education projects as shown in box 2.7.

Because educating women and girls is such an essential element of any poverty reduction strategy, it is playing an increasingly important role in the Bank's work. Between fiscal 1993 and 1995, the percentage of education projects that contain explicit interventions aimed at benefiting girls and women rose from 39 percent to 58 percent. Because the Bank sees girls' education as having such vast potential, the Bank proposed at the Fourth World Conference on Women in Beijing that, by the year 2010, the international community should aim to ensure: (i) that all young children—both girls and boys—complete primary school and (ii) that an equal proportion of girls and boys (about 60 per-

**Box 2.7 Promoting the education of girls**

The *General Education Project* in Mauritania (IDA, fiscal 1995) aims to improve the quality of primary schooling, which in turn should increase girls' enrollment rate. While the project supports better-trained teachers, an adequate supply of textbooks, and a community-based classroom construction program in underserved regions, it will also pilot targeted interventions in five regions where girls' enrollment lags furthest behind that of boys. These interventions will be designed to eliminate barriers to girls' enrollment and to reduce their chances of dropping out of primary and secondary school.

The *Basic Education in Poor and Minority Areas Project* in China (IDA, fiscal 1995) has set special targets for girls' enrollment and transition rates. The project seeks to increase girls' access to school by selectively providing free textbooks to girls from poor families and by identifying, training, and supporting young female school principals to provide role models for girls.

For example, in the *District Primary Education Project* in India (IDA, fiscal 1995), priority will be given to female and indigenous students. The project aims

to reduce disparities between boys and girls to less than 10 percent by educating families about the benefits of educating girls, providing early childhood education centers, providing free textbooks, and increasing the proportion of female teachers. In addition, new schools and hostels specifically for girls will be constructed, and separate toilet facilities will be provided for girls in existing school buildings. To reduce gender bias, the project will revise textbooks, reform the curriculum, provide pre-service and in-service training to teachers and administrators, and appoint female school inspectors.

The *North-West Frontier Province Primary Education Project* in Pakistan (IDA, fiscal 1995) aims to increase the enrollment rate of girls in primary school from 36 to 60 percent (the equivalent goal for boys is an increase from 71 to 94 percent) by the end of the project. Most of the new teachers hired will be women unless no suitable female teacher is found, in which case a male teacher acceptable to the parents will assume the position. Mothers of school children will be particularly involved in village education committees.

cent) should go to secondary school. Although this is not an easy undertaking, the Bank expects to spend about US\$900 million a year on girls' education for the next five years and will work with both its borrowers and donors to shift priorities and mobilize additional resources.

***Improving the health of the poor***

Primary health care is of vital importance to the poor as this is the level of service in the health sector from which they benefit the most. Much of the care provided at this level is preventive, including immunizations, nutritional supplements, and health information, which is a key factor both in improving well-being and in keeping people economically active. The curative care dispensed at this level can also be vital for forestalling expensive hospital referrals if the illness remains untreated and, thus, becomes chronic. Thus, it is important to maximize the access that the poor have to primary health care.

*World Development Report 1993* demonstrated that governments could provide universal coverage of key primary health services for a very low cost. The report identified a package of "essential" services aimed at addressing the main causes of mortality and morbidity among the poor in the developing world. The suggested package includes immunizations (coupled with micronutrients), school health

programs, prevention programs for AIDS, sexually transmitted diseases (STDs), and malaria, and community-based distribution of contraceptives. Typically, this package is expected to cost around US\$10 per capita, which should be affordable even for low-income countries. With the assistance of the Bank, more than thirty countries have begun to design publicly funded packages of essential health services based on this model.

Again, while this section does not cover all the interventions supported by the Bank to improve the health of the poor, it concentrates on issues of primary health care that are especially important to poor families: maternal and child health, population growth, and the nutritional status of the poor, particularly of women and children.

***Improving maternal and child health.*** Because mothers in developing countries play such a pivotal role in the lives of their children, the death of a mother can have disastrous consequences for her children's survival and well-being. In Bangladesh, children whose mothers die are up to ten times more likely to die within two years than those with parents who are living. In Tanzania, children in households where an adult woman has died are only half as likely to attend school as their peers. Thus, reducing the maternal mortality rate is a high priority not only for the sake of the women themselves but also for the sake of their children.

A very high proportion of both maternal and infant deaths is related to the process of pregnancy and birth. In Sub-Saharan Africa, where fertility rates average 6.4, a woman runs a one in twenty-two risk of dying from pregnancy-related causes during her lifetime, compared with a risk of one in 10,000 for women in Northern Europe. There are a number of aspects to this phenomenon. First, women in developing countries tend to give birth too frequently, leaving insufficient time between births.<sup>41</sup> Second, women are often malnourished during their pregnancy, which leads them to give birth to low-weight babies who themselves are vulnerable to disease and malnutrition. Finally, many women do not seek medical help at any stage of the pregnancy or birth, meaning that complications often arise.

Given that the causes of maternal and child mortality are interrelated, it is clear that interventions are needed that combine the areas of family planning, pre- and postnatal care, and nutrition.<sup>42</sup> The *Health, Fertility, and Nutrition Project* in Cameroon (IDA, fiscal 1995) aims to reduce maternal mortality by 30 to 50 percent, to increase the vaccination coverage of children under five and women of child-bearing age to between 60 and 80 percent, and to increase the prevalence of modern contraceptives to between 10 and 20 percent. It is also expected that the project will raise the nutritional status of pregnant and nursing women, children under the age of five, and adolescent girls by introducing growth monitoring, by identifying malnourished individuals and referring them to appropriate facilities, by educating mothers in good nutrition practices, and by giving micronutrient supplements to high-risk groups. Other recent examples include the *Health and Population Project* in Benin (IDA, fiscal 1995) and the *Second Health Project* in Turkey (IBRD, fiscal 1995).

**Population growth.** Most of the anticipated increase in population over the coming two to three decades is expected to occur in the poorest countries. Two-thirds of the projected 1.3 billion people added between 1985 and 2000 will reside in currently poor countries. Between 1985 and 2025, people in low-income countries are projected to increase from 57 percent to 61 percent of the world's total. Over the same period the same proportion in high-income countries is expected to fall from 16 percent to 11 percent.

Despite the high correlation between rapid population growth and poverty, analyses of cross-national research have found little evidence that population growth in and of itself causes poverty. Rather, the evidence suggests that the relationships are complex

and that high fertility is as much a symptom of poverty as a cause. Research suggests that population growth may affect poverty indirectly, either through its negative impact on the growth of income per capita in the poorest countries, as noted above, or through its effect on the provision of education and other social services, or directly, through the size and structure of families.

Within countries, rapid population growth can also hinder efforts to reduce the incidence of poverty, through the inhibiting effect of continually increasing numbers on the effort to expand access and improve the quality of education, health, and human services and through the self-perpetuating cycle of high fertility and low income in poor households. Again, the relationships are complex, and explorations of cross-national evidence show little direct link between a rapid increase in numbers and deterioration in the quality of services. The main impact of population growth has been to reveal the consequences of bad policies. Population growth often exacerbates problems but may not be their most important cause.

The World Bank tackles rapid population growth in poor countries through a broad range of investments aimed at poverty reduction and human development, including a major effort to reduce the gender gap in education and improve women's lives by providing access to high-quality reproductive health and family planning services (examples of which can be seen in earlier sections). During fiscal 1995, approximately US\$450 million in new lending was approved for reproductive health and family planning components in Bank-supported projects.

**Nutrition.** Malnutrition and the lack of sanitation, health facilities, and other social services are all known to have an adverse effect on the cognitive development of young children living in poverty. Studies consistently show that malnutrition leads to low cognitive test scores and school performance. In addition, poor nutrition during pregnancy often leaves women vulnerable to disease and often results in low-birthweight babies who themselves are vulnerable to disease and malnutrition.<sup>43</sup>

More than 2 billion people are at risk from micronutrient deficiencies (vitamin A, iodine, and iron), and more than 1 billion are actually ill or disabled by them, causing mental retardation, learning disabilities, low work capacity, and blindness. Micronutrient malnutrition not only decreases alertness and the capacity to learn but also increases a person's chances of becoming blind and can interfere with the physical development of the brain. More than half of all young

children and pregnant women in developing countries are anemic, and this problem is getting worse owing to downward trends in dietary iron supply. About 250 million women suffer the effects of iodine deficiency, and half a million children become blind each year from vitamin A deficiency. It costs little to correct these deficiencies by fortifying food and water supplies. In a country of 50 million people, this would cost about US\$25 million a year, an investment that yields a fortyfold return.<sup>44</sup>

The Bank has expanded its direct lending for nutrition almost tenfold since 1990. More than US\$1.1 billion has been allocated explicitly for nutrition since 1990. On average, the Bank has lent an estimated US\$185 million per year for nutrition since 1990, compared to an average of US\$22 million per year during 1985–89.<sup>45</sup> The number of nutrition projects (or projects with nutrition components) has nearly tripled since 1990. During 1990–1995, the Bank financed 103 nutrition projects, compared to 38 during the period 1985 to 1989. A growing number of projects are in Africa, Asia, Latin America, and Eastern Europe.

The scope of nutrition interventions has also been broadened since 1990. In addition to the traditional population, health, and nutrition projects, nutrition is now frequently incorporated into operations in other sectors, including agriculture and food security, education, and industry projects. In addition, nutrition is incorporated into food policy, women's health, early childhood development, and school nutrition and education projects. One example of this multidisciplinary approach is the *Integrated Nutrition Project* in Bangladesh (IDA, fiscal 1995). It equips communities to meet nutrition deficiencies among their populations, particularly in children under two years old and women. The project introduces the screening and supplementary feeding program of pregnant and lactating women and adolescent girls. For children under the age of two, the project establishes a system of growth monitoring, a scheme for identifying and caring for low-birthweight babies, a deworming program, and a supplementary feeding program for malnourished children. In addition, the project supports widespread public education on breastfeeding, weaning, and preventive health care.

The Bank is now also a major contributor in the international effort to reduce micronutrient deficiencies. Full-scale micronutrient projects are being undertaken in China and Indonesia. Micronutrient components have been incorporated into an estimated fifty-three projects since 1990 (compared to six projects prior to 1990), including those in Bangladesh, Burkina Faso, Congo, Ecuador, Guinea, India, Mali,

Nigeria, Pakistan, the Philippines, Sri Lanka, and Uganda. Overall, the Bank's lending for micronutrient activities has increased dramatically since 1990 and is estimated to have amounted to approximately US\$71 million in fiscal 1995.

## Safety nets

Safety nets are programs designed to protect the most vulnerable members of society and are an important component of the Bank's poverty reduction strategy. They are designed to help those who are unable to take advantage of opportunities presented by growth (such as the sick, the disabled, or the elderly) or those who suffer temporary setbacks owing to seasonal fluctuations in income, the loss of the family breadwinner, famine, or macroeconomic shocks. While not being comprehensive, this section looks at some of the aspects of the Bank's increasing involvement in safety nets.

In the mid-1980s the Bank supported few safety net operations, whereas ten years later, it supports nineteen (about US\$2 billion in fiscal 1995).<sup>46</sup> The emphasis of its support changes from year to year depending on country circumstances. For example, in fiscal 1993, the Bank financed a wide variety of safety net operations in South Asia, Sub-Saharan Africa, Latin America and the Caribbean, and the former Soviet Union. In fiscal 1994, on the other hand, many of these operations supported government safety nets that were introduced to mitigate the effects on the poor of the devaluation of the CFA franc in Sub-Saharan Africa. In fiscal 1995, almost three-quarters of Bank support for safety net operations went to countries in the former Soviet Union to protect vulnerable groups from the adverse effects of the economic transition in those countries.

The Bank uses a variety of mechanisms to support governments in their efforts to provide effective safety nets, including analysis, technical assistance (advice), and investment and adjustment operations. Analysis is extremely important in determining the most appropriate way to reform or design a safety net in a specific country. In 1993, for example, the Bank undertook an in-depth study, *Tunisia, The Social Protection System*, which provided the government with an analysis of pensions, health insurance, family benefits, unemployment benefits, and social assistance.<sup>47</sup> Another Bank study, *Tunisia: From Universal Food Subsidies to a Self-Targeted Program*,<sup>48</sup> reviewed the ongoing reform of Tunisia's food subsidies, the country's largest social assistance program. The reform shifted subsidies to narrowly defined items that are perceived by consumers to be

of a lower quality because they possess certain unattractive features in their packaging or ingredients, although the intrinsic nutritional value of these items is preserved. These perceived inferior characteristics discourage wealthier households from buying these items, thus ensuring that the benefit of the subsidy is received mainly by the poor who do buy them because of their low price. The report found that these quality differentiations had been successful in reducing fiscal costs, improving self-targeting, and making food subsidies more cost-effective.

The Bank's analysis of the existing safety net in the Philippines, where poverty remains high, has shown that the food subsidy system is inadequate, expensive, and poorly targeted.<sup>49</sup> As a result of this analysis and the ensuing policy dialogue, the government is considering revamping parts of its social safety net. Likewise, in Vietnam, the Bank's poverty assessment has helped to identify vulnerable households and regions, and a component of the *Vietnam Structural Adjustment Program* (IDA, fiscal 1995) aims to improve the system of intragovernmental transfers to ensure adequate financing for social services and for the safety net. Also, the Government of Egypt asked the World Bank to conduct a *social welfare study* to assess whether the existing safety net needed to be amended to provide better assistance to the poor both during and after the adjustment period. A draft of the analysis and recommendations was completed in fiscal 1995 and is now being discussed with the government.<sup>50</sup> In parallel with and with input from this ongoing analysis, the Bank has helped a government team to design the *New Targeted Program of Assistance to the Poor* as part of the *Structural Adjustment Monitoring Program*, which will consist of a new cash transfer program for poor people who are unable to work and will gradually replace the existing social assistance schemes.

In the transition economies of the ECA region, the Bank is routinely analyzing and supporting the reform of public expenditures on safety nets. The Bank has taken measures to ensure the adequate funding of unemployment benefits and minimum pensions (*FYR Macedonia Financial and Enterprise Sector Adjustment Credit*, IDA, fiscal 1995). Similarly, the Bank has supported the transfer of essential social services from public enterprises that are currently being restructured or privatized to local governments (*Kazakhstan Structural Adjustment Loan and Social Protection Project*, IBRD, fiscal 1995). The Bank has also financed credit and public works programs in Albania through the *Rural Poverty Alleviation Pilot Project* (IDA, fiscal 1993) and the *Rural Development Project*

(IDA, fiscal 1995), which aim to promote small-farm and off-farm activities, to create a rural market economy, to repair basic rural infrastructure, and to create rural employment.

The Bank has supported *short-term job creation* as a safety-net measure in many regions. This approach has the dual benefit of providing income-earning opportunities to poor unskilled workers and of rehabilitating physical and social infrastructure of vital importance to the poor. In Chad, The Gambia, Madagascar, Mali, and Senegal, the Bank has supported public works programs that provide employment opportunities for the unskilled poor in urban areas. In Mali, the *Public Works and Capacity Building Project* (IDA, fiscal 1992) is designed to create labor-intensive employment in response to the steady rise in urban poverty in Mali. The evaluation of its first year of operations has been extremely positive. As of June 30, 1995, the executing agency, AGETIP-Mali, had initiated 392 subprojects resulting in the creation of over four million person-days of employment.

In many countries, a combination of different measures is used as a safety net to mitigate the effects of economic crisis. For example, the Mexican government, with US\$500 million support from the Bank, is starting to implement an ambitious US\$2 billion program, the *Program of Essential Services*, that combines investments in essential services with short-term public works programs in low-income areas during 1995 and 1996. The project will make major investments in the welfare of the Mexican population. In the education sector, it will provide primary and preprimary schooling to children in isolated rural areas, including making stipends available to cover transportation and boarding. Textbooks will be supplied to all primary school students, and almost 6,000 schools serving rural and indigenous children will be upgraded and expanded. In the health sector, the project will immunize 20 million children annually against the most common preventable diseases. As well as expanding family planning services, maternal and child health care, and pre- and postnatal care, it will fund mobile outreach units to deliver basic health care to 33 million uninsured people. Nutritional interventions will be targeted to poor rural groups and particularly to children under the age of five and pregnant and lactating women. In addition, the project creates short-term employment in the area of infrastructure development in low-income urban and rural areas and will provide retraining and stipends for a total of 800,000 unemployed and underemployed workers over the two years of the project.



Much of the Bank's support for safety nets in Latin America and in Sub-Saharan Africa has been in the form of *social funds*, which governments have introduced as a means of helping the poor to cope with the effects of the recession and with the consequent adjustment measures. Since fiscal 1992 the Bank has supported social funds in eight countries in LAC and sixteen in SSA.<sup>51</sup> In LAC these projects have often been located in rural areas that were adversely affected by the debt crisis of the early 1980s. The social funds have supported the rehabilitation, expansion, and construction of schools, health posts, and water supply and sewage systems, the repair and improvement of minor roads and small bridges, the construction of rural access roads, and the rehabilitation of drainage and irrigation systems. For example, the original Bolivia *Emergency Social Fund* (IDA, fiscal 1988) financed projects that generated a total of 731,000 person-months of employment. The Honduras *Social Investment Fund I and II* (IDA, fiscal 1991 and 1992) financed investments that created more than 140,000 jobs (between 1990 and 1993), which is equivalent to almost 5 percent of the labor force.<sup>52</sup> The social funds have also financed a variety of social service projects. The Bolivia *First* (fiscal 1990) and *Second* (fiscal 1993) *Social Investment Funds* have targeted much of their social service projects to poor rural areas, including such activities as nutrition programs for lactating mothers and their infants, nutrition centers for infants at risk, training for women in family and personal health, childcare, literacy, and microenterprise and handicraft activities.

Governments face many challenges in designing effective and efficient safety nets. As government resources are limited, it is usually necessary to target the benefits of safety net programs to specific groups.<sup>53</sup> However, it is difficult to target accurately because there is not enough reliable data available for identifying eligible recipients and because the government's administrative capacity is often too weak. Therefore, some poor people will be missed while some people who are not poor will receive benefits.<sup>54</sup> There can also be substantial political obstacles to reforming existing social safety nets.<sup>55</sup> As a result, informing the population about the difficult choices a government has to make and why they have been made is essential in any social safety net reform program.

### Progress in fiscal 1995

This section looks at how these elements of the Bank's poverty reduction strategy are prioritized, adapted, and applied to specific countries. It also examines

Bankwide trends in direct poverty-targeted lending during fiscal 1995. The Bank's approach has two key elements: (i) country-specific analysis of poverty in the form of poverty assessments and other analytical work that identify which elements of the strategy are most relevant to the prevailing country circumstances, and (ii) the Bank's country assistance strategy (which is continually revised in light of updated information), which supports and complements governments' efforts, including those supported by other donors, to reduce poverty. The Bank then defines the most appropriate package of instruments for supporting the government's efforts to reduce poverty in the context of that country assistance strategy.

### Poverty analysis

The Bank's analytical work on poverty contributes to increasing the understanding of the nature and extent of poverty in member countries and is crucial for designing effective country assistance strategies and well-targeted interventions. It also forms the basis for effective policy dialogue with governments and donors. Box 2.8 shows examples from two countries for which poverty assessments were completed in fiscal 1995 of how the Bank's analysis feeds into the development of a specific country strategy and the lending program that supports it. Poverty assessments are one of the main instruments for identifying the key poverty issues for each country and for helping to set the policy agenda for reducing poverty. Other economic and sector work, including public expenditure reviews and the Bank's research, can also be important for shaping successful poverty reduction strategies.

By the end of fiscal 1995, the total number of completed poverty assessments was sixty-two (fifty-eight countries and four updates). These poverty assessments cover 80 to 90 percent of the world's poor (see annex F for an analysis of the fiscal 1995 poverty assessments and their summaries). Although progress is also being made on the fifty-eight assessments (ten of which are updates) that remain to be completed, delays are a concern. Of the forty poverty assessments originally scheduled to be completed in fiscal 1995, eighteen were delayed (although one assessment was completed ahead of schedule). The vast majority of delays were caused by efforts to improve quality (mostly waiting for better data and consulting with beneficiaries). Although many delays were unavoidable, and in fact were ultimately beneficial, a higher priority needs to be assigned to completing poverty assessments without compromising the quality of analysis, and governments must be encouraged to do the same.

**Box 2.8 Using analysis to design country assistance strategies to reduce poverty****Brazil**

The fiscal 1995 poverty assessment for Brazil showed that poverty is widespread but that there are also specific pockets of deep poverty. The proportion of the poor ranges from 7 percent in some cities to 44 percent among the residents of the rural Northeast. In the North and Northeast regions, about one-quarter of all children under the age of five suffer from chronic malnutrition. The poor, especially those in the Northeast, are mostly illiterate, have little access to social services, and have large families. Because poverty is widespread, broad-based growth is essential for reducing poverty. In addition, increasing the human capital of the poor, in part by increasing their access to essential social services, is needed to reduce poverty as is the introduction of some targeted programs.

The Bank's assistance strategy has incorporated the findings of the poverty analysis in that it focuses on holding down inflation, reallocating social sector spending to services that benefit the poor, and targeting interventions to the poor. This strategy is supported by the proposed lending program. In accordance with the finding that poverty is geographically concentrated, the Bank is supporting *Rural Poverty* programs (I, II, and III; IBRD) in the poor northeast, which are designed to increase the access of the rural poor to basic social and economic infrastructure and employment-generating activities. The Bank's lending for human capital development is also being targeted to the poor in the more vulnerable regions in Brazil, including an education project in the poor region of Espírito Santo and the *Health and Nutrition Project* (IBRD) in the Northeast. Vulnerable groups will also be targeted in the upcoming *Early Childhood Development Project* (IBRD), *Basic Education Reform Project* (IBRD), and *National Health Fund Project* (IBRD).

**Vietnam**

The fiscal 1995 poverty assessment for Vietnam found that 51 percent of the Vietnamese population, most of whom live in rural areas, fall below the poverty line. The assessment identified some key problems—the poor have little access to adequate social services, transfers and safety net programs are badly targeted, the rural poor have no access to credit or technology, and agricultural marketing costs are high because of poor rural infrastructure. In following these analytical priorities, the assistance strategy advocates focusing on poor rural areas and developing human capital by targeting basic social services to poor households. Consistent with this strategy, the Bank's lending encourages growth in rural areas and develops human capital. The forthcoming *Irrigation Rehabilitation Project* (IDA) will help to increase the productivity of farmers in the poor central region of Vietnam. The *Rural Finance Project* (IDA) will strengthen the ability of rural financial institutions to extend their services to the poor, and the *Rural Infrastructure Project* (IDA) will support the labor-intensive construction of rural roads. Human capital projects include the *Primary Education Project* (IDA), which will renovate primary schools in several poor provinces. Both the *Population and Family Health Project* (IDA) and the *National Health Project* (IDA) target reproductive and basic health services to poor areas, while the *Child Nutrition and Development Project* (IDA) will help to prevent children from becoming malnourished. The structural adjustment program has supported several measures designed to improve targeting of expenditures toward the poor—for example, a budget law that delineates the responsibilities of central and local governments and a public expenditure review that recommends reallocating resources to key economic and social infrastructure.

The flip side of the coin is that the quality of the twenty-three poverty assessments completed in fiscal 1995 was considerably better than in previous years in terms of the breadth of topics covered and the depth of their analysis. The use of qualitative information on the needs and perceptions of the poor derived from participatory surveys increased from a quarter of the poverty assessments in fiscal 1994 to half in fiscal 1995, making these assessments more realistic and relevant. Likewise, 80 percent (compared to 70 percent in fiscal 1994) defined two poverty lines to distinguish between the poor and the extremely poor. Nearly two-thirds (compared to half in fiscal 1994) made specific recommendations on how to improve macroeconomic policies to benefit the poor. All but one of the assessments included an analy-

sis of safety nets (compared to just over half in fiscal 1994) and about three-quarters (compared to about half in fiscal 1994) included a thorough analysis of gender issues.

**Social assessments.** Social assessments provide a framework for incorporating participation and social analysis into the design and delivery of Bank operations. In fiscal 1994, the Bank's Social Policy Thematic Team prepared integrated guidelines for social assessments in order to incorporate participation and social analysis into the Bank's operational work and to improve the social soundness, quality, and sustainability of Bank operations. Following this initiative, the Bank created a structure in each of the four regional technical departments to support systematic social assessment, recruited technical specialists, mobilized resources for capacity building

and operational support, and initiated a structured learning process to identify and disseminate best practices. A review of forty-two social assessments that had been initiated since June 1994 revealed that social assessments are being rapidly and widely adopted within the Bank. For instance, forty-seven social assessments were initiated in fiscal 1995 alone, were spread across sectors and regions, and were being undertaken in the context of both projects and analytical work. These assessments were found to be an important vehicle for gaining stakeholders' commitment and for improving the sustainability of development interventions. They were reorienting project design and their findings were being used to help reach poor and disadvantaged groups. While off to a strong start, the study noted several areas for improvement. Social assessments should be done in the very early stages of project design; linkage and integration to country and sector work needs more attention; and more prioritization of social factors is important, as is wider dissemination of the findings (for further information, see World Bank 1995e).

### *Partnership*

Partnership with governments, the donor community, NGOs, and civil society continues to be an important element of the Bank's work on poverty reduction. The process of preparing poverty assessments continues to foster cooperation among the Bank, governments, other donors, and civil society in formulating strategies aimed at reducing poverty. It can also help direct development assistance to where it is most needed. For example, the completion of several fiscal 1995 poverty assessments was followed by in-country workshops involving central and local governments, community organizations, NGOs, and donors. The Bank, governments, and donors also used consultative group meetings to discuss the preliminary or final findings of poverty assessments and other studies and to agree on poverty reduction strategies and the contribution of each organization to implementing them. Also, in fiscal 1995 a number of the Bank's poverty and participatory poverty assessments benefited from financial assistance from the Government of the Netherlands.

### *Country assistance strategies*

The Bank develops an assistance strategy for each of its member countries that reflects that country's

unique circumstances. The country assistance strategy encapsulates the totality of the Bank's actions and initiatives in that country. Because the problem of poverty is so overwhelming in many countries, reducing poverty is almost invariably the key element of the Bank's country assistance strategies. All of the actions that the Bank takes in support of the government's efforts to reduce poverty should be consistent with the poverty reduction strategy as defined in the assistance strategy, although they need not have an explicit poverty-reduction component.

The CAS statement describes the Bank's assistance strategy and is prepared in consultation with the government before the strategy is discussed by the Executive Board. CAS statements have addressed poverty issues more explicitly and comprehensively each year. In the case of all of those countries for which poverty assessments have been completed, it was possible to establish clear links between the recommendations of the poverty assessment and the formulation of the lending program. All of the forty CAS statements that were produced in fiscal 1995 addressed poverty concerns directly. Almost all of the statements fully discussed strategies for increasing the health and the education of the poor. While all the CAS statements discussed the policies and programs needed for growth, they did not all explicitly show how the patterns of growth advocated in the CAS statement would affect the poor. Approximately half of them proposed specific actions for increasing the productivity of, and economic opportunities for, the poor. This was about the same share as last year and twice that in fiscal 1993 and still leaves ample room for improvement.

### *Poverty-focused lending*

During fiscal 1995, approximately US\$5.4 billion or about 32 percent of World Bank investment lending was channeled directly for poverty-targeted projects, up from US\$4.4 billion or 25 percent during fiscal 1994 (see annex A for a description of these PTI projects). For IDA countries, PTI lending was 54 percent of fiscal 1995 investment lending, which is a considerable increase from 43 percent in fiscal 1994. The bulk of this lending was in three sectors: agriculture; education; and population, health, and nutrition. Over the four years that the Bank has been monitoring PTI projects, it has supported projects amounting to approximately US\$39 billion, of which the Bank contributed loans worth US\$18.4 billion. On average, between fiscal 1992 and 1995 more than a quarter of total Bank investment lending has been

**Box 2.9 Participation in selected fiscal 1995 projects**

During the preparation of China's *Southwest Poverty Reduction Project* (IDA and IBRD), field visits by the Bank mission and the lead implementing agency led to profound changes in the proposed project design. The visits fostered ownership on the part of the implementing agency, as well as an appreciation among some of the skeptical planners of the value of listening to the poor. Some of the government officials accompanying the mission were shocked to see the conditions endured by the poor and everyone agreed that the depths of poverty in the poorest villages visited were unimaginable in other areas of China. Several project components, including a proposed microcredit program and a large-scale planting program, were substantially changed after discussions with directly affected stakeholders to suit their priorities and local conditions. The project has now adopted an integrated village development approach, and particular attention is being given to ensuring that ethnic minorities and women are actively involved in the project and that they derive positive benefits from it.

The *Livestock Development and Rangeland Management Project* (IDA) in the Central African Republic has three main objectives: to raise livestock productivity, to alleviate poverty among herders, and to ensure sustainable management of natural resources. This project has already involved an extraordinary level of participation by directly affected stakeholders. At the appraisal stage alone, some 1,500 herders and villagers participated in thirty village-level meetings to discuss the project's objectives and details. The project will include a grassroots capacity development program to empower herders and their wives to take more re-

sponsibility in the management and policy decisions of the national herders federation, which until recently was dominated by government officials and traditional chiefs. This organization, its grassroots groups, and its individual members will be closely involved in the design and implementation of the project, and the federation will in turn become more accountable to the herders themselves.

The government of Zambia is beginning to devolve safety net activities to local groups, with an emphasis on participation by the poor in the planning and implementation of these activities. In this context, the *Zambia Second Social Recovery Project* (IDA) consists of a series of targeted interventions to poor communities and includes several innovative means by which participation will be ensured. Poor and vulnerable communities will be responsible for identifying, planning, and implementing microprojects according to their own priorities to benefit the most needy. NGOs with experience in participatory community-based planning will assist particularly poor communities in this process, by using participatory techniques to assess needs and facilitate the identification of microprojects. A newly formed NGO, the Participatory Assessment Group, will support this participation by training district-level staff in participatory planning techniques and the identification of vulnerable communities and by undertaking regular Beneficiary Assessments to monitor and evaluate ongoing microproject activities from the beneficiaries' viewpoint. In this way, the project's interventions and procedures can be modified in a timely manner to ensure that they meet the needs of the poor.

devoted to the PTI. In the low-income (IDA) countries, the amount of investment lending in the PTI has increased from an average of 42 percent in fiscal 1992-93 to 48 percent in fiscal 1994-95 (see table A.1 in Annex A).

All adjustment operations contribute to overall efforts to reduce poverty by supporting macroeconomic and sectoral policies that promote a sound basis for economic growth and efficient resource allocation, which are essential for successful poverty reduction. In addition, some adjustment operations, which are termed "poverty-focused operations," contain specific poverty-reduction measures. Fourteen of the twenty-seven adjustment operations that were approved during fiscal 1995 were poverty-focused (52 percent).<sup>56</sup> Although this is a decline relative to fiscal 1994 (71 percent), actual lending for poverty-focused operations remained relatively constant

(US\$1.67 billion in fiscal 1994 and US\$1.65 billion in fiscal 1995).<sup>57</sup> In IDA countries the share of poverty-focused lending increased from 44 percent to 56 percent, and the volume of adjustment lending was cut by half from fiscal 1994 to fiscal 1995 (see annex B for a description of the fiscal 1995 poverty-focused adjustment operations).

**Participation**

A review of fiscal 1995 investment operations shows that eighty-four out of a total of 208 approved projects involved the participation of people who will be directly affected by the project, and an additional twenty-nine projects included participation by NGOs, academic bodies, private sector firms, and other interest groups (for examples, see box 2.9).

Participation continues to be more prominent in the everyday work being undertaken at the Bank. Following the Executive Board's endorsement of a plan of action to mainstream participation, which had been developed by a learning group of some fifty Bank staff members, several new initiatives are currently under way. The Senior Managers' Oversight Committee has been established to oversee the mainstreaming of participation in Bank operations. One of the first tasks of this committee has been to review Participation Action Plans prepared by each region, which specify procedures and plans for integrating participatory approaches in their lending operations and analytical work. Although the regions have already, to differing degrees, begun integrating stakeholder participation into their work, implementing these plans will make this work much more systematic and intensive. The Africa region's Participation Action Plan, for example, has as one of its objectives a broadening of the range of stakeholders involved in operations, in particular to involve the ultimate beneficiaries, especially the poor and women. All regions have identified operations in which special attention will be paid to ensuring broad-based stakeholder participation.

The Fund for Innovative Approaches in Human and Social Development (FIAHS) is available to the Bank's staff as an incentive to include participatory approaches in their work. Over the past two years, FIAHS has supported participatory initiatives in over seventy Bank-supported operations and analytical work, and demand has always far exceeded the availability of funds. Activities supported by FIAHS have included participatory assessments in project and analytical work design and implementation, participatory project planning workshops with a wide range of stakeholders, and participatory evaluations of projects. In Europe and Central Asia, these funds have been used to support work with communities in Uzbekistan, Turkmenistan, and Kazakstan to develop rural water supply and sanitation in the Aral Sea disaster area, including pilot income-generation projects for direct poverty reduction. A number of FIAHS-supported initiatives have sought to strengthen the opportunities for the active participation of women in Bank-supported work. One such effort, in the context of a natural-resource management project in Bedouin communities of Matruh, Egypt, involved consultations with women's groups in these communities to reassess whether the project was addressing their priorities and how some of the major barriers to their participation could be overcome.

In addition to funds, World Bank staff can now draw on a growing literature of Bank experience with participation, including the *Participation Sourcebook* published this year to help Bank staff and those who work with them support participatory processes in economic and social development (World Bank 1996d, which devotes an entire chapter to methods and strategies for enabling the poor to participate).

### *International conferences*

The Bank has also participated in and is actively involved in follow-up to recent international conferences such as the World Summit for Social Development in Copenhagen and the Fourth International Conference on Women in Beijing. At the Social Summit, the World Bank announced that it would increase its social spending by 50 percent over the next three years. The Bank committed itself to providing US\$15 billion for basic social needs, and a further US\$5 billion for water supply and sanitation programs. Other areas where the World Bank supports Social Summit commitments are: (i) giving increased attention to the level, composition, and efficiency of public expenditures; (ii) expanding work on labor-intensive patterns of growth, participation, gender issues, and problems of the family; (iii) paying greater attention to participatory poverty assessments, country assistance strategies, and other Bank instruments to ensure a broader perspective; (iv) helping governments to increase domestic revenues and savings to meet priority needs; and (v) increasing the efficiency and effectiveness of poverty-reduction programs on the ground.

Follow-up actions to the Beijing Conference include: (i) integrating gender issues into the country assistance strategy; (ii) working with governments and other donors toward the objective of primary school completion for every young child and an equal proportion (60 percent) of girls and boys entering secondary school by the year 2010; (iii) allocating about US\$900 million per year to support girls' education; (iv) institutionalizing the participation of women's groups in Bank analysis as well as in lending; (v) establishing a microfinancing facility—CGAP, launched in August 1995—which is designed to increase the resources available to the very poor, including women; (vi) establishing a leadership fund for women to promote women's representation in decisionmaking processes; and (vii) assisting member countries in generating and analyzing gender-disaggregated data.

## Conclusions

Over the past five years the World Bank's focus on poverty has increased and sharpened in many areas. First, the improvement in the quality of poverty analysis has greatly increased the available knowledge of specific country poverty problems. Most of this analysis is now based on representative household surveys, making it much more reliable and detailed and leading to more precise poverty interventions. The poor's own perceptions of the constraints they face and how they can best be helped has increasingly been integrated into the analysis and the design of projects. More and better analysis is being done of the interaction between poverty and both gender and safety-net issues. Second, this ana-

lytical work on poverty is improving the Bank's country assistance strategies and policy dialogue with governments, although there is a need to improve how the findings of poverty analysis are incorporated into the design of country strategies and the resulting program of assistance to a country. Third, the Bank continues to give strong support to improving the human capital of the poor and has significantly increased its support of safety nets. Overall, a growing proportion of the Bank's lending continues to be directed to the poor. The Bank is also addressing the constraints that prevent the poor from taking advantage of the opportunities produced by growth (such as discrimination and restricted access to land, technology, and credit) and needs to continue to work with governments to increase efforts in this area.

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## 3 *Impact of Strategies and Interventions on Reducing Poverty*

Since helping governments to reduce poverty is the ultimate goal of the Bank and other donors, it is absolutely imperative that the impact of strategies and interventions be measured to determine how effective they are. However, it can be extremely difficult to distinguish the “on-the-ground” impact of any one donor’s efforts (especially when they include a wide range of elements such as information, analysis, advice, investments, and donor coordination) in a given country. Other factors that influence the success of a donor’s efforts to help a government reduce poverty include the extent of the government’s own commitment, its institutional capacity, the political environment, external economic factors, climatic conditions, and the role of other donors.

### **Aggregate impact of all interventions**

This chapter looks at impact from several perspectives. First, it addresses the impact of all factors affecting efforts to reduce poverty by looking at what the newest household survey data reveal about links between actual growth, poverty reduction, and income inequality. It then examines the growing body of evidence on the impact of adjustment on poverty. Finally, it presents some of the emerging evidence on the effect that poverty projects have had on reducing poverty, looking both at IDA-8 projects and at PTI projects. However, it must be borne in mind that the long life cycle of a project—anywhere from five to eight years—makes it particularly difficult to gather information to assess a project’s total impact until well after completion. Normally, an impact evaluation is carried out on a Bank project five to eight years after it has been completed.

### ***Impact of growth on poverty and inequality***

An issue of overwhelming policy significance is how economic growth in general—and the economic growth of recent decades in particular—influences poverty and income inequality. The Bank has been

engaged in a continuing assessment of poverty trends in borrowing countries and in linking these trends to the economic performance of these countries, using the growing body of new household survey data. A number of recent Bank studies have investigated the link between economic growth, on the one hand, and income inequality and poverty, on the other (Bruno, Ravallion, and Squire 1996; Deininger and Squire 1995; Demery, Sen, and Vishwanath 1995; Dollar and Litvack forthcoming; Ravallion 1995; Ravallion and Chen 1996). These studies report the results not only of the Bank’s own investigative work but also of the wider literature on the subject. While the new data have proved to be extremely instructive in showing the effects of growth on poverty and inequality, the nature of the underlying relationships is only gradually being understood. Some empirical regularities are becoming better established, while others continue to be surrounded by uncertainty.

The first and critical finding of these current studies, as well as of past studies, is that *economic growth reduces poverty*. This has been further substantiated in the analysis of the most recent data between the early 1980s and mid-1990s (Deininger and Squire 1995 and Ravallion and Chen 1996). A strong association is evident in the new survey data between the rate of growth and the rate at which poverty incidence changes. Positive growth is associated with a falling incidence of poverty, while economic contraction is associated with a rising incidence of poverty. This strong association between growth and poverty reduction holds for all regions. It also appears to hold in cases of short-run periods of economic recovery as well as in long-run periods of growth (Demery, Sen, and Vishwanath 1995). Dollar and Litvack forthcoming use 1993 household data for Vietnam to demonstrate that poverty has fallen from about 75 percent of the population to 51 percent as a result of broad-based growth between 1984 and 1993.

Ravallion and Chen 1996 demonstrate that the impact of growth on reducing poverty among the poorest appears to be greater than for the moder-

ately poor. To test whether the “extreme” poor benefited as much from growth as the “moderate” poor, three poverty lines were specified—50 percent, 75 percent, and 100 percent of mean incomes or consumption in the initial survey. The results show that poverty measures using the lowest poverty line (50 percent of the initial survey mean) respond more to changes in mean incomes or expenditures than either of the other (higher) poverty lines.<sup>58</sup> However, other studies emphasize that not all poverty groups necessarily benefit from growth. A study by Demery and Squire 1996 of three African countries (Kenya, Nigeria, and Tanzania) using a lower poverty line for extreme poverty (approximately one-third of mean expenditures) shows that, while overall poverty fell as a result of economic recovery, extreme poverty increased.

A second major finding of recent empirical work is that there is *no evident relationship between growth and income inequality*. Most recent literature points to this conclusion (Bruno, Ravallion, and Squire 1996; Demery, Sen, and Vishwanath 1995; Deininger and Squire 1995; and Ravallion and Chen 1996). While Deininger and Squire 1995 found that income inequalities have remained remarkably stable over time, they also show that aggregate growth was associated with a decrease in inequality (fifty-four cases) about as often as it was associated with an increase in inequality (fifty-five cases).

Although it is clear that the higher the rate of growth, the more poverty is reduced in a given country, there is considerable variation across countries in the impact of a given rate of growth on poverty. Much of this variation arises because *income distribution itself affects poverty reduction*. It does so in two ways. First, the greater the decline in income inequality over time, the greater is the impact of growth on poverty reduction. At the extreme, adverse changes in income distribution can mean that the living standards of the poorest decline even when mean incomes are growing, as appears to have happened in Mexico in the late 1980s (Ravallion and Chen 1996). On the other hand, small reductions in income inequality can help the poor during periods of adjustment, as in Indonesia during the mid-1980s (Ravallion and Huppi 1990). The more income inequality is reduced, the larger the impact of growth on poverty reduction. Second, income inequality during the base year is found to influence poverty reduction in subsequent years. This is confirmed in the analysis of recent data by Ravallion and Chen 1996. Using a poverty line set at 75 percent of initial

mean income, a 10 percent increase in growth is estimated to result in a 30 percent reduction in poverty if the initial Gini ratio was 0.25 but only in a 5.6 percent reduction in poverty if inequality was higher (with a Gini ratio of 0.6).

Finally, recent studies have yet to resolve the question of how income inequality influences economic growth. While some evidence (both theoretical and empirical) supports the view that high income inequality harms subsequent growth (Bruno, Ravallion, and Squire 1996; and Demery, Sen, and Vishwanath 1995), more recent studies conclude that this is not necessarily the case (Ravallion and Chen 1996). This is an issue on which further research is warranted.

### Impact of adjustment on poverty

Although it is clear that sustained growth is critical for reducing poverty, experience has shown that to achieve sustainable growth countries must maintain a stable macroeconomic environment and must continually adjust economic policies to changing external and internal conditions. Unfortunately, in many cases, countries have faced severe economic shocks or have been slow to adjust their economic policies as the domestic or international environment changes. For instance, in the early 1980s, international shocks such as increases in oil prices and interest rates and poor domestic policies that led to large government deficits, overvalued exchange rates, and pervasive government controls combined to create severe crises in a number of countries, especially in Latin America and Africa. In Argentina the annual average inflation rate between 1982 and 1986 was 365 percent, and in Bolivia, it was 776 percent. By the end of the decade, Peru's inflation rate reached over 7,000 percent a year. The proportion of households living in poverty in Brazil increased from 24 percent in 1980 to 42 percent in 1983. Manufacturing wages in Mexico fell by 33 percent between 1982 and 1985. With inflation taken into account, the minimum wage in Lima in 1985 was half of what it had been in 1980. These high inflation rates contributed significantly to increasing income inequality. Restoring prudent macroeconomic management and abandoning failed policies were essential not only to restore growth but also to address the devastating impact that these shocks and policies were having on the poor.

Adjustment programs supported by the Bank aim to help countries that have been unable to adjust to



severe economic shocks or failed policies, or that have delayed adjusting to the point where they do not have adequate resources to undertake the necessary economic reforms on their own without severe negative consequences. The ultimate goal of these programs is to help governments to correct the underlying macroeconomic imbalances in the economy and to provide the necessary incentives to support sustainable growth. Adjustment loans themselves provide financial assistance to governments to facilitate the process of reform that is necessary if the country is to achieve sustainable growth and sustained poverty reduction. Experience has shown that those countries that have remained committed to reforms and have both successfully stabilized the macroeconomic environment and removed the distortions in the microeconomy that inhibit growth, have had higher growth rates in the postadjustment period and have reduced poverty.<sup>59</sup> Chile, for example, started its reforms in the mid-1970s. These reforms included overhauling the tax system, lowering the government budget deficit and tariffs, and privatizing state-owned enterprises. Since recovering from the debt crisis in 1987, Chile has experienced steady growth and has influenced other countries throughout Latin America to begin reform programs. In Ghana, growth rates prior to the economic reform program were around -2 percent a year, but they increased to approximately 5 percent a year in the decade following the reform program.

In addition to these growth-enhancing effects, certain staple elements of the reforms supported by adjustment operations have generally benefited the poor directly. First, overvalued exchange rates usually tax agricultural goods and thus, in many cases, the incomes of poor farmers. In the process, they subsidize the import of capital goods (which can encourage capital-intensive production at the expense of labor-intensive production) and of luxury items consumed only by the rich. Thus, devaluations carried out in adjustment operations can help to turn the terms of trade in favor of the rural poor.<sup>60</sup> Second, measures aimed at containing inflation during devaluations have helped to reduce the kinds of burdens on the poor that were illustrated above for countries in Latin America. Third, adjustment operations stress the need to contain expenditures within the means available to the country in question. In many countries, governments were (and many still are) squandering resources on loss-making enterprises when these resources could more than adequately finance the primary education or

basic health budget, which would benefit the poor. In Sri Lanka, for instance, the annual subsidies to the airline Air Lanka in the 1980s were close to, and in some years greater than, government expenditures on food subsidies (Athukorala and Jayasuriya 1994). In Sub-Saharan Africa, public enterprise losses are often two to three times higher than government spending on health and education. Since these losses are financed through the banking system, this crowds out credit to small and medium-size enterprises. As a significant part of these losses are not recovered, this raises interest rates and the cost of credit to all. Finally, many public enterprises are unable to pay their debts to other firms and suppliers of goods and services, thereby jeopardizing the jobs in these firms. Other pro-poor measures typically supported by adjustment operations include: (i) reducing waste and illicit economic rents to the rich;<sup>61</sup> (ii) reorienting the government's role away from direct production, distribution, and trading and towards developing human capital (basic education and health); (iii) providing social services and technology; and (iv) rehabilitating essential infrastructure.

Even though adjustment is necessary for long-run sustainable growth and growth is essential for reducing poverty, both short-run and long-run costs can be associated with adjustment. The Bank's adjustment operations of the 1980s have been criticized by a number of NGOs, researchers, and some of the UN agencies, in part because of these short-term costs. First, many criticisms focus on the unintended consequences of these programs on government expenditures for social services. How a government chooses to reduce expenditures will obviously determine the extent to which the poor are adversely affected. Many countries have such high deficits that governments choose to make across-the-board expenditure cuts. Governments may also make expenditure reduction choices that can disadvantage the poor (for example, by reducing spending on basic social services) because of political pressures not to cut expenditures that benefit the vocal middle and upper classes. These government choices can also have long-term effects on poverty reduction efforts if they adversely affect the development of the human capital of the poor. The Bank has learned from these experiences and has responded to them by increasingly including conditionalities in its structural adjustment operations to ensure that public expenditures on the activities and subsectors that benefit the poor disproportionately such as primary education, basic health care, nutrition, and water supply

and sanitation are protected, and in many cases, even increased (see page 39 on the Operations Evaluation Department report's conclusions).

As more information becomes available, gradually more is becoming known about the effects of adjustment on growth and on poverty reduction.<sup>62</sup> Both public expenditure reviews (PERs) and poverty assessments (PAs) have been increasingly concerned with the targeting of public spending to the poor. One important recent development is the growing number of PERs and PAs in which estimates are obtained of the *incidence* of public expenditures. Using an approach known as benefit incidence (Van de Walle and Neade 1995), these studies seek to assess the extent to which the poor benefit from government spending. The Bank has recently completed such studies as part of PERs and PAs in Bolivia, Bulgaria, Colombia, Côte d'Ivoire, Kenya, Ghana, Guinea, Indonesia, Lao PDR, Madagascar, Malaysia, Mexico, Pakistan, the Philippines, South Africa, Tanzania, and Vietnam.<sup>63</sup>

Experience in targeting social spending to the poor has varied considerably across countries (Castro-Leal, Dayton, and Demery 1996). Some countries, for example, Argentina, Colombia, Uruguay, the Philippines, and Malaysia, have succeeded in targeting social spending to the poor. Others, such as Brazil, Bulgaria, and most African countries, have not (see table 3.1). The results from Africa are striking. None of the African countries where this analysis has been undertaken had succeeded in targeting its social spending to the poor. This is a result of the combined effect of placing too great an emphasis on urban-based services in most countries and of the constraints faced by poor households in gaining effective access to services, even at the primary level.

To continue supporting efforts at the country level to improve public sector management in general and the targeting of spending to the poor in particular, the Bank is currently engaged in a number of research initiatives. One research project being conducted in the Public Economics Division of the Policy Research Department (PRDPE) seeks to establish links between key institutional arrangements in the budgeting system and expenditure outcomes, particularly aggregate fiscal discipline, allocative efficiency, and equity. A preliminary phase of this research is being conducted in Australia, Ghana, Indonesia, Malawi, New Zealand, Thailand, and Uganda. Other work in PRDPE includes research on how best to target public spending to the poor and how the respective roles of private and public service providers influence service provision and household welfare.

The Bank's Poverty and Social Policy Department (PSP) is engaged in two initiatives that seek to improve public expenditure management and the targeting of expenditures to the poor. The Public Sector Management Unit in PSP is currently preparing a series of issues papers with the intention of preparing a public expenditure management handbook as an aid to Bank staff in helping governments in this area. Also, the Poverty Group is currently working on a best-practice paper, "Basic Public Services for the Poor" (World Bank forthcoming), which is designed to help the Bank's operational departments to increase the extent to which public spending is targeted towards basic services that are used by the poor.

A second cost that is raised by the critics of adjustment relates to some of the key components of the reform programs, for example, trade liberalization, devaluation, and privatization, which are perceived to be inimical to the interests of the poor, at least in the short run. There are individuals, groups, and communities—both poor and nonpoor—that are hurt in the transition period while these changes are taking effect. Closing, streamlining, or privatizing loss-making industries that are a significant drain on government resources can result in short-term job dislocation for the affected workers (although the vast majority of these workers are not poor). Nevertheless, the potential gains can far outweigh these costs as shown in box 3.1. There can also be negative effects in specific regions of a country, as in the mining towns of Bolivia. In the short to medium term, there can also be job dislocations as resources (both investment and labor) move from inefficient firms or sectors to those that are more efficient. While there are costs, there are many benefits that in the short to long term (depending on the speed of reforms) should outweigh the costs (see box 3.2). The correct response in such cases is not to abandon the reforms themselves but to make sure that those hurt or adversely affected by retrenchments in the public sector—by increased competition from imports or by the loss of protection to some industries—should be compensated and adequate safety nets provided for them. The Bank's recent adjustment loans and many investment operations include such safety net provisions.

Many critics also worry about the impact of adjustment on women. Box 3.3 shows findings of some analysis on this topic. The Bank is working to improve its knowledge of how adjustment affects women and to change its operations to address these issues. Within the context of the Special Program of Assistance (SPA), for instance, the Canadian Inter-

**Table 3.1: Incidence of social sector subsidies on the poorest and richest quintiles, selected countries**

Region/country	Year	Share of subsidy (percent)			
		All education		All health	
		Poorest quintile	Richest quintile	Poorest quintile	Richest quintile
<i>Latin America</i>					
Argentina	1991	25	16	33	6
Argentina	1980	28	17	51	4
Brazil <sup>a</sup>	1985	14	20	17	42
Chile <sup>b</sup>	1986	25	17	–	–
Chile <sup>b</sup>	1983	23	19	–	–
Chile	1982	–	–	22	11
Chile <sup>b</sup>	1969	–	–	21	18
Colombia <sup>c</sup>	1992	23	14	27	13
Colombia <sup>c</sup>	1974	20	21	28	12
Costa Rica	1986	19	24	28	11
Costa Rica	1983	19	22	32	12
Dominican Republic	1980	11	33	41	9
Mexico	1992	14	27	–	–
Peru	1985/86	13	22	–	–
Uruguay	1989	33	15	37	11
Uruguay	1982	31	14	34	11
<i>Asia</i>					
Indonesia	1990	15	29	12	29
Lao PDR	1993	11	35	–	–
Malaysia	1989	26	13	29	11
Malaysia	1973	20	15	20	18
Pakistan	1991	16	22	–	–
Philippines	1988	29	14	26	11
Philippines	1975*	–	–	14	40
Viet Nam	1993	11	45	12	29
<i>Africa</i>					
Côte d'Ivoire	1995	14	35	11	32
Côte d'Ivoire	1986	11	35	–	–
Ghana	1992	16	21	12	34
Ghana	1989	17	24	12	31
Guinea	1994	5	44	4	48
Kenya <sup>d</sup>	1992/93	17	21	14	24
South Africa	1993	19	21	15	17
<i>Others</i>					
Bulgaria	1995	17	21	12	27

– Not available.

*Note:* These estimates are not strictly comparable across countries, given possible differences in methods used. However, this gives a good indication of the orders of magnitude involved.

a. For Brazil, the figure in the poorest quintile represents the poorest 19 percent and the figure in the richest quintile represents the richest 16 percent (see World Bank 1988).

b. For Chile, the original source presents the results for the poorest 30 percent of the population and for the richest 40 percent of the population. Quintile shares were derived from decile means.

c. The health subsidy for Colombia represents only the subsidy of the Public Health Service (PHS), and does not also include the implied subsidy of the social insurance services provided by the Social Security Institute (ISS) (see World Bank 1994a).

d. The Kenya health figures are for rural areas only.

\* Date of original study. These data are from restricted International Labour Organization documents.

*Source:* Castro-Leal, Dayton, and Demery 1996.

national Development Agency and the World Bank are working closely on the Structural Adjustment and Gender in Africa initiative, which serves as a collaborative framework through which SPA donors and SPA working groups can address gender issues in their work programs and operations. Recommendations adopted by the November 1995 SPA Plenary for operationalizing the integration of gender in economic reform programs address the need for increased allocations of public expenditures to social sectors, improved access to girls' education, and legal reform to reduce gender disparities in land, inheritance, and property rights or in access to financial services.

Despite the differences that exist between many NGOs and the Bank and other donors, there are many points on which consensus exists. First, there is agreement that, while sustained growth is a necessary condition for poverty reduction, improving the distribution of the benefits of growth in favor of the poor is essential to increasing the rate at which poverty is reduced. Second, an economywide program of adjustment reforms provides an important

opportunity to eliminate the constraints that prevent the poor from participating in the economy. A third area of agreement is that there is a great deal of scope for reallocating public expenditures towards those social services, including safety nets, that benefit the poor. Fourth, there is a consensus that investing in female education, maternal and child health, and early childhood development and increasing women's access to technology, knowledge, credit, and services will fuel economic growth and reduce both the incidence of poverty and income inequalities. Fifth, governments should not require the poor to pay user fees for basic services if this will increase the costs to the poor of using these services. Sixth, it is agreed that it is vital to resolve the external debt problem in low-income, debt-distressed countries. Seventh, the modest revival of growth in recent years in some African countries is attributable to better use of existing capacity. However, these growth rates are inadequate to make any serious dent in the incidence of poverty and, therefore, there is an urgent need to increase domestic savings, investment, and growth if the incidence of

### Box 3.1 Private sector development and poverty reduction

Inefficiencies in the public sector in many adjusting developing countries have limited employment growth and, in the process, have deprived a large part of the population of the benefits of the reforms. In many countries, public enterprise losses are on the order of 8 to 12 percent of GDP. They absorb most domestic savings in Sub-Saharan Africa and are two to three times greater than government spending on health and education. Without these losses, real per capita GDP growth in reforming African countries would have been 3 to 4 percent a year instead of only 1 percent. In these countries, the bulk of assets of the banking system is absorbed by state enterprises, thus crowding out credit to small and medium-size private enterprises. As a significant proportion of these loans cannot be recovered, the stability of the financial system is jeopardized. This causes the costs of borrowing by the private sector to rise and causes budgetary deficits to widen because of high interest rates. Also, many state enterprises in financial distress are unable to pay their debts to other firms and suppliers of goods and services, thereby jeopardizing jobs in these firms and compounding pressure on the banking sector and the government budget.

Thus, if these countries are to grow swiftly and equitably, governments must shift their emphasis from supporting a public sector that has failed to generate productive employment to encouraging the development of a vibrant private sector. Only with such a shift

will the economy be able to absorb new workers, the unemployed, and those who become unemployed as a result of public enterprise and civil service restructuring. However, this will require a fundamental change in the role of government from being an owner and operator to being a policymaker and a regulator that works closely with the private sector to develop a competitive, outward-looking, and employment-generating economy.

Private sector development helps to reduce poverty in several ways. First, it enhances competition, which produces growth and jobs. Second, by allowing governments to divest themselves of activities that the private sector can do as well or better, it reduces waste and frees up public resources that can be invested in the social sectors and infrastructure. These investments are "income equalizers" in that they provide the skills and services required by the private sector to compete in today's skill-based global economy. The resources can also help to finance social safety nets and targeted programs to deal with the transitional costs of privatization and civil service retrenchment. Third, if the financial system no longer has the need to give priority in its credit allocation to state enterprises, then it will be more able to provide financing to small and medium-size entrepreneurs at affordable interest rates. Finally, the decline in the budget deficit and the lowering of real interest rates will cause inflation to fall.

poverty is to be reduced. Finally, there is clear agreement that, for adjustment programs to be sustainable, they must be well understood by the public. This means that greater attention must be given to communicating the objectives of the programs and to consulting those who will be affected by them about their concerns.

Many recent studies show that those countries in which serious efforts were made to implement adjustment measures achieved growth and reduced poverty. In contrast, those that failed to adjust typically experienced an increase in poverty. For instance, a 1994 study by the Swedish International Development Agency (SIDA) concluded that "the reforms result in increased growth if they are really carried out and given adequate financing" and that "there is no evidence to suggest that structural adjustment in itself leads to increased poverty." A study of Tanzania's experience with adjustment undertaken

by an NGO, the Joint Conference on Church and Development (Rosch 1994), concluded that the overall effects of the adjustment program have been positive, as shown in box 3.4.<sup>64</sup>

Other non-Bank studies have also examined the links between poverty and adjustment. Killick 1995 emphasizes the failure of many studies to isolate the effects of adjustment from the crisis itself, but summarizes the existing evidence in the following way:

"There are a few generalizations about the effects of adjustment programmes on poverty. There remain many data and methodological problems; outcomes are complex and varied. Poverty groups often are harmed by adjustment programmes, especially the urban working poor, but there has been a tendency to over-emphasize negative outcomes. There are many other influences on poverty. In the long run, adjustment is essential to the eradication of poverty."

### Box 3.2 How international trade can help poverty reduction efforts

The increased integration and globalization of economies have renewed concerns about the future of poor and less advanced countries and of the poorer segments of the population in advanced countries. The NGO declaration at the end of the Beijing Conference summed up this concern succinctly:

"The globalization of the world's so-called market economies is a root cause of the increasing feminization of poverty everywhere. The global economy governed by international financial institutions, the World Trade Organization, and Multinational Corporations proposes structural adjustment programs for countries in the South in the name of fiscal health. The result is increasing poverty, debt, and unemployment."

Limited but growing empirical evidence does not substantiate the validity of these concerns. Global markets free the working poor from the constraints imposed by domestic demand. Labor-intensive manufacturing took off in East Asian economies not by selling in domestic markets, which remained primarily agrarian, but by accessing international markets. In protected South Asia, meanwhile, manufacturing faltered, at least until recently. Global markets are not only larger than any single domestic market but generally more stable as well—and still have room to accommodate new entrants.

Increased openness to trade has been strongly associated with the reduction of poverty in most developing countries. In countries as different as Morocco and Bangladesh, increased participation in global markets has helped the poor. In Morocco, for example,

the incidence of poverty fell by half, from 26 percent to 13 percent of the population, just five years after trade was liberalized in the mid-1980s. New jobs—most of them connected to a booming garment manufacturing sector geared to the European market—drew unskilled workers from rural areas to the cities. In Bangladesh, a *specific trade liberalization relating to ready-made garments* allowed garment exports under the Multi-fibre Agreement to increase from almost nothing in the early 1970s to US\$1.8 billion in the mid-1990s. As the industry is labor-intensive and employs largely unskilled women, the spectacular growth of garment exports has contributed greatly to increasing female factory employment, and, more broadly, to the integration of women in society. Export-led growth has also been associated with poverty reduction in East Asia, Chile, Mauritius, and Turkey.

A recent study carried out by Jeffrey Sachs and Andrew Warner 1995 estimates that countries with open economies (those integrated into the world economy) in developing regions grow, on average, by 2.5 percentage points more than those with closed economies. This, in turn, would have a positive impact on poverty reduction in the absence of an antipoor bias in domestic policies and investment pattern.

This is not to say that there may not be short-term costs, as some inefficient firms need to adjust to become more efficient and as labor (and capital) will flow from areas of low comparative advantage and productivity to higher ones. Safety nets for displaced workers and, where necessary, incentives for, and access to, retraining for many of these workers may be warranted.

Because of insufficient household-level data, a number of researchers have used applied general equilibrium models to explore the effects of adjustment on poverty (see, for example, Bourguignon, De Melo, and Morrisson 1991; Bourguignon, De Melo, and Suwa 1991; De Janvry, Sadoulet, and Fargeix 1991; and Dorosh and Sahn 1993). Two important conclusions emerge from these studies: (i) shocks that caused or contributed to the economic crisis had a greater adverse effect on poverty than did the adjustment reforms that were implemented in response to it; and (ii) alternative heterodox adjustment strategies, such as relying on import controls, do not benefit the poor more than standard adjustment reforms (Demery, Sen, and Vishwanath 1995).

A 1995 study by the OED (World Bank 1995f) reviewed all of the Bank's adjustment operations between 1980 and 1990. It concluded that those countries that successfully implemented the adjustment policies on which they had agreed with the Bank

have achieved growth in per capita income and reduced the proportion of their populations living in poverty.<sup>65</sup> The main conclusion of this report was that economic growth was the most significant factor affecting poverty—there was no reduction in poverty in any country that experienced negative growth. Sound macroeconomic policies are essential for promoting sustainable growth and for reducing poverty. Growth is closely correlated with poverty reduction whereas inflation worsens poverty. Overall, where macroeconomic adjustment policies have been implemented consistently, they have contributed positively to growth and to lowering inflation. The analysis also showed that the effects of growth on poverty were quantitatively more important than the effects of income distribution, regardless of whether poverty had increased or decreased. This tendency held for all regions. A more recent study of six African countries draws similar conclusions (Demery and Squire 1996).

### Box 3.3 Impact of structural adjustment on women

The impact of structural adjustment on women is popularly believed to be negative. However, more careful studies using disaggregated data show that the record is mixed. Although reforms have not been uniformly successful in improving the status of women and persistent gender inequalities can limit the benefits available to women relative to their potential, even from successful reform efforts, there are cases where women have gained.

During periods of adjustment in Latin America, the hourly earnings of women declined even more dramatically than those of men, partly because women were concentrated in the informal sector and in hard-hit, low-paying sectors such as apparel. Yet in Peru, where the economic fall had been quite steep and deep, the economic recovery stimulated by adjustment policies in fact benefited women. Household data show that average welfare gains among female-headed households exceeded those among male-headed households between 1991 and 1994.

Women in poor households have also greatly increased their labor force participation. In most African countries, women working in the informal sector saw their wages decline as excess labor released from formal employment moved into informal activities. In cases where there was a shift in resources away from food crop agriculture—where women predominate—towards cash crops, women were adversely affected. But in Nigeria, where domestic food production staged a remarkable recovery following devaluation and market liberalization, women farmers have benefited.

The evidence on the effect of adjustment in the formerly centrally planned economies on women clearly suggests that there have been benefits as well as costs. Studies in Russia and Estonia have shown that men's wages have risen relative to women's. However, in Poland and Slovenia, the earnings gap between men and women has narrowed. It is clear that many women have been adversely affected by changes, especially during the early phase of the transition, and working mothers face significant difficulties where childcare facilities that had formerly been provided by employers are subject to downsizing or closures.

Women played a distinct role during the transition in Asian countries as well. Although Vietnamese women faced particular challenges resulting from the collapse of childcare services provided by cooperatives, their overall position improved in line with economic growth, and female-headed households are now no poorer than those headed by men. In other Asian countries, such as the Philippines, economic reforms have been accompanied by important gains in employment for women, with female wages rising relative to male wages.

Additional measures to reduce persistent gender inequalities and increase the economic mobility of women by increasing their access to services and productive assets are crucial not only for improving the status of women but for enhancing the overall impact of reforms. The Bank is working on a broad front ranging from policy dialogue to changes in legislation and regulations, lending instruments, public expenditure reviews, technical assistance, and mobilizing other donors to persuade the borrowing governments to address these concerns.

With respect to the effects of adjustment on public spending, especially in the social sectors, the OED report found that social spending (as a percentage of GDP) was not disproportionately affected, falling less than did all discretionary (nondebt) expenditures. It noted that overall public spending excluding debt service fell as a percentage of GDP, with most of the cuts relating to economic services (particularly infrastructure), while nonproductive expenditures (military and public administration) were cut less. Social spending (as a percentage of GDP) actually increased in half of the adjusting countries. However, per capita social spending—a more relevant measure—fell in real terms in almost two-thirds of the countries studied. In most of the countries that adjusted successfully, real per capita spending on health, education, and social security/welfare programs rose either during the adjustment period or soon thereafter. It is important to note, however, that because government spending often entails a tremendous amount of waste, a reduction in government expenditures—if accompanied by increased efficiency—does not necessarily imply a reduction in public services (or a worsening of social indicators).<sup>66</sup> Nor can a change in the level of government expenditures be attributed solely to structural adjustment.

With respect to the composition of public expenditures, the report looked at how social spending was allocated between primary education or preventive health care (which primarily benefit the poor) and tertiary education or curative health care (which tend to benefit the rich). The report concluded that spending became more pro-poor in only a few countries, whereas it became less pro-poor in many others as a result of government choices. Nonwage recurrent spending was cut severely during adjustment as governments tried to maintain public employment. Distinguishing the impact of adjustment programs on public expenditures from that of other factors including political considerations is, however, a tremendously complex task. Box 3.5 provides some insights into the effects of adjustment on social expenditures and development.

Overall, the OED report concludes that the latest generation of adjustment operations has learned these lessons and has built on the experience of earlier adjustment programs. In particular, this is evident in the fact that, since the late 1980s, the share of adjustment loans that support the social sectors or include other measures that aim to reduce poverty has increased. Although the World Bank has never made an adjustment loan

### Box 3.4 Poverty and adjustment in Tanzania

A study on poverty and structural adjustment in Tanzania by an NGO, the Joint Conference on Church and Development, concluded that the overall effects of the structural adjustment program in Tanzania have been positive. The first phase of liberalization halted the decline in economic growth and the second phase resulted in a rise in per capita incomes as economic growth surpassed population growth. The study concluded that these were preconditions for successful poverty reduction.

**Winners and losers.** The study concluded that high-income groups were the primary winners in the short term, as they were situated to take advantage of economic opportunities. The study pointed out that this group contributed much to the recovery in Tanzania. Middle-income groups experienced a loss of purchasing power due to inflation and devaluation since their salaries were not raised proportionately. However, liberalization created many new opportunities to earn income of which this group was able to take advantage. Low-income groups, to the extent that they had already withdrawn from the formal economy, were not seriously affected by the changes in the economy, although a continuing decline in social services probably did affect them. The status of women was increased by the liberalization as men suffered a drop in income dur-

ing the crisis and were obliged to concede more freedom to their wives to carry out their own economic activities. Women were especially successful in the informal sector, thus improving their economic situation and, at the same time, their position in the society.

**Benefits to consumers.** The study pointed out that, before adjustment, only those businesses willing to smuggle and sell illegal goods could make a profit, very often astronomical profits. Businesses reacted quickly to the liberalization, and shops were filled with goods. Competition helped to erode extremely high profit margins, thus almost completely ending the "exploitation" of consumers through high prices due to artificial shortages.

**General conclusions.** Although liberalization has not yet been implemented in full, it has contributed significantly to ending peacefully the economic decline and the threat of mass impoverishment of the late 1970s and early 1980s. Nevertheless, a growing and complex process of social differentiation has taken place in which poverty has been reduced, although income gaps appear to have widened. Although structural adjustment has so far only been implemented gradually and inconsistently for internal political reasons, positive results have predominated according to both macro- and microperspectives.

conditional on a government reducing its social expenditures, experience has shown that governments sometimes choose to reduce social sector expenditures in an effort to reduce their budget deficits. As a result, the Bank has begun to make maintaining or increasing expenditures in the social sectors a condition of its adjustment loans. Whereas fewer than 5 percent of macroeconomic and relevant sector adjustment operations during fiscal 1983–85 contained either measures or conditionalities to maintain or raise expenditures in the social sectors, this figure increased in 1988–90 to 18 percent.<sup>67</sup> During 1993–95, this percentage rose again with an average of 42 percent that contained conditionalities to maintain or raise social sector expenditures.

Adjustment operations have also become more poverty focused over time, as shown in chapter 2 and annex B. In addition to including social sector expenditure measures, they are also increasingly including provisions to put safety nets in place to support vulnerable groups in the adjustment process during the transition period and taking proactive

measures to reduce economic distortions that disproportionately affect the poor.

### Impact of projects on poverty

In assessing the impact of a specific project, it is important to bear in mind that this project is only one of a range of actions being taken in a given country as part of a comprehensive strategy of policies and investments aimed at reducing poverty. Nevertheless, the specific impact of individual poverty-related projects can be measured provided that thought is given at the outset of the project to the basis on which its success or failure should be judged. This can be done by defining a list of performance indicators that can be monitored throughout the lifetime of the project to track the effect that it is having on poverty. Since fiscal 1994, the Bank has developed sector-specific indicators that are designed at the inception of each of its projects as a means of evaluating the success or failure of the intervention both during and after its implementation.

In the case of multisectoral projects such as social

#### Box 3.5 Adjustment and public expenditures in the Middle East and North Africa

A recent World Bank paper (van der Gaag 1995) concluded that “there is no evidence that in the MENA region social development is being jeopardized by the adjustment process.” According to this analysis, most countries in the region managed to maintain the share of health expenditures in total public expenditures during the 1980s, although rapid population growth, the stagnant economy, and declining overall government expenditures meant that real per capita spending on health declined. In the education sector, all countries (except Iran and Syria) showed significantly higher per capita public expenditures in 1990 than in 1980. Whether public social expenditures are protected during periods of economic austerity appears to be entirely a matter of government policy. The data indicate that governments in MENA have tried to keep up public spending levels on health and education but have not always been able to do so to the extent of maintaining real expenditures per capita.

Yet even though per capita health expenditures went down between 1980 and 1990, several important indicators, such as infant and child mortality rates, improved during that time. There are two possible explanations for this paradox: (i) public health expenditures were originally skewed toward higher levels of health and education services but, during the adjustment period, started to be reallocated to basic services,

and (ii) private expenditures were contributing more to the social sectors than was thought.

The role of the private sector is often overlooked when it comes to social development. Yet *World Development Report 1993: Investing in Health* (World Bank 1993e) estimated that about 40 percent of health expenditures worldwide come from private sources, though varying widely among countries. For example, private expenditures constitute 4.3 percent of all social sector expenditures in Norway compared to almost 80 percent in India. In MENA, little regional data exist but there is some evidence that the role of both private financing and providers is growing. For example, in Jordan, about half of the population use the private health sector to some degree, while 15 percent use private providers exclusively. Also, 26 percent of all education expenditures are accounted for by the private sector, and the Jordanian Government is actively pursuing a policy to expand the private sector. In Lebanon, almost all hospital care is private, and in the education sector, 69 percent of primary enrollments and 56 percent of secondary enrollments are in private schools.

Thus, the MENA experience seems to demonstrate that social progress can be achieved during the adjustment process provided that: (i) public expenditures are allocated to the basic services that benefit the poor and (ii) governments take regulatory and financial measures to facilitate the expansion of private services.



funds, a broader type of monitoring is needed to capture the effects of the full range of the interventions. To be able to track the effects that the projects are having on their target populations, it is necessary to carry out a household survey before the projects are implemented to establish a baseline with which to make subsequent comparisons. Thereafter, the same indicators need to be monitored in the middle of the life cycle of the projects, when they are completed, and several years after their completion to determine their total impact and to assess whether they were, in fact, effective in reducing poverty and improving welfare.

### *Impact of IDA-8 poverty-related projects*

A recent Bank study of sixty-seven IDA-8 projects approved between fiscal 1988 and 1990 was undertaken to assess their impact on the poor.<sup>68</sup> Given that impact evaluations for these sixty-seven projects will not be available until after the year 2000, the study examined the ways in which the projects were being implemented as a means of estimating their likely impact. Over half of the sixty-seven projects were located in Africa, and the rest were in South Asia. The sixty-seven projects were at different stages of implementation, with only three projects having been completed.

While it was too early to measure the full impact of these projects, the study found that they had succeeded in delivering a range of physical benefits and providing important economic and social services to the poor. It is notable that, in some cases, progress was made despite difficult circumstances and environments. For example, notwithstanding the severe sociopolitical difficulties that plagued Burundi, its *Muyinga Agricultural Project* (IDA, fiscal 1988) succeeded in increasing the production of staple foods from 141,000 to 152,000 tons, almost equaling appraisal estimates. In addition, over 3,000 hectares of agroforestry plantations were established, well above the original estimate of 2,500 hectares.

Overall, the study concluded that the performance of the sixty-seven IDA-8 projects was better than the averages for all IDA-8 projects and all IDA projects ongoing in fiscal 1992–94. These findings were contrary to those of the OED's *1993 Evaluation Results* (World Bank 1995h), which found that operations with poverty reduction components were more complex and risky and performed less well than other projects on average. *Evaluation Results 1994* (World Bank 1996a), however, found that projects with pov-

erty, environment, or private sector development components had overall performance ratings that were about the same as for all operations on average and that their likelihood of being sustainable was slightly higher. The discrepancy between the findings of *1993 Evaluation Results* and the IDA-8 study may be explained by two factors. First, *1993 Evaluation Results* reviewed projects that were completed in the early 1990s (and hence were likely to have been approved in the mid-1980s), while the IDA-8 study reviewed projects approved during the fiscal 1988–90 period. It may be the case that poverty projects approved in the latter period differed in design and implementation from those in the earlier period and performed better. Second, the *1993 Evaluation Results* finding was based on ratings assigned at the time the project was completed, whereas the finding of the IDA-8 study was based on ratings assigned during the supervision phase of the project.<sup>69</sup>

Despite the positive interim implementation record of the sixty-seven projects, several common problems were found. These included problems with the country's management of the project, such as understaffing, lack of competent staff, high staff turnover, poor training of staff, or a lack of accounting skills. Disbursement and procurement problems also occurred because of a lack of understanding of the Bank's procedures, lengthy government procedures, or the time taken to fulfill both the Bank's and the borrower's requirements. In a number of cases, the government's failure to implement complementary actions caused delays in implementation. Of these, the shortage or absence of counterpart funds was the most common. Finally, adverse external factors, both at the global and country level, were often responsible for hindering implementation. These included price shocks, war/security situations, and adverse climatic conditions. Some of the results of this study are presented in box 3.6.

### *Performance of PTI projects between fiscal 1993 and 1995*

Although the final impact of a project takes some time to realize, World Bank projects are assessed each year in terms of their likelihood of achieving their development objectives and according to their implementation progress. Although the Bank's Annual Report on Portfolio Performance (ARPP) assesses all Bank projects according to these criteria, this report has separated out the Bank's poverty-targeted projects to see how they perform relative to the

Bank's overall portfolio during fiscal years 1993, 1994, and 1995. The results are presented in table 3.2.

Overall, PTI projects have rated considerably better than the average Bank project both in their potential for achieving their development objectives and in the progress of their implementation. In fiscal 1993, 129 PTI projects were in the Bank's active portfolio. Only 0.8 percent of these projects were considered potential problem projects—with respect to achieving their development objectives—com-

pared with 12.1 percent of all Bank projects. Implementation problems were also less frequent, with only 1.6 percent of the PTI projects considered problem projects according to this criterion compared to 16.9 percent on average for all Bank projects. Part of this positive performance during fiscal 1993 may have been due to the young age of PTI projects as fiscal 1992 was the first year that the Bank classified projects as PTI projects. However, in fiscal year 1994 when 192 PTI projects were being implemented and in fiscal 1995 when there were 266 PTI projects be-

### Box 3.6 Review of the impact on poverty of some IDA-8 projects

The sixty-seven IDA-8 projects reviewed in Carvalho and White (1995) are concentrated in four sectors: education; population, health, and nutrition; agriculture; and urban. Several of the projects used labor-intensive public works as a means both of rehabilitating physical infrastructure from which the poor benefit and also of creating short-term jobs for the unemployed. A few examples are presented here.

**Education.** In the *Chad Education Rehabilitation Project* (fiscal 1989), 710 out of a total of 1,000 classrooms have been completed, 522,000 textbooks and teacher guides have been purchased and distributed throughout the country, and about 70 percent of the relevant teacher cohort have participated in in-service training. Primary enrollment increased by 23 percent from 1988–89 to 1993–94, while girls' enrollment increased from 29 percent in 1986–87 to 32 percent in 1993–94. As a result of the measures, taken as part of the *Bangladesh General Education Project* (fiscal 1990), such as the construction of classrooms and the recruitment of female teachers, girls' enrollments increased from 12,000 in 1991 to 43,800 in 1994. Overall, by 1994, gross primary enrollment was over 100 percent, with female enrollment and retention in primary schools roughly equal to those of boys. As part of the *Pakistan Sindh Primary Education Development Program* (fiscal 1990), more than 7,000 primary school classrooms were constructed, helping to provide schooling for nearly 200,000 additional girls in rural areas, thus more than doubling female enrollment in rural areas. Also, 650,000 textbooks were provided to rural female students.

**Health.** The *Uganda First Health Project* (fiscal 1988) has rehabilitated eight district hospitals, thirty health centers, two medical equipment workshops, and a blood transfusion center. Essential drugs and equipment for rehabilitated district hospitals and health centers have been procured. A nationwide health education program was undertaken, which has successfully increased awareness of health needs, including the preventive measures needed to contain the AIDS epidemic. The *Bolivia Integrated Health Development Project* (fiscal 1990) also focused on upgrading facilities, with

sixty-five health facilities having been constructed or rehabilitated so far, thirty-four still in the process of being constructed, and thirty-five more expected to be completed by 1996. Training was provided to health facility staff, ministry personnel, and community workers. Beneficiaries are increasingly being involved in assessing their health needs and in identifying remedial strategies.

**Agriculture.** The *Burundi Muyinga Agricultural Development Project* (fiscal 1988) has helped to increase the production of staple foods from 141,000 tons to 152,000 tons over five years despite the severe socio-political difficulties that have plagued the area in recent years. To respond to the emergency situation created by war, the project distributed Fbu 12 million worth of seeds and Fbu 30 million worth of tools to returning refugees and displaced farmers. In addition, 3,961 km of antierosion contour lines were constructed to reduce water run-off and the depletion of agricultural soils, which will lead to a sustainable recovery in yields and thus raise incomes on smallholder farms.

**Urban.** The *Ethiopia Market Towns Development Project* (fiscal 1990) organized 143 microenterprise cooperatives, comprising nearly 20,000 individual entrepreneurs, in twelve market towns, 110 of which have received ETB 1.88 million in loans used as revolving funds. In addition, forty-six small-scale enterprise projects have been financed. In the *India Tamil Nadu Urban Development Project* (fiscal 1988), slum improvement works have been completed for 55,000 households in nine cities, and the construction of roads and bridges has commenced in ten cities. The project's activities have together generated a total of 51,000 person-years of employment.

**Public works.** The maintenance and rehabilitation of infrastructure in the *Senegal Public Works and Employment Project* (fiscal 1990) using labor-intensive methods created nearly 75,000 jobs of an average duration of twenty-nine days for poor, low-skilled workers, totaling about 7,000 person-years of employment. In the *Mozambique Urban Rehabilitation Project* (fiscal 1989), 11,700 person-years of employment were provided in similar public works.

ing implemented, performance of PTI projects remained significantly better than that of the typical Bank project. By the criterion of their potential for achieving their development objectives, only 6.8 percent of the fiscal 1994 and 5.3 percent of the fiscal 1995 PTI projects were considered problem projects, compared to 13.4 and 11.5 percent, respectively, for Bank projects as a whole. PTI projects continued to have fewer implementation problems as well in fiscal 1994 and fiscal 1995. Only 13.5 and 12.8 percent of the PTI projects that were active in fiscal 1994 and fiscal 1995 were considered problem projects, compared to 18.4 and 17.8 percent, respectively, for the Bank's overall portfolio.

These findings of better performance of poverty projects are fairly consistent across regions. In fiscal 1993 PTI projects in all regions outperformed their non-PTI counterparts. In fiscal 1994 the exceptions were the ECA region, where PTI projects were more likely to be problem projects according to both their

development objectives and their implementation progress, and the MENA region where implementation problems were more prevalent, although they were still more likely than the average project of achieving their development objectives. In fiscal 1995, PTI projects, with only one exception (MENA implementation progress), outperformed their non-PTI counterparts in all regions.

PTI projects also tend to perform better than the Bank's overall portfolio within each sector. In all three years, PTI projects in every sector had a lower proportion of problem projects according to the likelihood of achieving their development objectives than the Bank's entire portfolio. With respect to implementation progress, PTI projects in all three years were less likely to be problem projects in agriculture, education, population, health, nutrition, social sector, and transportation.<sup>70</sup> In fiscal 1994, PTI projects in public sector management (three projects) and urban development (fifteen projects) had a

**Table 3.2 Performance of ongoing PTI projects, by region, fiscal 1993–5**

Region	Active projects	Commitments (US\$ millions)	Problem projects (percent)			
			Implementation progress		Development objectives	
			PTI	Bank*	PTI	Bank*
<i>Fiscal 1993</i>						
AFR	40	1,119.8	2.5	24.3	0.0	17.2
EAP	18	1,514.9	0.0	4.4	0.0	2.3
ECA	8	565.4	0.0	20.5	0.0	15.6
LAC	32	2,761.7	3.1	13.9	3.1	9.0
MENA	11	776.0	0.0	17.3	0.0	13.7
SAS	20	1,766.9	0.0	16.1	0.0	12.9
Total	129	8,504.7	1.6	16.9	0.8	12.1
<i>Fiscal 1994</i>						
AFR	60	1,732.7	10.0	20.1	6.7	16.9
EAP	30	2,549.7	3.3	8.0	0.0	4.0
ECA	11	604.3	36.4	26.0	18.2	16.7
LAC	51	4,388.0	13.7	20.2	7.8	11.6
MENA	15	1,120.8	33.3	27.9	6.7	24.0
SAS	25	2,508.7	12.0	13.6	8.0	9.9
Total	192	12,904.2	13.5	18.4	6.8	13.4
<i>Fiscal 1995</i>						
AFR	84	2,472.1	8.3	18.4	6.0	16.4
EAP	43	3,771.5	7.0	10.4	0.0	4.4
ECA	22	1,016.2	9.1	19.6	9.1	11.6
LAC	63	6,080.4	17.5	19.9	3.2	7.3
MENA	21	1,496.9	33.3	27.3	4.8	14.7
SAS	33	3,385.8	12.1	15.1	12.1	13.3
Total	266	18,222.9	12.8	17.8	5.3	11.5

\*These numbers represent the portfolio performance of all World Bank projects.

higher percentage of problem projects. In fiscal 1995, sectors where PTI projects were not performing as well as the overall portfolio according to implementation progress were in public sector management (four projects), environment (two projects), and water supply and sanitation (twenty projects).

### *Glimpse of the impact of early PTI projects*

Most of the PTI projects examined here are in the early stages of implementation. As a result, only early signs of initial impact can be determined. This section looks at the intermediate impact of a few PTI projects approved in fiscal 1992 and 1993. These examples have been selected because they have yielded interim results that can be reported.

- **Education.** The objectives of the *Nepal: Basic and Primary Education Project* (IDA, fiscal 1992) include improving the quality of primary education, increasing equitable access to primary schooling, and strengthening the management of the formal and nonformal primary education delivery system. To date, the curricula for grades one to three have been revised and introduced nationally through a cascade system of in-service teacher training. During fiscal 1995, 20,000 teachers are expected to receive training in the new curricula, and 5,700 teachers will be provided with basic training. Over 2,700 female teachers have been recruited as part of a policy to increase the proportion of female teachers from 12 percent to 18 percent of the teaching force. This is expected to encourage the enrollment of girls. The construction of schools is proceeding on schedule, and about 5,000 of the planned 25,000 classrooms have been upgraded. Ghana's *Functional Literacy Skills Project* (IDA, fiscal 1992) has made great strides towards creating a literate environment for learners in Ghana. The project has provided training and basic manuals for facilitators as well as classroom supplies and exercise books. At the end of its 1994 cycle, the program had graduated 336,276 learners, of whom over 209,000 were women. The 1995 cycle has opened with about 260,000 learners and 7,000 facilitators. Recent statistics indicate that the literacy rate in Ghana has increased from 36 percent in 1989 to 49 percent in 1995. As part of the program, various agreements have been signed to produce rural newspapers in all local languages utilized in the delivery of the program. Materials for bookboxes or rural libraries are also being produced under
- an agreement with the Ghana Book Publishers Association. Small grants are also being made to participants for income-generating projects, and the credit repayment rate is encouraging.
- **Health.** The *India: National Leprosy Elimination Project* (IDA, fiscal 1993) aims to eliminate leprosy in 2.2 million people who already have the disease and in 1.8 million new cases. This project has had the greatest impact among the poor, since they have the least access to health care. The goals set at the time of the project's appraisal were thought to be very ambitious, but the project is in fact ahead of schedule. The multidrug therapy was extended to eighteen new high-endemicity districts. More people than anticipated—450,000—have been treated for leprosy and discharged. In addition to districts that had previously been covered, 153 out of a targeted 202 districts have been covered by the project. Since the project began in 1993, the prevalence of leprosy has decreased from 13.4 to 7.12 per 10,000.
- **Multisectoral.** The *Madagascar: Food Security and Nutrition Project* (SECALINE) (IDA, fiscal 1993) and the complementary follow-up Social Fund project are providing temporary employment programs for the poor with the aim of reducing malnutrition and poverty and empowering communities to help themselves. In its first year of operation, the project has made remarkable progress. The social fund component has helped to create 213,000 person days of temporary work to build essential infrastructure for the poor. In collaboration with the UN's World Food Program, 20,000 person-days of employment (62 percent of which were worked by women) were created in the last three months of 1994 during a cleaning up of poor neighborhoods. The SECALINE project has reduced malnutrition in target communities from 19 percent to 12 percent (a reduction of about 40 percent). The *Honduras: Second Social Investment Fund* (IDA, fiscal 1992) has financed a range of small-scale subprojects in four broad categories: social infrastructure, economic infrastructure, social services, and credit to small informal entrepreneurs. As of March 1993, subprojects have generated approximately 120,000 temporary and permanent jobs, or an estimated 7,000 direct and indirect beneficiaries per subproject. Since 1990, 29 percent of all primary schools have been built or rehabilitated, and 28 percent of all preschools have been expanded or improved in 314 subprojects. Thirty-two percent of all health centers and posts were improved in 233 subprojects. The project financed 124 water system

subprojects, which included community training in system maintenance and operation, benefiting 155,000 rural and 97,000 urban inhabitants.

Efforts continue to be made to refine the ways in which the Bank evaluates its projects. An evaluation of Bank-funded social sector projects in fiscal 1994 (during the time when these performance indicators were being developed) showed that 56 percent included some type of impact evaluation activity to determine outcomes achieved by the beneficiaries. Although progress is being made in incorporating key performance indicators in projects, more work needs to be done to facilitate an evaluation of whether the outcomes observed are a result of the project itself or of other factors. This is because even project-specific indicators are not immune from being influenced by factors external to the project. The Bank is actively engaged in research to refine these monitoring systems, in particular using randomized

control designs to isolate the effects of the Bank's projects from all the other factors that affect poverty in a given country. One example of where this has been done is in the *Youth Training and Employment Partnership Program* (IDA, fiscal 1991) in Trinidad and Tobago, which prepares youth for employment and entrepreneurship. Tracer studies were conducted and the results showed that graduates of the training program were estimated to have a 12 percent higher probability of working and 6 percent higher earnings over what they would have achieved if they had not graduated from the program. This evaluation played a central role in the midterm review of the project in September 1994 and focused attention on what improvements in the implementation of the program were needed to achieve a greater impact. Building on earlier work, further research is in progress in Colombia, El Salvador, Indonesia, and Nicaragua (Newman, Rawlings, and Gertler 1994.).

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## 4 *Lessons Learned and Future Directions*

The central objective of the World Bank is to help developing countries reduce poverty. The challenge, however, remains daunting. Efforts of the Bank, and indeed all donors, are often dwarfed by factors such as external economic conditions, climatic conditions, the political environment in a country, the institutional capacity available to develop and implement poverty reduction strategies, and even the government's own commitment to reducing poverty. In the face of such obstacles, efforts of all involved need to be intensified if there is to be a significant impact on reducing poverty in the developing world.

It is thus of ultimate importance to learn from our collective experiences in a continuing effort to improve the way that poverty issues are addressed and, based on this learning, improve the impact of actions to reduce poverty. Many lessons have been learned from the experience of the last five years that have helped the Bank to refine and tailor its strategy to different country situations. They have also helped to improve the way in which projects and policies are implemented so as to increase their impact on reducing poverty. The surge in poverty analysis, especially with the completion of poverty assessments, has provided both governments and donors with many new insights into the causes and the dynamics of poverty at both the country and regional level. This in turn can improve strategies and programs to fight poverty. The poverty profiles have also served in many cases as a benchmark from which to monitor progress in reducing poverty. In addition, much more has been learned about how to improve the way in which services and benefits are targeted to the poorest groups in the population. As a result, the poverty reduction strategy that the Bank is implementing today, while still based on broad growth, human capital development, and safety nets, is much more refined to the needs of each region and, within regions, to specific country needs. This chapter outlines several of the important lessons learned from the last five years of experience that can help to maximize the impact of programs to reduce poverty. It

also indicates the directions in which the Bank should be striving in the future.

*First, analysis of the most recent data has improved our knowledge of how important growth is to reducing poverty.* Cross-country and time-series analysis of new data has confirmed that growth is critical in the fight against poverty in every single region of the world. No country has achieved sustained reduction in poverty without continuing positive economic growth. In the vast majority of the areas where poverty persists, expected levels of growth will provide much needed jobs and higher incomes, as well as additional resources to fund human capital development and transfer programs for the poor. Sub-Saharan Africa, however, is an exception. Growth rates have averaged under 2 percent per year in the early 1990s, whereas it is estimated that growth rates of 6.5 percent per year would be necessary in most African countries to achieve any substantial reduction in the numbers of people living in poverty in the near future. The Bank should increase its efforts to improve the ability of countries to generate thriving economies that can provide jobs to their people and generate adequate resources for essential social services and economic infrastructure needed by the poor. This is especially important in countries, such as those in Sub-Saharan Africa, where growth has languished and poverty rates remain high.

*The most recent analysis and data have also shown that the impact of growth on poverty reduction depends on the distribution of income.* Recent studies have confirmed that the greater the improvement in income inequality over time, the greater the impact of growth on poverty reduction. Studies have also found that the level of income inequality in the base year influences poverty reduction in subsequent years. Thus, income distribution remains an important determinant of how growth affects poverty reduction. It is clear that more analytical work needs to be done regarding the distributive aspects of growth and more proactive efforts need to be made to increase the proportion of benefits that the poor receive.

Although worldwide there is little evidence that income inequality is increasing over the medium to long term, it is clear that the distribution of growth in the future will need to benefit the poor disproportionately if there is to be a measurable dent in poverty. However, history has shown that efforts to redistribute existing assets and income to the poor can be politically difficult. For example, social transfers (whether in the form of subsidies on goods or direct income transfers) often leak to the nonpoor or exclude many of the poor. Also, traditional land reform—the expropriation of land from large estates to be redistributed to small farmers and the landless—has provoked major opposition from those (often politically powerful groups) whose land has been taken. Three things are required. First, innovative ways need to be found to enable poor groups to have effective access to essential factors of production, such as land, technology, credit, and skills. This will help to remove the constraints that prevent the poor from taking advantage of the opportunities produced by growth. Pilot programs implemented to test the feasibility of creative solutions on the ground should be considered. Second, improved targeting of basic government services, such as health, education, and infrastructure, to the poor is needed. All of these are important measures for improving the distribution of growth and income more in favor of the poor. Third, it is important to continue to gather information and undertake analytical work to understand better the driving forces behind income inequality (such as the distribution of assets, human capital, and the role of public and private transfers).

*Second, specific country analysis in the form of poverty assessments can contribute greatly to improving the impact of actions to reduce poverty by improving our understanding of country poverty issues and identifying those which are most important, thus providing a basis for more informed dialogue, helping to fine-tune Bank interventions, and better coordinating donor and government actions to reduce poverty.* The following are some of the lessons that have been learned about undertaking poverty assessments and ways in which they need to be improved in order to maximize their impact:

*Poverty assessments continue to take more time and more resources to complete than anticipated.* Because poverty is a cross-cutting issue that covers all sectors and disciplines, the analysis in poverty assessments by necessity needs to be both extensive and intensive. The task is even more difficult because of both data constraints and capacity constraints in poor

countries. In addition, encouraging an active partnership of governments and other essential groups in the country, including the poor, requires considerable time, effort, and resources. Nevertheless, there are indications that this process of partnership helps considerably in giving the country a feeling of ownership of the assessment, in increasing the relevance of the recommendations of the assessment, and in ensuring that the recommendations are adopted and implemented.

*The quality of the poverty assessments completed over the last four years has steadily and substantially improved. However, there are areas in which the analysis can be improved:*

- The links between growth and poverty reduction need to be better analyzed, with the goal of identifying specific policies that will enhance the effects of growth on poverty reduction. These pro-poor growth strategies need to be given more explicit thought and to be articulated more clearly, in both the analysis and recommendations of poverty assessments.
- The analysis of which income groups benefit from different types of public expenditures has greatly improved but should become standard practice where data permit. Behavioral analysis, both quantitative and qualitative, that explains why certain households do or do not utilize services is also important.
- Although data constraints continue to limit analysis, more and better analysis can be done in many cases with existing information.
- Gender issues need to be given more emphasis in poverty assessments, providing both analysis and specific recommendations.
- Analysis of the cost-effectiveness of safety nets and the government's institutional capacity for implementing such programs should be strengthened.
- Recommendations for the design of future poverty monitoring systems also need to be given more thought and explained in more detail in the poverty assessments.

The Bank thus needs to continue its efforts to complete its first round of poverty assessments. It also needs to strengthen its analysis in the above areas where possible in these assessments. For those countries where data constraints inhibited the analysis or where country circumstances warranted a more comprehensive analysis than was done in the first poverty assessment, follow-up poverty assessments

should be done. In those countries that have already completed solid poverty assessments, the Bank needs to continue to advance our understanding by updating, refining, or deepening its analysis of specific poverty issues. Country-specific poverty analysis also needs to be more routinely included in other analysis undertaken by the Bank, such as in public expenditure reviews and country economic memoranda.

*Third, to maximize the impact of country-specific analysis on helping countries reduce poverty, experience to date shows that much more work needs to be done to ensure better links between the findings of poverty assessments, the country assistance strategies, the resulting lending program, the dialogue with governments, and follow-up analysis to ensure that a cohesive and comprehensive poverty reduction strategy is adopted.* The Bank must ensure that the results of poverty assessments and other relevant analytical work and research are fed into the country assistance strategy and that the findings of this analysis are reflected in the Bank's lending program, its policy dialogue with governments, its evaluation of projects and programs, and its future analysis. The *country assistance strategy document* (CAS) is a critical vehicle for planning how the recommendations of the poverty assessment in a country can best be put into practice. CAS do address poverty issues more explicitly and comprehensively each year, and they are increasingly incorporating the findings of poverty assessments. Nevertheless, there are several areas where even more improvements are needed:

- It is important to make clear in the CAS what actions will be taken to ensure that the poor are able to participate in the growth process.
- It is also necessary to discuss how macroeconomic policies, such as the removal of trade barriers and the alignment of exchange rates, are expected to affect the poor.
- The CAS should better incorporate findings of analysis and should concretely and specifically explain how the Bank plans to support the poverty reduction strategy with its policy dialogue, its lending, and its analytical work.

The Bank needs to improve the way that CAS incorporate poverty in the above-mentioned ways. To ensure that this happens, an improved system of monitoring CAS as they are developed needs to be adopted. In addition, a system of incentives to staff and managers to make the above improvements in CAS and the Bank's resulting lending and nonlending ser-

vices needs to be incorporated into annual staff evaluations.

*Fourth, governments and donors need to know the impact of their efforts to reduce poverty in order to monitor progress, but much more remains to be done to establish effective poverty monitoring systems.* While there have been considerable gains in the understanding of poverty issues as a result of the Bank's analysis of poverty and its support for governments' poverty reduction efforts, there are many aspects of poverty about which our collective knowledge is still wanting. Experience to date suggests that progress is being made in collecting the data needed to answer such questions—both in the quantitative LSMS/SDA type of household surveys and in an increasing number of qualitative surveys—but that less progress is being made in developing and implementing sustainable, government-owned poverty monitoring systems that can help countries to track progress in reducing poverty over time.

Developing a poverty monitoring system requires gathering data that are comparable for several points in time to track the progress in reducing poverty. Without reliable and comparable data on poverty over time, it is impossible to monitor poverty trends or to increase or refine what is known about poverty with any accuracy. These efforts need to be mainstreamed into routine country activities, just as collecting data for the national accounts is considered a regular task of the government. Thus, the Bank needs to continue to support the implementation of household surveys in developing countries while at the same time helping to build local statistical capacity to carry out the surveys, to analyze the resulting data, and to incorporate the findings into policy design. In recognizing the urgent need for more and better poverty monitoring, the Bank has approached the issue with renewed vigor.

In collaboration with UNDP and UNICEF, the Bank has initiated the Working Group on Poverty Monitoring in an attempt to compare diverse experiences in poverty monitoring, evaluate results over the last ten years, and pilot innovative, sustainable, and policy-relevant monitoring systems. The work program is in an early stage and still evolving. To date, the working group has agreed that the proposed collaborative work program should explore the complementarity between qualitative and quantitative approaches to poverty analysis, focus on a set of priority poverty indicators relevant to policymaking, and field-test the comparative strengths and limitations of low-cost periodic surveys and in-depth surveys. The group has also de-



cided to establish an information clearinghouse on country-specific poverty monitoring and analysis work, including surveys.

*Fifth*, because it is important that the Bank as an institution be able to monitor how its projects are aiding in the fight against poverty, it is important to devise ways to measure the “on-the-ground” impact of the Bank’s interventions. Experience indicates that it is virtually impossible to disentangle the aggregate “on-the-ground” impact of all the Bank’s actions—policy dialogue, lending, analysis—on reducing poverty in a country from all other factors (including external economic factors, climatic conditions, government commitment and institutional capacity, and other donor interventions) affecting country performance. It is possible to determine impact in two areas: specific projects and the overall impact of all programs and external factors on poverty reduction. The latter would be served by improved household-level data and poverty monitoring systems (discussed above).

The effects of a specific project on reducing poverty can be determined better if appropriate indicators are used. Since fiscal 1994, the Bank has developed sector-specific indicators that are included at the inception of each of its projects and can be monitored throughout the lifetime of the project to track the effect that it is having on poverty. All ongoing projects are also being retrofitted with monitorable performance indicators. By establishing a series of benchmarks from the outset, it is possible to track the trends in the performance indicators both during and after project implementation. This makes it possible for lessons to be learned while the project is ongoing and to streamline its design so that it can be changed for the better while it is still being implemented. These lessons can also be fed into the design of new interventions. The choice of indicators, however, especially for monitoring a project’s impact on poverty, can be a challenge and is, in many cases, a learn-as-you-go experience. In addition, because even project-specific indicators are not immune from being influenced by factors external to the project, the Bank is currently carrying out research to refine these monitoring systems, in particular through the use of randomized control designs to isolate the effects of the Bank’s projects from all the other factors that affect poverty in a given country. The Bank needs to continue to develop, refine, and utilize indicators for tracking the impact of its projects on reducing poverty.

*Sixth*, there remain several essential prerequisites to maximizing the impact of any donor’s programs to re-

*duce poverty—government commitment, available institutional capacity, and participation of the people.*

- *Government commitment to and political support for poverty reduction are essential.* The most fundamental prerequisite for implementing an effective poverty reduction strategy in a given country is the commitment of the government. While many governments put reducing poverty at the top of their list of priorities, others are less committed, and some even deny that there is a problem. Because of political economy issues, however, obtaining government commitment is not just a question of convincing government officials. The middle classes and the rich are more likely to have the ear of the government, being more vocal and better educated than the poor. Thus, their concerns are often given priority over those of the poor in the design of economic policies and programs. In situations where the rich, the middle class, or specific interest groups are likely to lose out because of a change in policies (for example, if a program of universal food subsidies is about to be replaced by a subsidy targeted primarily to the poor, if subsidies on university education are to be reduced to finance primary education, or if civil service salaries need to be maintained at current levels to help fight inflation which is detrimental to the poor), governments need to be responsive to these concerns in order to ensure that the policies or programs for the poor are not thwarted. Other factors that can affect government commitment are ethnic prejudices and tensions that are themselves underlying causes of poverty in some countries. This can hinder efforts to reach groups such as the indigenous populations in many Latin American countries, the Gypsies in Eastern Europe, and the pygmies in Central Africa. These issues highlight the importance of the Bank’s dialogue with governments and the incorporation of poverty into the CAS, which are perhaps the most important element of our dialogue with governments. This dialogue also needs to be extended to the people, especially the poor, so that they better understand and have input into the government’s program to generate growth and reduce poverty.
- *Local institutional capacity is often too weak to implement poverty interventions, even where government commitment to poverty reduction is strong.* The public sector has a vital role to play in reducing poverty but, in many countries, a lack of institutional and administrative capacity limits the impact that the government can have on reducing

poverty. In addition, those ministries that typically bear directly on the immediate well-being of the poor (such as ministries of health, education, and agriculture) are often the weakest. Nevertheless, building the required capacity takes time. It involves commitment and leadership from governments, developing the human capital base of institutions, freeing government institutions from damaging political influences, strengthening the capacity of the private sector to operate efficiently (as well as to take over services and productive activities formerly performed poorly by governments), and strengthening communities and local governments' management capacity. If this capacity building is to be sustainable for implementing poverty reduction programs, governments must be accountable, transparent, predictable, and respectful of the rule of law, not reserving privilege and power only for itself, or for ethnic or religious elites. In the short term, when institutional capacity is too weak, measures may be needed to supplement existing capacity, as has been done with many social funds and AGETIP projects that draw on the expertise of NGOs, communities, and the private sector to help identify, design, and implement poverty reduction actions. In tandem, measures need to be taken to improve the government capacity in those areas of its comparative advantage.

- *The participation of local people and beneficiaries is essential to strengthen the implementation of the Bank's poverty reduction strategy in all regions and to ensure the sustainability of poverty reduction interventions.* It has become clear that, for poverty reduction

policies and projects to be sustainable, it is necessary to involve potential beneficiaries and other stakeholders in their design and implementation. This has the dual advantage of making poverty interventions more relevant to the problems that they are aiming to solve and of building support for, and commitment to, the intervention among its beneficiaries. Thus, the Bank is increasingly consulting with both primary and secondary stakeholders in preparing and implementing its projects and its analytical work. This feedback enhances the Bank's understanding of the complex factors that affect the living conditions of the poor, improves the design of projects and policies, enhances government and community ownership, and ensures the sustainability of projects. The Bank needs to continue its efforts to mainstream participation and social assessment in project design and implementation.

Poverty reduction is a tremendous challenge that no country, developed or developing, has overcome. More needs to be learned about the specific causes of poverty in each country. More needs to be understood about the political and social economy of change and its effects on poverty reduction efforts. The Bank, other donors, governments, NGOs, and communities all need to redouble their efforts if there is to be a measurable dent in poverty over the next decade. In addition, because resources are inevitably limited for each of us, working in partnership will be all the more important if, together, we are to be successful in reducing the misery and poverty faced by more than a billion people in the world today.

# Annex A Program of Targeted Interventions, Fiscal 1995

## Objectives of projects in the program of targeted interventions, fiscal 1995

In fiscal 1992 the World Bank developed and began to track the Program of Targeted Interventions (PTI) to provide a measure of targeted poverty lending. (See note to table A.1 for the definition of a PTI project.)

The targeted projects are intended to reach specific groups including those in less developed or low-income rural and urban areas, those lacking access to land, migrants, refugees, and other transient population groups, unskilled workers, the disabled and other vulnerable groups, certain ethnic minorities, and groups with certain demographic characteristics such as gender, age (children under five years of age), or health risks (diseases correlated with poverty such as schistosomiasis, stunting, or cholera).

During fiscal 1995, approximately \$5.4 billion or about 32 percent of World Bank investment lending

was channeled to direct poverty targeted projects, up from \$4.4 billion or 25 percent during fiscal 1994. For IDA countries, PTI lending was 54 percent of fiscal 1995 investment lending, which is a considerable increase from 43 percent in fiscal 1994. Of the 208 Bank-approved investment projects in fiscal 1995, seventy-five were PTI operations. Table A.1 presents the Bank's funding for PTI projects over the last four years. Between fiscal 1992-95, the amount and share of IBRD and IDA lending to projects in the PTI have increased.

The majority of the PTI projects in fiscal 1995 were broadly targeted, as has been the case in the previous fiscal years. Broad targeting generally expands the provision of services, such as basic education and primary health care, to provide access to as many people as possible. However, it is the poor who benefit most from the extension of basic services since the better-off generally already have access to these services. A smaller number of PTI projects were nar-

**Table A.1 Program of targeted interventions, fiscal 1992-95**

<i>Lending</i>	<i>Fiscal 1992<sup>a</sup></i>	<i>Fiscal 1993</i>	<i>Fiscal 1994</i>	<i>Fiscal 1995</i>
<b>World Bank (IBRD and IDA) PTI lending</b>				
Millions of dollars	3,837	4,674	4,441	5,437
Percentage of investment lending <sup>b</sup>	24	27	25	32
Percentage of all Bank lending	18	20	21	24
Total number of projects in the PTI	57	72	63	75
Total number of projects	190	228	197	208
<b>IDA PTI lending</b>				
Millions of dollars	1,812	2,137	1,853	2,423
Percentage of IDA investment lending <sup>b</sup>	43	41	43	54
Percentage of all IDA lending	28	32	28	43
Total number of IDA-funded projects in the PTI	35	44	35	48

*Note:* A project is included in the PTI if it has a specific mechanism for targeting the poor and/or if the proportion of poor people among its beneficiaries is significantly larger than the proportion of the poor in the total population.

a. Fiscal 1992 figures differ from those in *Implementing the World Bank's Strategy to Reduce Poverty* (World Bank, 1993b) because they include seven projects that were added to the PTI after the earlier report went to press.

b. Investment lending includes all lending except for adjustment, debt and debt-service reduction operations, and emergency recovery loans, which are distinct from regular investment operations (see endnote 57).

*Source:* Monitoring unit database.

rowly targeted. Narrow targeting is used in countries where poverty is relatively isolated, geographically concentrated, where the incidence and location of poverty is well understood, and where the government has the capacity to implement targeted programs. A number of PTI operations in fiscal 1995 combined broad and narrow targeting. The bulk of this lending in fiscal 1995 was in three sectors: agriculture; education; and population, health, and nutrition (PHN).

The following are the main issues addressed by projects in the PTI:

**Raising productivity.** In fiscal 1995, twenty-one projects aimed to increase agricultural productivity. Approaches included increasing technical and financial resources for rural development, raising livestock productivity, increasing agricultural extension services, rehabilitating and modernizing irrigation schemes, reversing environmental destruction in order to make agriculture sustainable, and improving basic infrastructure and social services.

The projects funded in fiscal 1995 illustrate the different methods used to increase productivity. The Livestock Development and Rangeland Management Project (IDA) in the Central African Republic seeks to raise livestock productivity and broaden the activities of herders to include sustainable crop farming. The Agricultural Extension Program Support Project (IDA) in Madagascar will increase productivity and farmers' income in an environmentally sustainable manner by supporting extension services. China's Southwest Poverty Reduction Project (IDA) will demonstrate the effectiveness of a multisectoral rural development approach to reducing poverty. The project will focus on the poorest and indigenous peoples in the region by increasing their access to social services, enhancing rural mobility, using labor-intensive public-works to build rural infrastructure, increasing upland agricultural productivity, and developing town and village enterprises. A similar project in Albania will also increase productivity by implementing demand-driven public works, establishing village credit funds, and promoting rural activities.

**Developing human capital.** Forty PTI operations will develop human resources, including increasing access to or improving the quality of primary health care, nutrition, and basic education. Developing human capital by investing in people's education, family planning, health, and nutrition is essential for raising living standards, enriching lives, and sustaining economic growth. Also, since the poor often do not have many assets, building their human capital is a

way to enable them to become more productive and lift themselves out of poverty.

In fiscal 1995, the Health Sector Rehabilitation Project (IBRD) in Lebanon aimed to improve primary health care delivery in order to respond to the unmet needs of poor population groups that rely on these public health care facilities. Another health sector project, the Andhra Pradesh First Referral Health Project (IDA) in India, will improve the health status of the poor and underserved people of that state. The project will target investments at the tribal, poorer, and more drought-prone districts in the state, while also supporting a policy package that significantly benefits and protects the poor.

In the education sector, Bolivia's Education Reform Project (IDA) will provide basic education for the whole population as low literacy rates are a primary cause of the country's deep-seated structural poverty. The project includes a bilingual education component targeted at indigenous, non-Spanish speaking groups, who also tend to be low-income and marginalized. The North-West Frontier Province Primary Education Program (IDA) in Pakistan also seeks to increase access, equity, and efficiency in primary education, particularly for girls. The project aims to achieve these goals by focusing on poor urban and rural areas where children currently lack access to primary schooling and by involving the parents and by establishing Village Education Committees.

**Improving living conditions.** Eight projects in the urban development and the water supply and sanitation sectors will improve living conditions by increasing access to social services and infrastructure. The instruments used to achieve this include increasing access to essential services, providing access to or improving water supply, making sanitation and drainage improvements, and rehabilitating the infrastructure used by poor people living in urban areas.

The Kalimantan Urban Development Project (IBRD) in Indonesia aims to reduce urban poverty by increasing the provision of infrastructure and services. Specific measures will include doubling access to water while subsidizing rates, increasing sanitary facilities, and reducing the frequency and duration of floods in the low-lying areas where many of the urban poor have settled. Brazil's Ceara Urban Development and Water Resource Management Project (IBRD) will improve the living conditions of 50,000 poor families by developing basic infrastructure and increasing their water supply. This project will also provide 50 poor and drought-prone com-

munities with access to water. Another project, the Water Sector Project (IDA) in Senegal, will increase the accessibility of safe drinking water and increase sanitation facilities in poor areas of Greater Dakar.

**Social protection.** Ten operations support measures to protect the vulnerable through social funds or some type of safety net measure (including retraining schemes, nutrition programs, unemployment benefits, and the reform of the social protection system). Of these, six projects were in the social sectors.

Safety net measures are defined as any short-term measure used to protect vulnerable groups. For example, Cambodia's Social Fund Project (IDA) will create short-term employment opportunities designed to decrease poverty. The public works in this project will be labor-intensive in nature or will have a significant positive social impact. The Social Safety Net Project (IDA) in Kyrgyz Republic seeks to make social programs more effective and efficient in targeting and delivering social assistance, especially to the most vulnerable groups. An IBRD project in Mexico will protect essential social services for the poor and strengthen existing social safety net measures. It will also include retraining for the unemployed and a short-term employment program. Non-social sector projects that involve safety net measures include Albania's Health Services Rehabilitation Project (IDA). Maintaining basic health services as part of a basic social safety net is seen as being a top priority in Albania. The civil works used to upgrade health facilities will also add a safety net element, since they will be labor-intensive and

short-term in nature and will be carried out in poorer areas. Zambia's Second Social Recovery Project (IDA) will include some social protection measures such as financing grain banks in food-deficit areas, intensive labor works in remote, rural, poorly accessible and food-insecure areas; microprojects specifically targeted to women; and urban-based skills training microprojects.

**Other PTI areas.** The PTI also includes projects in areas such as transport, the environment, and public sector management. In fiscal 1995, four PTI projects focused on transportation. The Rural Roads Project (IBRD) in Tunisia will upgrade rural roads with the goal of decreasing rural-urban disparities and expanding the delivery of social services. The Gabon Transport Sector Project (IBRD) will support labor-intensive transportation works in the urban areas. Mexico's Second Decentralization and Regional Development Project (IBRD) addresses public sector management issues and will help the poor by increasing their access to basic social and economic infrastructure and to income-generating activities.

Table A.2 shows the share of PTI lending to total investment lending by sectors over the last four years. Because year to year fluctuations are natural between and within sectors, three-year averages are typically used to track trends over time. As the PTI has been monitored for only four years, however, we take two-year averages to see how lending for different sectors is targeted directly to the poor. The share of PTI lending has increased dramatically in the education sector, from an average of 70 percent of investment lending for education in fiscal 1992-

**Table A.2 Program of targeted interventions (PTI) by sector, fiscal 1992-95**

<i>Sector</i>	<i>Fiscal 1992</i>	<i>Fiscal 1993</i>	<i>Fiscal 1994</i>	<i>Fiscal 1995</i>	<i>Total</i>
<b>IDA PTI lending as percentage of IDA investment lending</b>					
Agriculture	44	47	39	52	45
Education	69	72	85	98	81
PHN	82	85	95	85	86
Social	—	—	100	100	100
Urban	35	22	42	33	34
Water supply and Sanitation	70	29	72	64	55
<b>PTI lending as percentage of total investment lending (IDA and IBRD)</b>					
Agriculture	38	27	26	56	36
Education	59	73	75	55	65
PHN	75	84	79	87	82
Social	—	—	100	100	100
Urban	19	54	48	29	35
Water supply and Sanitation	35	55	40	19	38

— Not available

93 to more than 90 percent in fiscal 1994-95. In health it has increased more moderately from about 84 percent to 90 percent of investment lending in this sector. Lending for PTI projects in water supply and sanitation rose from an average of 50 percent to 68 percent of investment lending in this sector while PTI lending in the urban sector has increased from an average of 29 percent to 38 percent of urban sector lending. Although lending to the PTI in the agriculture sector fluctuates each year, about 45 percent, on average, of lending in this sector is for projects in the PTI.

For World Bank lending as a whole, the share of PTI lending in the health, education, and urban sectors has remained fairly steady over the same two-year period (around 80 percent in health, 66 percent in education, and 37 percent in the urban sector).

PTI lending in the agriculture sector has increased from 33 percent to 41 percent of the total investment lending in that sector over the two periods; it has declined for water supply and sanitation, from 45 percent to 30 percent.

Although projects in the PTI obviously seek to benefit the poor, this does not mean that non-PTI investment projects do not also contain provisions that help to reduce poverty. For example, the Zambia Health Sector Support Project (IDA) is not a PTI project but will contribute to reducing poverty by improving the health status of the Zambian population, a majority of whom are poor.

Table A.3 shows the regional variation in the Bank's funding for PTI projects. Table A-4 briefly describes why fiscal 1995 projects were included in the PTI.

**Table A.3 PTI lending by region, fiscal 1995**

<i>Lending</i>	<i>East Asia and the Pacific</i>	<i>Europe and Central Asia</i>	<i>Latin America and the Caribbean</i>	<i>Middle East and North Africa</i>	<i>South Asia</i>	<i>Sub- Saharan Africa</i>	<i>Total</i>
<b>Total PTI lending</b>							
Millions of dollars	1,221.8	421.9	1,798.4	388.1	877.1	729.4	5,436.7
Percentage of investment lending	22	18	48	56	29	44	32
Percentage of Bank lending	21	9	30	40	29	32	24
Total number of PTI projects	13	11	13	6	8	24	75
<b>IDA PTI lending</b>							
Millions of dollars	529.2	135.4	104.0	53.3	877.1	724.2	2,423.2
Percentage of all PTI lending	43	32	6	14	100	99	45
Percentage of IDA investment lending	56	51	42	100	62	46	54
Percentage of all IDA lending	48	25	30	100	62	33	43
Total number of IDA-funded projects in the PTI	6	7	3	1	8	23	48

*Note:* The figures for shares in all columns, except the last, represent the share of lending in each region.

**Table A.4 Program of targeted interventions, fiscal 1995**

<i>Region, country and project</i>	<i>Reason(s) for inclusion</i>
<b>East Asia and the Pacific</b>	
<i>Cambodia</i>	
Social Fund Project (IDA)	This project will support small-scale efforts to rehabilitate social and economic infrastructure, to generate employment and community development opportunities, and to build ministerial capacity. The small-scale projects will be selected according to poverty-targeting criteria, thus channeling investments to poor, underserved areas. [b]
<i>China</i>	
Basic Education in Poor and Minority Areas Project (IDA)	Access to basic education will be expanded through this project, which covers 111 counties in China's six poorest provinces. The selected counties have, among other indicators, a high concentration of minorities and low female education rates. Furthermore, an effort will be made to target girls in the project areas by giving free textbooks to girls from poor families. [a,b]
Comprehensive Maternal and Child Health Project (IDA)	Women and children in some of China's poorest provinces will be targeted through this maternal and child health project. Overall, 100 million of the poorest people from the economically most disadvantaged counties of the provinces covered by the project are expected to benefit from this project. The overall nutritional status of women and children will also be improved. [a,b]
Southwest Poverty Reduction Project (IDA/IBRD)	Absolute poverty in 35 of the poorest counties in southwestern China will be reduced by increasing the incomes, productivity, and health and educational status of about 2.8 million upland smallholders. This project will address not only the results, such as poverty, but also the cultural factors, such as discrimination against females and ethnic minorities, and the causal factors, such as environmental degradation and inappropriate farming techniques. [a]
<i>Indonesia</i>	
Book and Reading Development Project (IBRD)	This project will provide about 250 million textbooks for basic education, with priority given to poor children who now almost entirely lack textbooks. [b]
Fourth Health Project—Improving Equity & Quality of Care (IBRD)	The delivery and quality of basic health care on five Indonesian islands will improve as a result of this project. Although the project targets all the people in the selected provinces, the poor will benefit disproportionately, since subsidies for health centers and their outreach activities are strongly pro-poor and the poor suffer most from inadequate basic health services. Also, the three provinces were chosen because they have the worst poverty indicators and the largest number of poor families. [b]
Kalimantan Urban Development Services (IBRD)	The quality, reliability, and accessibility of urban infrastructure services in five Kalimantan cities, especially the poorer areas, will be improved as a result of this project. The increase in access to essential services will contribute to alleviating urban poverty. [b]
Land Administration Project (IBRD)	This project will register land in order to protect people against unfair land acquisition. It will mainly benefit poorer people and especially poor women, since they often do not register their land and are consequently unprotected against unfair land acquisition. [b]
Village Infrastructure Project (IBRD)	The project will provide cash-paid employment for public works in 1,200 of the poorest villages in Java. It will thereby seek to raise the overall living standard of these village inhabitants and to reduce poverty. [b]

*Note:* A project must meet at least one of two criteria to be included in the PTI. Criterion [a] refers to projects with a specific targeting mechanism for reaching the poor and criterion [b] refers to projects for which the proportion of the poor among the project's beneficiaries is significantly larger than the proportion of the poor in the total population. The applicable criteria for each project are indicated in square brackets.

<i>Region, country and project</i>	<i>Reason(s) for inclusion</i>
<i>Lao P.D.R.</i> Health System Reform and Malaria Control Project (IDA)	Basic health services will be upgraded and a program of malaria control will be undertaken in order to reduce morbidity and mortality rates. Efforts will focus on the vulnerable poor and on women and children whose health indicators are particularly low. [a,b]
<i>Philippines</i> Women's Health and Safe Motherhood Project (IBRD)	The health status of women, particularly those of reproductive age, will be improved by this project. Since poor women are disproportionately affected by the burdens of disease and are the primary users of public health facilities, they will be the main beneficiaries of this project. [b]
<i>Thailand</i> Land Titling III Project (IBRD)	The direct beneficiaries of this project, which secures land titles to eligible owners, are expected to include an estimated 1.1 million rural landholding families from among the poorest segments of the population. Furthermore, 10 out of the 19 provinces included in the project are among the poorest in the country. [b]
<i>Viet Nam</i> Irrigation Rehabilitation Project (IDA)	This project will increase farm production and thus income for farmers in the predominantly poor central and northeast regions. Moreover, the irrigation works will be chosen according to their impact on reducing poverty. [b]
<b>Europe and Central Asia</b>	
<i>Albania</i> Health Services Rehabilitation Project (IDA)	The quality of basic and curative health services will be improved, especially in poorer areas, in order to prevent any further deterioration of the services during economic transition. The public works projects used to rehabilitate health centers will also create jobs during the transition when unemployment and poverty will be increasing. [b]
Irrigation Rehabilitation Project (IDA)	The agricultural productivity of more than 50,000 poor farm families will increase as a result of the rapid rehabilitation of existing irrigation and drainage infrastructure. [b]
Rural Development Project (IDA)	Small-farm and off-farm activities will be promoted, basic rural infrastructure repaired, and employment created for the rural population, with priority given to poor areas. A rural credit component will also focus on poor areas. [b]
Rural Roads Projects (IDA)	Rural roads that are now in very poor condition will be rehabilitated using labor-intensive methods. These construction works will create jobs and increase access to economic and social services in rural, and generally poor, population centers. [b]
<i>Azerbaijan Republic</i> Greater Baku Water Supply Rehabilitation Project (IDA)	This project will make emergency short-term improvements in the water supply system in order to restore the water supply to Baku, in particular to the poor population. [b]
<i>Croatia</i> Health Project (IBRD)	The government's health care system, which provides health services to all, including refugees, will be supported by this project. Priority will be given to improving primary health care services in underserved areas. [b]
<i>Macedonia, FYR</i> Social Reform and TA Project (IDA)	In order to reduce the impact of worker dislocation due to the restructuring of public enterprises, this project will support labor redeployment in affected communities. It will also develop equitable and efficient social benefits programs. [b]



<i>Region, country and project</i>	<i>Reason(s) for inclusion</i>
<i>Kazakstan</i> Social Protection Project (IBRD)	In order to build the capacity to deal with the expected increase in unemployment, this project will strengthen employment services and facilitate the transfer of essential social services from restructuring enterprises to local governments in five selected cities. By alleviating the impact of unemployment on affected individuals and households, and helping to avert declines in provision of social services, the project will protect against expected increases in poverty. [b]
<i>Kyrgyz Republic</i> Social Safety Net Project (IDA)	This project will improve mechanisms for identifying the poor in order to make social programs more effective and efficient in targeting and delivering social assistance, especially to the most vulnerable groups. Strengthening the social safety net will protect vulnerable groups during the transition period. [b]
<i>Romania</i> Employment and Social Protection Project (IBRD)	The social safety net and employment services will be strengthened under this project. This will build up the safety net and will redirect benefits to those most in need. [b]
<i>Turkey</i> Second Health Project (IBRD)	Equity in accessing essential health services will be increased in 23 low-income eastern provinces. The project aims to improve primary health care services especially for poor women and children, who are often the most vulnerable members of society. [b]
<b>Latin America and the Caribbean</b>	
<i>Bolivia</i> Education Reform project (IDA)	This project will improve the quality and increase the equity of primary education nationwide. Since 70 percent of the illiterate live in rural areas, the rural population will disproportionately benefit from the project. The project also will target indigenous, non-Spanish speaking people, who are marginalized and are among the lowest income groups. [a,b]
<i>Brazil</i> Ceara Urban Development and Water Resource Manage- ment Project (IBRD)	The project will benefit 50,000 poor families by giving them access to sanitation services, water, and affordable housing. It will also provide 50 poor and drought-prone communities with access to water. [b]
Northeast Rural Poverty Alleviation Program (IBRD)	This project will target the Northeast Region, the poorest region in all of Latin America. The project will improve the quality of life of about 2.7 million people in this region by providing them with better access to water supply and other basic social and economic infrastructure as well as increasing their productivity, incomes, and employment.
<i>Colombia</i> Agricultural Technology Development Project (IBRD)	This project will assist smallholders, who are mostly poor, to raise their incomes. This will be achieved through promoting, developing, and testing technical packages especially appropriate for small farmers. [b]
<i>Dominican Republic</i> Irrigated Land and Watershed Management Project (IBRD)	This project will invest in irrigation infrastructure in irrigated small-farm areas. It will include an eligibility criteria for allocating research and extension programs to ensure that these programs meet the needs of the small farmers in the project areas. [b]
<i>Honduras</i> Basic Education Project (IDA)	This project includes a number of interventions targeted to poor rural and indigenous communities that are underserved. The project will construct 290 classrooms, and rehabilitate and equip 290 rural schools. To reduce the high dropout rates among rural children, the project will introduce flexible criteria to allow temporary dropouts to re-enter school at the level where they left off, and will adjust the school calendar to take into account the harvest period in agricultural regions. To serve indigenous children, it will offer bilingual programs. [a,b]

<i>Region, country and project</i>	<i>Reason(s) for inclusion</i>
Second Decentralization and Regional Development Project (IBRD)	Project investments will be targeted to the poor rural areas in eight of the poorest states of Mexico. It will finance basic social and economic infrastructure, provide potable water to small localities, rehabilitate and maintain roads, and support income-generating projects. Indigenous communities and women's groups are specifically targeted within the pilot income-generating components. [a,b]
<i>Nicaragua</i> Basic Education Project (IDA)	This project will focus primarily on pre-primary and primary education and it will target children living in rural and marginal urban areas. In addition, the 216 schools that will benefit from the replacement of basic equipment and the rehabilitation of sanitary services, among other things, will be selected on the basis of poverty indicators. [b]
<i>Panama</i> Rural Health Project (IBRD)	This project will improve the nutrition and health status of those living in the 28 poorest districts of Panama. Moreover, within these districts, it will specifically target pregnant and breast-feeding women and children under the age of five who meet specific malnutrition criteria. It will also provide access to safe water and basic sanitation for about 175,000 and 150,000 unserved rural residences respectively. [a,b]
<i>Peru</i> Primary Education Quality Project (IBRD)	This project will contribute to developing the human resources of approximately 3.5 million children in grades one to six. The improvement of school facilities is targeted to those areas of the country that contain the highest proportion of unsalvageable schools, the lowest proportion of children enrolled in primary education, and the highest proportion of the population living in extreme poverty. [b]
<i>Venezuela</i> Agricultural Extension Project (IBRD)	This project will assist poor farmers to become aware of and to adopt improved technology to enhance their productive efficiency and their economic welfare. A new decentralized extension service will be established to serve the needs of poor farmers who are currently without adequate extension services. [b]
Health Services Reform Project (IBRD)	This project will contribute to reducing poverty by increasing the access of poor Venezuelans to good quality health care. The project will target the poor by strengthening those government health services that are used disproportionately by the poor. [b]
<b>Middle East and North Africa</b>	
<i>Egypt</i> Irrigation Improvement Project (IDA/IBRD)	This project will enhance the income of more than 70 percent of the project beneficiaries whose holdings are less than 1.9 fed (0.8 ha.). Currently, the farm income of these farmers is lower than the relative poverty line and close to the ultra-poverty line in Egypt. It is projected that, as a result of this project, the average per capita income of these small farmers will increase from L.E. 109 to L.E. 199. [b]
<i>Lebanon</i> Health Sector Rehabilitation Project (IBRD)	This project is designed to respond to the unmet needs of poor population groups that rely on public service. Under this project, health facilities will be rehabilitated, with particular attention given to increasing the availability of essential public services to underserved populations.[b]
<i>Morocco</i> Secondary, Tertiary and Rural Roads Project (IBRD)	This project will address the core needs of the rural poor by increasing their access to social services and markets. By improving 1,133 km of unpaved rural roads and constructing 96 km of paved rural roads, this project will increase the access of those living in remote rural areas to markets and social services.[b]

<i>Region, country and project</i>	<i>Reason(s) for inclusion</i>
<i>Tunisia</i> National Rural Finance (IBRD)	This project will respond to the credit demand from small farmers, rural women, and artisans. It will provide these groups with needed credit to expand their activities or to start new enterprises. In addition, the project will provide credit to rural families for constructing and rehabilitating their houses. [b]
Rural Roads Project (IBRD)	This project is designed to upgrade rural roads in order to reduce disparities between urban and rural areas, reduce rural to urban migration, and improve the delivery of social services to poor rural population. To this end, the project will rehabilitate about 300 km of gravel roads and will upgrade approximately 715 km of priority rural roads. [b]
Secondary Education Support Project (IBRD)	This project will have a significant impact on poverty reduction by making quality improvements, by reducing inequalities in the delivery of educational services, and by increasing access to secondary education. It is projected that the project will increase school completion rates and access, and will improve academic performance of poor children. [b]
<b>South Asia</b>	
<i>Bangladesh</i> Integrated Nutrition Project (IDA)	A national, integrated nutrition program will be initiated as part of this project with the goal of reducing malnutrition nationwide. The program will focus on the undernourished, particularly women and children. [b]
<i>India</i> Andhra Pradesh First Referral Health Project (IDA)	The increased availability and improved quality of public health care as a result of this project will raise the health status of the population. The poor and underserved will benefit particularly, since they use these facilities disproportionately. Moreover, investments will be targeted at tribal, poor, and drought-prone districts and will support a policy package that significantly benefits and protects the poor. [b]
Assam Rural Infrastructure and Agricultural Services Project (IDA)	This project will improve rural infrastructure and agricultural services through priority programs aimed at reducing poverty. In addition to targeting 23 rural communities, the project will target about 300,000 of the poorest households for project activities ranging from access to water and employment to improved nutritional status. [a,b]
District Primary Education (IDA)	Access to primary education for an estimated 1.4 million additional children will be enabled through this project. Another 1.5 million children will be able to complete primary education as a result of reducing the drop-out rate, and the quality of instruction for approximately 14 million children will be improved. The project will mostly benefit poor children and will focus on girls, scheduled tribes, and scheduled caste students. [a,b]
Madhya Pradesh Forestry Project (IDA)	The productivity and environmental sustainability of the forest sector will be increased, which will mostly benefit the people living in the forest areas. These beneficiaries are poor and mostly tribal people. Moreover, the project will target the poorest and landless households for jobs related to increasing forest sustainability. [a,b]
<i>Pakistan</i> North-West Frontier Province Primary Education (IDA)	This project will increase access, equity, and efficiency in primary education in the north-west frontier area of Pakistan. It will primarily benefit boys and especially girls in poor rural and urban areas who lack access to primary schooling. A high level of beneficiary participation will increase the sustainability of the schools. [b]
Population Welfare Program (IDA)	The coverage and quality of family planning services will be increased throughout the country, especially in rural and poor urban areas. Poor women and children will benefit most, since they are the ones affected most by the lack of these programs and the ones who use public health facilities. [b]

<i>Region, country and project</i>	<i>Reason(s) for inclusion</i>
Punjab Forest Sector Development (IDA)	In order to improve the performance of the forest sector, rural production will be increased, as will employment and the incomes of smallholders. The components of the project will directly target poor farmers and thereby increase their livelihood and the sustainability of their land. [b]
<b>Sub-Saharan Africa</b>	
<i>Benin</i> Health and Population Project (IDA)	This project will support efforts to increase the coverage, efficiency, and quality of priority health programs and services, especially in currently underserved areas, and it will target the most vulnerable groups. [b]
<i>Cameroon</i> Health, Fertility and Nutrition Project (IDA)	The expansion of primary health care and family planning to approximately 3 million low-income people, the development and implementation of a national population policy, and reforms of the health ministry will be supported. [b]
<i>Cape Verde</i> Basic Education and Training Project (IDA)	This project aims to achieve universal primary education by 1999, to increase the skill levels and productivity of the labor force, and to develop the institutional capacity to design programs and implement policies. [b]
<i>Central African Republic</i> Livestock Development and Rangeland Management Project (IDA)	Some 25,000 low-income households will benefit from this project, which aims to increase livestock productivity by expanding animal health services. [b]
<i>Chad</i> National Agricultural and Livestock Services Program (IDA)	A program to enhance the supply response of the agriculture and livestock sectors is expected to bring more productive and sustainable technology to 550,000 producers—primarily smallholder farmers—and to increase family incomes and well-being. [b]
Population and AIDS Control (IDA)	This project will help the government to implement population, family planning, and AIDS-control policies that will disproportionately benefit the poor. [b]
<i>Côte d'Ivoire</i> Municipal Support Project (IDA)	Capital improvements, including priority works for small municipalities and low-income squatter settlements and municipal capacity-building measures, will be financed. [b]
<i>Gabon</i> Transport Sector Technical Assistance Project (IBRD)	The pilot program component of the project will test the use of labor-intensive methods for urban civil works and create employment opportunities in the poor quarters of Libreville. [b]
<i>Ghana</i> Vocational Skills and Informal Sector Support Project (IDA)	A demand-driven reorientation of the vocational skill training system and increase in informal sector productivity are expected to benefit informal sector workers, including the poorest urban dwellers. [b]
Mining Sector Development and Environment Project (IDA)	This project will support the strengthening of mining sector institutions and assistance to small-scale miners. [b]
<i>Guinea</i> Equity and School Improvement Project (IDA)	The project will increase primary school enrollment and completion rates, improve teaching and student learning, strengthen education system management, and target girls and poor households in rural areas. [b]

<i>Region, country and project</i>	<i>Reason(s) for inclusion</i>
<i>Guinea-Bissau</i> Transport and Urban Infrastructure Project (IDA)	The transport infrastructure rehabilitation program will facilitate the transport of agricultural products to market areas and thereby increase the income of poor farmers, while the urban infrastructure rehabilitation program will concentrate on the most disadvantaged urban and peri-urban areas. [b]
<i>Kenya</i> Sexually Transmitted Infections Project (IDA)	Preventive measures in this project to reduce the risk of sexually transmitted infections and increase provision of health and community care for infected persons will disproportionately benefit the poor. [b]
<i>Madagascar</i> Agricultural Extension Program Support Project (IDA)	This project will directly benefit 1.5 million rural agricultural families by giving them access to improved agricultural services and by increasing the production of rice and other crops on which the poor depend for income and food security. [b]
Second Irrigation Rehabilitation Project (IDA)	The incomes of about 40,000 small-scale farm families are expected to rise and food insecurity in rural areas is expected to fall as a result of this project, which will increase agricultural output and improve production and increase productivity on irrigation schemes. [b]
<i>Mauritania</i> General Education Project (IDA)	This project aims to increase primary enrollment in underserved regions, to increase girls' enrollment, to expand lower secondary education capacity, and to improve education quality and planning. [b]
<i>Niger</i> Pilot Private Irrigation Promotion Project (IDA)	The private provision of services to small-scale irrigation farmers will be tested and the adoption of low-cost technologies that meet small-farmer requirements and capabilities will be promoted. [b]
<i>Senegal</i> Community Nutrition & Sanitation (IDA)	This project aims to halt the deterioration in the nutritional status of the most vulnerable groups in specific poor neighborhoods, to reduce their food insecurity, and to generate employment and income for community groups through small-scale activities. [a]
Water Sector Project (IDA)	An estimated 1.8 million people will benefit from this project, which will increase the production of safe drinking water in Dakar and increase the number of connections to the city's sewer system. [b]
<i>Sierra Leone</i> Urban Water Supply (IDA)	Water supply and sanitation services in Freetown will be improved, and the poor's access to them will be increased. [b]
<i>Togo</i> Education Rehabilitation Project (IDA)	This project will halt the deterioration in educational services in Togo and improve school quality by constructing and rehabilitating schools, providing textbooks, and introducing experiments in teaching and learning processes. [b]
<i>Uganda</i> District Health (IDA)	This demonstration project will test the feasibility of delivering a package of essential health services to district populations within a prudent financial framework for the health sector. [b]
<i>Zambia</i> Second Social Recovery Project (IDA)	The government's poverty reduction program will be assisted by financing community initiatives (feeder roads, water supply systems, and other public infrastructure) and building capacity for poverty monitoring and analysis. [b]
Agriculture Sector I (IDA)	This investment program will support the agriculture sector's objectives of increasing household food security, promoting better use of natural resources, generating incomes and employment, and increasing export earnings. [b]

# Annex B Poverty-focused SALs and SECALs, Fiscal 1995

## Poverty-focused adjustment operations

Adjustment operations contribute to reducing poverty in two key ways. First, they support macroeconomic and sectoral policies that promote economic growth and efficient resource allocation, which are essential elements of any country's poverty reduction strategy. They also address the management and composition of public expenditure in ways that will ultimately increase the productivity of the poor and enhance the provision of basic services and infrastructure. Second, some adjustment operations, which are termed "poverty-focused operations," contain specific poverty reduction measures. An adjustment operation is considered to be poverty-focused if it meets at least one of five criteria in supporting government efforts to: (i) reallocate public expenditures in favor of the poor; (ii) eliminate distortions and regulations that disadvantage the poor and limit their income-generating opportunities; (iii) support safety nets that protect the most vulnerable members of the population; (iv) gather data on poverty and monitor the impact of adjustment on the poor; and/ or (v) develop strategies to reduce poverty.

Fourteen of the twenty-seven adjustment operations that were approved by the Board during fiscal 1995<sup>71</sup> were poverty-focused (52 percent). Of the fourteen, eight were structural adjustment loans (SALs),

two were sector adjustment loans (SECALs), and four were rehabilitation import loans (RILs). Table B-1 shows the number and amount of lending for SALs, SECALs, and RILs in fiscal 1995. Table B-2 itemizes the poverty-focused components of each operation. Table B-3 briefly describes the poverty-focused adjustment operations for fiscal 1995.

While the share of operations that were poverty-focused in fiscal 1995 declined compared to fiscal 1994 (71 percent), actual lending for poverty-focused operations remained relatively constant (US\$1.67 billion in fiscal 1994 and US\$1.65 billion in fiscal 1995).<sup>72</sup> In the case of IDA countries, despite a cut in the volume of adjustment lending by half from fiscal 1994 compared to fiscal 1995, the share of poverty-focused lending increased from 44 percent of adjustment lending to 56 percent. (See table B-3 for a description of the fiscal 1995 poverty-focused adjustment operations.)

Regionally, the number of poverty-focused adjustment operations in fiscal 1995 was heavily concentrated (82 percent of total adjustment lending) in the Europe and Central Asia (ECA) region. By contrast, in fiscal 1994, the exceptionally high number of poverty-focused operations was due primarily to the support given for post-devaluation adjustment in the countries of the CFA franc zone in Sub-Saharan Africa.

### Objectives of poverty-focused adjustment operations

The following five areas represent the main objectives addressed by poverty-focused SALs, SECALs, and RILs (see table B-2).

**Public expenditure reforms.** Five of the poverty-focused operations will reform public expenditures in order to benefit the poor. The Viet Nam Structural Adjustment Program (IDA) contains a Public Investment Program that focuses on priority investments in infrastructure and human resource development.

**Table B.1 Poverty-focused adjustment, fiscal 1995**

	<i>Total</i>	<i>IDA</i>	<i>IBRD</i>
SAL lending (US\$ millions)	718	328	390
Number of SALs	8	5	3
SECAL lending (US\$ millions)	135	135	-
Number of SECALs	2	2	-
RIL lending (US\$ millions)	795	135	660
Number of RILs	4	2	2
Total (US\$ millions)	1,648	598	1,050
Total number of SALs/SECALs/RILs	14	9	5

The Ghana Private Sector Adjustment Credit (IDA) helps to increase both recurrent and non-wage development expenditures for basic education, primary health, and rural infrastructure; increases in these areas are conditions for the release of the tranches of the loan. In Georgia, the Rehabilitation Credit (IDA) reallocates public expenditures to ensure that the poor have access to basic health and education services and to increase cash transfers to the poorest groups.

*Addressing distortions that especially affect the poor.* Operations that address distortions that especially affect the poor generally take a variety of forms. The Financial Sector Operation (IDA) for Guinea addresses the distortions in the savings and credit industry that discriminate against the poor. It supports rural savings and loan institutions that engage in microfinance and beneficiary participation and serve a significant female clientele. In the Kyrgyz Republic, the Agricultural Privatization and Enterprise Adjustment Credit (IDA) will address distortions by breaking up and privatizing the Bread Complex to alleviate the wheat shortage and drastic price increases in poor remote areas.

*Targeted programs and safety nets.* Other adjustment operations provide safety nets and target specific groups of the poor. In fiscal 1995, this was the most common objective of poverty-focused adjustment operations. Most of the operations in this category are in the transition economies of Eastern Europe and Central Asia. All of the RILs, which are

also all in transition economies, include some targeted or safety net mechanism. The Armenia RIL (IDA) ensures a minimum level of social protection for the poorest, the Georgia RIL (IDA) supports the government's reforms while maintaining a minimum safety net, and the Uzbekistan RIL (IBRD) protects the minimum pension while rationalizing the pension system.

The two adjustment operations in non-Eastern European states that also provide for targeted programs and safety nets were in Viet Nam and Algeria.

*Poverty monitoring.* Four operations include mechanisms for gathering poverty data and monitoring the impact of adjustment. The Armenia RIL (IDA) supports a household survey that will allow the development of a means-tested benefits system. The Algeria SAL (IBRD) launches a household survey that will evaluate the impact of social programs as well as provide better information on the situation of the poor. The Viet Nam SAL (IDA) will support poverty studies that will identify vulnerable households and regions, thereby making it possible to target resources more accurately.

*Developing poverty reduction policies.* Many of these operations also address poverty issues by assisting in the development of strategies to reduce poverty and to improve policy formulation. In fiscal 1995, the Algeria SAL (IBRD) addresses this issue by commencing a survey on the situation of the poor that will be used as a basis for a study on poverty. The terms of reference of the poverty study will be determined during the implementation of the SAL.

**Table B-2 Poverty-focused components of adjustment operations, fiscal 1995**

<i>Operations</i>	<i>Objectives</i>					
	<i>Reforming public expenditures<sup>a</sup></i>	<i>Addressing distortions<sup>b</sup></i>	<i>Targeted programs<sup>c</sup></i>	<i>Monitoring poverty<sup>d</sup></i>	<i>Developing poverty policy<sup>e</sup></i>	<i>Tranche release conditions<sup>f</sup></i>
<b>Structural Adjustment Loans</b>						
Algeria, Economic Rehabilitation Support Loan		√	√	√	√	√
Benin, Third Structural Adjustment Credit	√	√				√
Ghana, Private Sector Adjustment Credit	√					√
Guinea, Financial Sector Operation		√				√
Kazakstan, Structural Adjustment Loan			√			√
Kyrgyz Republic, Agricultural Privatization and Enterprise Adjustment Credit		√				
Moldova, Structural Adjustment Loan		√	√			√
Vietnam, Structural Adjustment Program	√	√		√		√
<b>Sectoral Adjustment Loans</b>						
FYR Macedonia, Financial and Enterprise Sector Adjustment Credit			√			
Mali, Education Sector Adjustment Credit	√					√
<b>Rehabilitation Import Loans</b>						
Armenia, Rehabilitation Credit			√	√	√	
Georgia, Rehabilitation Credit	√		√			√
Ukraine, Rehabilitation Loan			√	√	√	√
Uzbekistan, Rehabilitation Loan			√			
<b>Total</b>	<b>5</b>	<b>6</b>	<b>8</b>	<b>4</b>	<b>3</b>	<b>10</b>

a. Supports the reallocation of public expenditures towards physical infrastructure and basic social services for the poor.

b. Focuses specifically on reducing distortions that especially disadvantage the poor.

c. Supports programs that provide safety nets or that target specific groups.

d. Supports the collection of data on poverty and the monitoring of the impact of adjustment on the poor.

e. Includes the development of poverty reduction strategies and the improvement of policy formulation and coordination for reducing poverty.

f. Contains tranche release conditions related to poverty-focused measures.

Source: World Bank.



**Table B.3 Poverty-focused SALs and SECALs, fiscal 1995**

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
<b>East Asia and the Pacific</b>	
<i>Viet Nam</i> Structural Adjustment Operation (IDA)	This program will help to establish a medium-term framework in which structural reform can be pursued in a way that promotes growth, economic development, and poverty reduction. The program aims to reorient public expenditures towards basic social services, to eliminate distortions that disadvantage the poor, and to gather data on poverty.
<b>Europe and Central Asia</b>	
<i>Armenia</i> Rehabilitation Credit (IDA)	This rehabilitation program includes specific measures to protect the most vulnerable groups from the impact of price increases. It also supports improving the targeting of social benefits to the poorest groups such as the elderly, children, the low-paid, and the unemployed, and a household survey to allow the development of a means-tested benefit system.
<i>FYR Macedonia</i> Financial and Enterprise Sector Adjustment Credit (IDA)	Major reforms in the enterprise and banking sectors, accompanied by a social safety net program, will be undertaken with this credit. The social safety net reform will continue to provide an adequate level of protection to vulnerable groups, thereby protecting them from poverty.
<i>Georgia</i> Rehabilitation Credit (IDA)	This credit will support the government's economic reform program while maintaining a minimum social safety net. Specifically, it will support public sector reforms that reallocate public expenditures to ensure that the poor have access to basic health and education services and to increase cash transfers to the poorest groups.
<i>Kazakhstan</i> Structural Adjustment Loan (IBRD)	The government's economic reform program will be supported through this loan, including measures to put in place adequate social protection policies to protect the unemployed during the transition.
<i>Kyrgyz Republic</i> Agricultural Privatization and Enterprise Adjustment Credit (IDA)	This credit will support the government's measures to increase agricultural productivity and improve marketing channels, which will thereby increase incomes in rural areas where the majority of the poor live. The credit also supports the design of an effective grain reserve policy to ensure food security in poor remote regions of the country.
<i>Moldova</i> Structural Adjustment Loan (IBRD)	The reforms supported by this loan are designed to produce the allocation of resources needed to promote a recovery in sustainable export-led growth, while providing for the most vulnerable groups. Measures include de-linking increases in pension and social assistance benefits from the minimum wage and introducing instead a system of targeted price adjustments that will offer better protection to the poorest beneficiaries.
<i>Ukraine</i> Rehabilitation Loan (IBRD)	This loan, which supports the government's economic reform program, includes measures to improve the targeting of benefits to the most needy and to strengthen the social safety net. Specifically, it includes measures to protect low-income households from the impact of price increases, to strengthen mechanisms to deal with unemployment, and to monitor the impact of adjustment on the poor and unemployed.
<i>Uzbekistan</i> Rehabilitation Loan (IBRD)	The government's structural adjustment program will be supported by this loan. The program includes protecting the minimum pension while rationalizing the pension system. It will, therefore, improve the targeting of the pension system to the vulnerable.

*Loan or credit*

*Poverty-related objectives*

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**Middle East and North Africa**

*Algeria*

Economic Rehabilitation  
Support Loan  
(IBRD)

The government's reform program will be supported by this loan, which will also support the strengthening of the social protection system for workers laid off for economic reasons and the reform of the social safety net.

**Sub-Saharan Africa**

*Benin*

Structural Adjustment Credit III  
(IDA)

The government's economic reform program for 1995-96 will be supported. This program will improve incentives for private sector development and the management of public resources and will restructure public expenditures toward social services for the poor.

*Ghana*

Private Sector Adjustment  
(IDA)

The government's program to promote private sector growth and to reallocate public expenditures toward basic education, health, and rural infrastructure will be supported.

*Guinea*

Financial Sector Adjustment  
(IDA)

Reforms to strengthen the monetary, regulatory, supervisory, and judicial environment, to develop a bridge between the formal and informal sectors, to build upon the human resource base, and to increase institutional capacity will be supported.

*Mali*

Education SECAL  
(IDA)

This sector adjustment operation will provide critical balance of payment support while also promoting urgently needed education reforms, including increasing the share of the education budget allocated to primary education.

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*Note:* For Latin America and the Caribbean and South Asia, there were no poverty-focused SALs or SECALs in fiscal 1995.

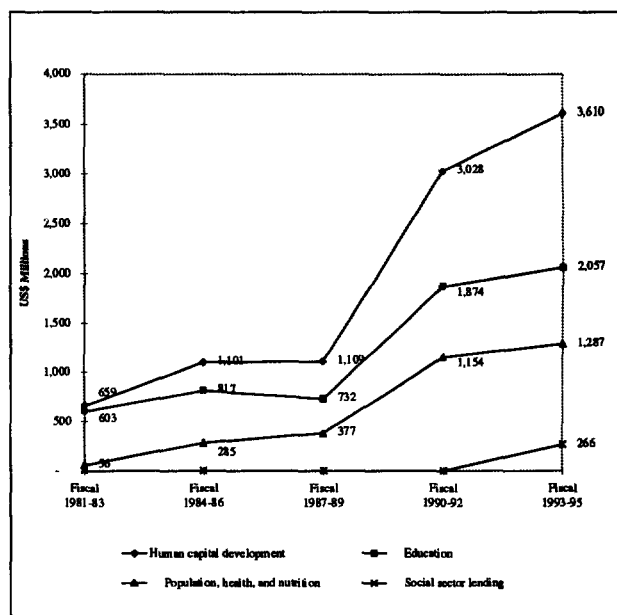
## Annex C Annual Lending to Selected Sectors, Fiscal 1995

### Sectoral composition of lending

All World Bank lending is ultimately aimed at reducing poverty. However, some sectors of lending contain a higher percentage of projects that include direct efforts to reduce poverty, particularly the human capital sectors, water supply and sanitation, and agriculture. As shown in the accompanying figure, lending to the human capital sectors between the early 1980s and fiscal 1995 increased five-fold in dollar terms. The overall percentage of Bank lending to these sectors increased from an average of 5 percent during fiscal 1981-83 to an average of 16 percent during fiscal 1993-95 (see table C-1). For IDA, lending for human capital development represents over a quarter of its total lending, up from one-eighth in the early 1980s.

In recent years the share of lending to the human capital development sector increased from an average of 14 percent of total lending between fiscal 1990-92 to 16 percent in 1993-95; the share of lending to the agricultural and rural development sector dropped slightly from an average of 17 percent to 15 percent; and the share of lending in the water and sanitation sector remained stable at 5 percent during this period.

### Trends in lending for human capital development



**Table C-1. Average annual lending to selected sectors, fiscal years 1981-95**

<i>Bank lending<sup>a</sup></i> (US\$ millions)	1981-83	1984-86	1987-89	1990-92	1993-95
Human capital development	659	1,101	1,109	3,028	3,610
Education	603	817	732	1,874	2,057
Population, health, and nutrition	56	285	377	1,154	1,287
Social sector lending <sup>b</sup>	—	—	—	—	266
Agricultural and rural development	3,513	4,000	3,638	3,753	3,274
Water supply and sanitation	596	675	765	1,023	1,056
<b>Total</b>	<b>13,261</b>	<b>15,408</b>	<b>19,421</b>	<b>21,698</b>	<b>22,351</b>
<i>As share of total (percent)</i>					
Human capital development	5	7	6	14	16
Agricultural and rural development <sup>c</sup>	27	26	19	17	15
Water supply and sanitation	5	4	4	5	5
<i>IDA lending</i> (\$ millions)					
Human capital development	264	442	455	1,304	1,640
Education	237	289	308	759	838
Population, health, and nutrition	27	153	147	545	779
Social sector lending <sup>b</sup>	—	—	—	—	24
Agricultural and Rural Development <sup>c</sup>	1,189	1,259	1,323	1,608	1,506
Water Supply and Sanitation	107	115	175	350	269
<b>Total</b>	<b>3,170</b>	<b>3,248</b>	<b>4,293</b>	<b>6,122</b>	<b>6,338</b>
<i>As a share of total (percent)</i>					
Human capital development	8	14	11	21	26
Agricultural and rural development	38	39	31	26	24
Water supply and sanitation	3	4	4	6	4

Note: Fiscal 1981-95 refers to average annual lending during the three-year period indicated. The World Bank's fiscal year runs from July 1 of the previous year to June 30 of the year indicated. Sectors indicated do not account for all poverty-focused lending. Projects in other sectors, such as the urban and transport sectors, also have a poverty focus.

—, Not applicable.

a. The Bank's lending includes lending for IDA and IBRD.

b. In fiscal 1994 this additional "social sector" category, which is intended to include employment, pension administration, safety nets, and social benefit administration, was introduced. In previous years, this amount was included in the population, health, and nutrition figures.

c. This decline in share reflects several trends. For example, some rural investments are now accounted for in other sectors such as infrastructure and human capital development, and address such issues as privatization, natural resource management, and projects that target women, which have involved implementing pilot projects of small loan amounts.

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## *Annex D Poverty Assessments Completed in Fiscal 1989-95 and Scheduled for Fiscal 1996-99*

<i>Region</i>	<i>Completed</i>	<i>Scheduled</i>			<i>Total</i>
	1989-95	1996	1997	1998-99	1989-99
East Asia and the Pacific	8	4	2	1	15
Europe and Central Asia	3	7	7	4	21
Latin America and the Caribbean	20	5	3	0	28
Middle East and North Africa	3	2	1	0	5
South Asia	5	1	2	0	8
Sub-Saharan Africa	23	12	7	0	42
<b>Total</b>	<b>62<sup>a</sup></b>	<b>31<sup>b</sup></b>	<b>22<sup>c</sup></b>	<b>5<sup>d</sup></b>	<b>120<sup>e</sup></b>

*Note:* This schedule was finalized on February 9, 1996, and excludes inactive borrower countries.

a. Includes fifty-eight first-round poverty assessments and four updates.

b. Includes twenty-five first-round poverty assessments and six updates.

c. Includes nineteen first-round poverty assessments and three updates.

d. Includes only first-round poverty assessments.

e. Includes 107 first-round poverty assessments and thirteen updates.

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## *Annex E Poverty Assessments Completed, Fiscal 1989-95*

<b>Country</b>	<b>Report title</b>	<b>Report no.</b>
<b>EAST ASIA AND THE PACIFIC</b>		
China	Strategies for Reducing Poverty in the 1990s	10409-CHA
Fiji	Restoring Growth in a Changing Global Environment	13862-FIJ
Indonesia	Poverty Assessment and Strategy Report	8034-IND
Indonesia (Update)	Public Expenditures, Prices and the Poor	11293-IND
Malaysia	Growth, Poverty Alleviation and Improved Income Distribution in Malaysia	8667-MA
Philippines	The Philippines: The Challenge of Poverty	7144-PH
Philippines (Update)	An Opening for Sustained Growth	11061-PH
Viet Nam	Poverty Assessment and Strategy	13442-VN
<b>EUROPE AND CENTRAL ASIA</b>		
Kyrgyz Republic	Poverty Assessment and Strategy	14380-KG
Poland	Poverty in Poland	13051-POL
Russia	Poverty in Russia: An Assessment	14110-RU
<b>LATIN AMERICA AND THE CARIBBEAN</b>		
Argentina	Argentina's Poor: A Profile	13318-AR
Bolivia	Poverty Report	8643-BO
Brazil	Brazil: A Poverty Assessment (2 volumes)	14323-BR
Chile	Social Development Progress in Chile: Achievement and Challenges	8550-CH
Colombia	Poverty Assessment Report (2 volumes)	12673-CO
Costa Rica	Public Sector Social Spending	8519-CR
Dominican Republic	Growth with Equity: An Agenda for Reform	13619-DO
Ecuador	A Social Sector Strategy for the Nineties	8935-EC
El Salvador	The Challenge of Poverty Alleviation	12315-ES
Guatemala	An Assessment of Poverty	12313-GU
Guyana	Strategies for Reducing Poverty	12861-GUA
Honduras	Country Economic Memorandum/Poverty Assessment	13317-HO
Jamaica	A Strategy for Growth and Poverty Reduction	12702-JM
Mexico	Mexico in Transition: Towards a New Role for the Public Sector	8770-ME
Nicaragua	Poverty Assessment	14038-NI
Paraguay	Public Expenditure Review — the Social Sectors	10193-PA
Paraguay (Update)	Poverty and the Social Sectors in Paraguay: A Poverty Assessment	12293-PA
Peru	Poverty Assessment & Social Sector Policies & Programs for the Poor	11191-PE
Uruguay	Poverty Assessment: Public Social Expenditures and Their Impact on the Income Distribution	9663-UR
Venezuela	From Generalized Subsidies to Targeted Programs	9114-VE

Country	Report Title	Report no.
<b>MIDDLE EAST AND NORTH AFRICA</b>		
Egypt, Arab Republic of	Alleviating Poverty During Structural Adjustment	9838-EGT
Jordan	Poverty Assessment	12675-JO
Morocco	Poverty, Adjustment, and Growth	11918-MOR
<b>SOUTH ASIA</b>		
Bangladesh	Bangladesh Poverty and Public Expenditures: An Evaluation of the Impact of Selected Government Progs.	7946-BD
India	Poverty, Employment and Social Services	7617-IN
Nepal	Relieving Poverty in a Resource-Scarce Economy	8635-NEP
Pakistan	A Profile of Poverty	8848-PAK
Sri Lanka	Poverty Assessment	13431-CE
<b>SUB-SAHARAN AFRICA</b>		
Benin	Toward a Poverty Alleviation Strategy for Benin	12706-BEN
Cameroon	Diversity, Growth, and Poverty Reduction	13167-CM
Cape Verde	Poverty in Cape Verde: A Summary Assessment and a Strategy for its Alleviation	13126-CV
Comoros	Poverty and Growth in a Traditional Small Island Economy	13401-COM
Ethiopia	Toward Poverty Alleviation and a Social Action Program	11306-ET
The Gambia	An Assessment of Poverty	11941-GM
Ghana	2000 and Beyond: Setting the Stage for Accelerated Growth and Poverty Reduction	11486-GH
Ghana (Update)	Ghana: Poverty Past, Present and Future	14504-GH
Guinea-Bissau	Poverty Assessment and Social Sector Strategy Review	13155-GUB
Kenya	Poverty Assessment	13152-KE
Malawi	Growth Through Poverty Reduction	8140-MAI
Mali	Assessment of Living Conditions	11842-MLI
Mauritania	Poverty Assessment	12182-MAU
Mauritius	CEM: Sharpening the Competitive Edge	13215-MAS
Mozambique	Poverty Reduction Framework Paper*	None
Namibia	Poverty Alleviation with Sustainable Growth	9510-NAM
Rwanda	Poverty Reduction and Sustainable Growth	12465-RW
Senegal	An Assessment of Living Conditions (2 volumes)	12517-SE
Seychelles	Poverty in Paradise	12423-SEY
Sierra Leone	Policies for Sustained Economic Growth and Poverty Alleviation	11371-SL
Uganda	Growing Out of Poverty	11380-UG
Zambia	Poverty Assessment	12985-ZA
Zimbabwe	Achieving Shared Growth: Country Economic Memorandum (2 volumes)	13540-ZIM

\*Document was prepared for consultative group meeting.

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# Annex F Analytical Work on Poverty and Summaries of Completed Poverty Assessments, Fiscal 1995

## Poverty analysis

The Bank's analytical work on poverty contributes significantly to our understanding of the nature and extent of poverty in member countries. Undertaken in collaboration with governments and often with other donors as well, this analysis of poverty within a given country is crucial for designing effective poverty-oriented country assistance strategies and well-targeted interventions. It also forms the basis for effective policy dialogue with governments and donors.

The Bank's analysis covers a wide range of poverty issues that reflect different individual country circumstances. Poverty assessments are the main instrument for identifying those key issues and for helping to set the policy agenda for reducing poverty. Other economic and sector work, including public expenditure reviews, and the Bank's research can also be important instruments for shaping successful poverty-focused country assistance programs.

The depth, coverage, and recommendations of the fiscal 1995 economic and sector work relating to poverty differ significantly among reports. Some good examples include the Uganda country economic memorandum, which analyzed the effects of macroeconomic policies on the poor, expanding on the work done in the poverty assessment two years earlier, and the report *Ethiopia: Public Expenditure Policy for Transition*, which recommended that public resources be reallocated to redress socioeconomic imbalances. Sector reports can also be useful in defining poverty strategies. The *Guatemala: Basic Education Strategy* report recommended expanding the national bilingual education program and increasing the number of one-room schools to increase access in indigenous areas, especially for girls. The analysis contained in these reports invariably forms

the basis for policy dialogue with the borrowing governments and donors.

## Poverty assessments

Poverty assessments are undertaken for each of the Bank's borrower countries to help the Bank, governments, donors, and NGOs understand who the poor are, why they are poor, and, based on the analysis, to offer potential solutions. In fiscal 1995, progress continued to be made in preparing poverty assessments for the Bank's member countries. Twenty-three assessments (twenty-two additional countries and one update) were completed, bringing the total number of completed poverty assessments to sixty-two (fifty-eight countries and four updates).<sup>73</sup> These poverty assessments cover between 80 to 90 percent of the world's poor. The majority of the fiscal 1995 poverty assessments were for Sub-Saharan African and Latin American countries. Progress is also being made on the assessments (six of which are updates) that remain to be completed, with thirty-four scheduled to be completed in fiscal 1996.

Despite this progress, delays remain a concern. Of the forty poverty assessments originally scheduled to be completed in fiscal 1995, eighteen were delayed (although one assessment was completed ahead of schedule). Reasons for the delays included: tenuous political situation (Burundi), poor data quality or delays in getting survey results (Bolivia, Burkina Faso, Central African Republic, Ecuador, Guinea, Madagascar, Niger, Nigeria, and Trinidad and Tobago), delays due to discussions with the government or the incorporation of participatory information (Lao PDR, Lesotho, Pakistan, and Tunisia), and changes in the Bank's work program because of staff or resource constraints (Costa Rica, Mexico, the Philippines, and Thailand). Although some delays are unavoidable, a higher priority needs to be as-



signed to completing poverty assessments without compromising the quality of analysis, and governments must be encouraged to do the same.

The flip side of the coin is that the quality of poverty assessments completed in fiscal 1995 showed a considerable improvement in terms of the breadth of topics covered and the depth of their analysis. The integration of the qualitative information on the needs and perceptions of the poor derived from the participatory surveys made these assessments more realistic and relevant. Despite this there were some variations in quality, and efforts should be made in the future to achieve overall evenness in quality. Particular emphasis should be given to poverty monitoring, including data collection, analysis, and dissemination. In cases where participatory approaches have not yet been adopted, they should be encouraged.

*Poverty profiles.* The improvement in the quality of poverty assessments was also reflected in the poverty profiles in fiscal 1995. On the quantitative side, the profiles are more comprehensive compared to those of past years. Most of the assessments defined poverty lines and measured absolute poverty, although in some countries, such as Comoros (IDA), it was not possible to draw a conclusive poverty line with the available data. About 80 percent of the fiscal 1995 assessments (compared to 70 percent in fiscal 1994) defined two poverty lines to distinguish between the poor and the extremely poor. Almost two-thirds of the assessments (compared to about three-quarters in fiscal 1994) constructed all three indexes for measuring poverty (the headcount index, the poverty gap index, and the weighted poverty gap or severity index), making it possible to produce a precise and comprehensive determination of the incidence, depth, and severity of poverty in these countries. In the case of Poland (IBRD), for example, the poverty gap index indicates that poverty is "shallow" with significant bunching of the poor population around the poverty line and that the average shortfall of household expenditures relative to the poverty line is fairly evenly distributed across socio-economic groups. In addition, almost all poverty assessments in fiscal 1995 included other broad social and economic indicators of poverty such as school enrollment, mortality, wage rates, terms of trade, or producer prices to augment the poverty profile. In many instances, the information was further disaggregated by urban/rural location, region, and gender.

Approximately half of the fiscal 1995 assessments used participatory methodologies to strengthen the analysis, compared to about a quarter in fiscal 1994.

This is a big increase over previous years, although it still leaves ample room for improvement. In Kenya (IDA), feedback from interviews and focus group discussions confirmed findings from analysis that poverty is widespread and increasing. In Bomet, an agriculturally well-endowed area, poor people said: "Fifteen years ago, we had animals, granaries, and land. Today the animals are gone, the granaries are empty, the land is subdivided, and our clothes are in tatters."<sup>74</sup> In Zambia (IDA), local communities were interviewed extensively to find out the poor's perspective on the prevailing situation as well as their opinions on the efficiency and effectiveness of programs that affect them, while the assessment for Cameroon (IDA) involved structured interviews with 1,600 members of households, local leaders, and representatives of NGOs. The results showed a remarkable convergence between the conclusions from analyses and the views of poor people with respect to what is needed to reduce poverty.

A recent study of poverty in Africa analyzed the contributions of participatory poverty assessments (PPAs) and found that they enriched the poverty profile by encapsulating local perceptions of poverty and vulnerability, increasing the understanding of the impact of public expenditure, increasing the analysis of the constraints experienced by the poor, and supporting policy analysis of safety nets and of coping strategies used by the poor.<sup>75</sup> A survey of PPAs in the Africa region suggested six key priorities for poverty reduction in Africa. The first was the general sense of isolation that characterizes rural poverty in Africa — isolation from services, markets, local government institutions, and information. The second was the sense of isolation from the institutions of the state, which are often seen as unresponsive and distant. Third, issues of access to water tend to be the most pressing ones in arid and semi-arid rural areas. Fourth, in areas that have recently experienced massive crises of welfare, maintaining livelihoods predominate over other issues. Fifth, the effective functioning of and access to curative health care is the most consistent priority for rural and urban areas. Sixth, in urban areas, access to employment opportunities to learn marketable skills and small enterprise credit schemes are high priority issues, along with education. Overall, the PPAs have enhanced poverty assessments by outlining what the poor see as high priorities in relation to the provision of public services for reducing poverty.

*Macroeconomic and sectoral policies.* All of the poverty assessments analyzed macroeconomic and sectoral policies and their effects on the poor. Nearly

two-thirds (compared to half in fiscal 1994) made specific policy recommendations on how to improve macroeconomic policies, either to enhance their positive effects or to minimize their potential negative effects. The poverty assessment for Senegal (IDA) is exemplary in its in-depth treatment of these issues. Macroeconomic analysis in the Senegal assessment showed that past policies have not always been consistent with reducing the burden on the poor. For example, tax and tariff systems were regressive in that they taxed basic goods such as fuel, rice, and sugar that are consumed by the poor. The poor have also been hurt by the overvalued currency, which made domestically produced goods such as groundnuts that are a key source of revenue for the rural poor, more expensive compared to imported goods. To correct this imbalance, the poverty assessment recommends eliminating distortions that affect the pricing of goods produced by the poor, reducing regressive taxation especially of basic goods, and encouraging savings and financial intermediation in poor and rural communities.

In the reports for transition economies such as Poland (IBRD), the discussion focused on ways to facilitate growth while ensuring that those who are currently unemployed will be reintegrated into the economy. It recommended policies that would spur growth in the private sector, the reintroduction of the apprenticeship system so that there will be a better match between the training given and the skills that are needed, and the introduction of retraining programs so that workers can acquire the necessary skills to meet the needs of a growing market-oriented

economy. The box below on the Russia (IBRD) poverty assessment gives more details on the unique issues facing the transition economies.

*Public expenditure.* All of the fiscal 1995 poverty assessments discussed some aspect of how public expenditures are reaching the poor. The analysis of how public expenditures reach the poor has improved significantly in Bank economic and sector work, especially in Africa. In a number of recent poverty assessments in the Africa region, such as Côte d'Ivoire (IDA, fiscal 1996), Ghana (IDA, fiscal 1995), Kenya (IDA, fiscal 1995), Madagascar (IDA, fiscal 1996), and Tanzania (IDA, fiscal 1996), 'benefit incidence' studies have been carried out to assess the extent to which the poor benefit from public spending. These studies find that the poor do not benefit greatly from these expenditures, mainly because resources are allocated disproportionately to urban-based services to which the poor have limited access. The studies stress the need for governments to place greater emphasis on the provision of basic economic and social services for the poor, such as primary health care, basic education, water supply, and rural infrastructure. Incidence analysis is also a very important tool in ECA, as expenditures on social transfers often represent the largest single category of expenditures — about a third of the total in central and eastern Europe and a quarter of the total in the former Soviet Union countries. All three of the ECA poverty assessments in fiscal 1995 and others in fiscal 1996 included incidence analysis, which has then been used in the Bank's dialogue and the design of the Bank's adjustment support.

**Poverty assessment for Russia sheds light on issues facing the transition economies in their efforts to reduce poverty**

As is the case in many other European countries in transition, the poverty assessment for Russia found that the working poor predominate (over 66 percent of the poor live in households where the head of household is employed). Other groups susceptible to poverty in Russia are the unemployed and the elderly living alone who receive a single, low pension. The homeless and previously institutionalized people were found to be a small but critical group of the poor.

Sustainable reductions in poverty can only be achieved by promoting stabilization and economic growth, a long-term undertaking. However, the main poverty issue in Russia now, as highlighted in the poverty assessment, is how to provide an effective social support system, as the existing system of social protection cannot cope with the demands now being

put on it. The assessment, therefore, proposes a series of key changes that would make the system more cost-effective and affordable and would help to reduce poverty in the immediate future. These include: minimizing adverse incentive effects so as to discourage welfare dependency; targeting social assistance programs so that only the poor receive poverty relief; and addressing regional disparities through federal transfers, which should be conditional upon local policy being in line with the central government's strategy and which should be matched by local financing. Specifically, the report suggests introducing a poverty benefit, strengthening existing local social assistance, making greater use of temporary employment schemes, and increasing the minimum level of benefits for the unemployed and elderly.

When data are available, more such analysis is needed.

*Social safety nets.* All but one poverty assessment in fiscal 1995 analyzed safety nets, a great improvement over fiscal 1994 when just over half did so. The Zambia (IDA), Vietnam (IDA), and Colombia (IBRD) reports presented a thorough overview of the safety net programs, assessed whether or not the programs provided adequate protection for the poor, and made recommendations for improving or creating programs that would be effective in reaching the poor. The Zambia poverty assessment found that previous public safety nets failed because they did not involve communities. Thus, it recommended continuing the process of devolution to local community-based groups. The Vietnam poverty assessment found that social transfers are not well targeted to the poor,<sup>76</sup> and thus recommended that expenditures should be better targeted to the rural poor and be reallocated from pensions to social relief programs. In the case of Colombia, which does not yet have an effective safety net for very poor and vulnerable groups, the poverty assessment recommended that developing such a safety net must be a priority funded by eliminating subsidies such as those for public utilities or other programs that mainly benefit the wealthy or by oil revenues. In ECA, based on public expenditure incidence analysis, the poverty assessments have found that social protection expenditures are spread quite evenly across the population, and they emphasize the need for better targeting to protect the most vulnerable.

*Gender issues.* All but one of the fiscal 1995 poverty assessments discussed gender. About three-quarters of the poverty assessments included a thorough analysis of gender issues. This is a great improvement over fiscal 1994 when only half the assessments did so. These reports evaluated, in varying degrees, the extent and nature of poverty among women, examined the economic situation of female-headed households, and analyzed gender differentials in earnings, school enrollment and literacy rates (for example, Cameroon [IDA] and Kenya [IDA]). Other gender issues highlighted in the poverty assessments included women's access to primary health care, particularly to maternal health care and

family planning services, their access to land and other economically productive resources, and women's labor time burden. Some assessments provided data disaggregated by sex but stopped short of analyzing the economic role of women, the sources of their poverty, and the constraints they faced, and failed to provide gender-specific recommendations.

*Monitoring poverty.* It is essential to monitor poverty in order to be able to determine whether poverty is increasing or decreasing and where and for whom it is getting worse or better, and hence to be able to respond with appropriate policies and programs to address the changing situation. All the poverty assessments generally noted the need to monitor poverty on a regular basis. Slightly more than half included some analysis and made recommendations on how monitoring could be improved (compared to half in fiscal 1994). Common themes included the need for monitoring to be institutionalized and for the capacity of countries' statistical offices to be strengthened, the desirability of beneficiary assessments and participatory monitoring systems, and the need for updated surveys. The Zambia (IDA) assessment recommended establishing a regular poverty impact monitoring system using participatory methods, changing the way social statistics are collected to one unified system of household surveys, and improving existing coordination among data producers and users. The Cameroon (IDA) assessment recommended that a Household Budget Survey be carried out in 1995/96 as part of a systematic program for developing a poverty monitoring capacity. It also recommended that locally designed participatory poverty assessments be made part of the government's institutional approach to poverty reduction. In Vietnam, the Bank will continue to work with the government in collaboration with UNDP to improve the country's data collection and increase its poverty analysis capacity. A second Living Standards Measurement Survey is planned for 1996 — four years after the original baseline survey — to monitor changes in living standards during Vietnam's progression towards a market economy. Much more work remains, however, in ensuring that poverty monitoring is improved.

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# Poverty Assessment Summaries

## Argentina

### Poverty profile

The first World Bank poverty report on Argentina, i.e. *Argentina's Poor: A Profile*, reviews progress on poverty reduction in recent years. The report focuses on the typology and profile of the poor. It is essentially urban-based and time-specific, covering events up to the end of 1993. About 85 percent of Argentina's 33 million population live in the urban areas, and a third or about 11 million reside in Metropolitan Buenos Aires (MBA).

The report finds that Argentina significantly reduced poverty in the early 1990s compared with the immediately preceding years as a result of a successful macroeconomic stabilization program. In 1993, the incidence of urban poverty was estimated to be about 20 percent in the nation as a whole. In MBA, the 1993 estimated poverty rate was 17.6 percent or about half its 1990 level. The continued reduction in poverty incidence in the first three years of the 1990s provides a dramatic contrast to the 1989 crisis when almost 50 percent of the MBA population reported incomes below the poverty line. Not only was poverty in MBA greatly reduced in the 1990s but the poor as a group also did not experience such extreme poverty as in the past. By 1993, the poverty gap index decreased to less than half of its 1990 level, and the poverty severity index fell to two-fifths of its 1990 level.

### Social indicators

The long-term improvement in the living conditions of the Argentines can be gleaned from the major indicators of basic human needs as measured by the *Necesidades Basicas Insatisfechas* (NBI). Between 1980 and 1991, households identified with unmet basic needs represented by an aggregate NBI indicator (which measures adequacy of dwelling space, hous-

ing material, sanitary conditions, and the school attendance of children six to twelve years old) went down by 3.8 percentage points, from 18.3 to 14.5 percent. Also, Argentina's social indicators improved steadily during the decade of the 1980s as in most Latin American countries. The demographic and epidemiological profiles of Argentina resemble those of developed countries with high life expectancy and low fertility rates. The infant mortality rate declined continuously from 33.2 in 1980 to 21.5 in 1992, although rates reaching 50 infants per thousand were observed in isolated cases in some northern provinces. Traditional measures indicated that the educational attainment of the Argentine population in the last decade has steadily increased. Nevertheless, there are signs that the quality of education may have deteriorated in some areas and that students/graduates may lack marketable skills in a more demanding labor market.

### Poverty groups

The report presents a snapshot of the poor in MBA based on income: the indigent, the stagnant poor, and vulnerable poor. The *indigent* population (defined as those lacking the income required to purchase the minimum food basket) was about 3.4 percent of the total MBA population in 1993. With the recent improvement in the general poverty situation, policymakers have begun to focus more attention on those with incomes near the poverty line. This group (defined in the report as those falling within a band of 0.75 and 1.25 times the poverty line or *franja de pobreza*) is classified as the *vulnerable group*. In 1993, about 14 percent of the MBA population (or 1.5 million) were in the vulnerable group, of whom a little more than half (7.3 percent) were below the poverty line. This group is getting more official attention as economic restructuring has resulted in redundancies

and changing labor skill requirements. The *stagnant poor* (those whose income is insufficient to purchase the minimum food basket *and* non-food consumption goods) accounted for about 6.9 percent of the 1993 population. This group is above the indigent line but below the lower end of a defined poverty band. The limited employability of this group makes their poverty status more permanent than that of the vulnerable group but less critical than the indigent.

The indigent in 1993 belonged to households characterized by the largest average family size (5.4), the youngest demographic profile, and the highest dependency ratio. The vulnerable group tended to share common household characteristics with the population below the poverty line rather than with the non-poor group. This is especially true with regard to family size, the educational level of household head, and the skill levels of household members. Where the vulnerable group was markedly different from the poor group was in its lower rate of unemployment and its tendency to be employees rather than being self-employed. The vulnerable group had a closer affinity with the non-poor groups in these labor market characteristics.

Between 1990 and 1993, the vulnerable group exhibited the most significant reduction in the time spent in their current jobs. Also, those who were above the poverty line among the vulnerable group showed the highest average unemployment spells in 1993. A marked increase was also noted in the unemployment of people in their mid-forties whose skills may now be outdated relative to Argentina's labor market requirements. These observations to some extent reflect the effects on the labor market of Argentina's economic restructuring in recent years. The need for policy to focus on the employment and income situation of the vulnerable group becomes more significant when one considers the fact that this group contained twice the number of the stagnant poor and four times more than the indigent in 1993.

### Location of the poor

The incidence of poverty varied considerably by region, with the highest rates (averaging 40 percent) being registered in the northeast and northwestern provinces. The rate of decline of poverty incidence between 1990 and 1992 has been much swifter in MBA than in the more remote provinces. While all provincial cities have experienced a fall in poverty between 1990 and 1992, the speed of decline has been slowest in the Northwest and Northeast.

Data on rural poverty continues to be a major

weakness of poverty analysis in Argentina. A number of existing studies of the rural population are not comparable over time, but they provide interesting information based mostly on case studies, key informants, and limited surveys. A recent limited survey on the rural poor commissioned by the Poverty Committee of the Ministry of Economy revealed that about 60 percent of the households surveyed have a migrant in the urban areas. As male workers migrate out of the provinces, farming becomes more difficult for those left behind, and thus poverty notably affects the elderly, women, and children in the rural areas. Families usually depend on income remittances from workers in urban areas. It was also noted that educational attainment among the rural poor is low; for example, close to 70 percent of the rural poor surveyed have had no schooling whatsoever.

### Income distribution

Income distribution in Argentina (as depicted by MBA household income) worsened markedly during the recession cycle of the 1980s. By 1993, however, the share of income destined for the lowest quintile has recovered much of the purchasing power lost between 1980 and 1989. In addition, large gains were recorded by those in the middle-income category. Nevertheless, while poverty rates dropped markedly between 1990 and 1993, income distribution has been rather stable. The income share of the lowest quintile was relatively unchanged between 1990 and 1993. This is partly explained by high unemployment and underemployment rates, the brunt of which was borne by this group, as well as by the lagged recovery of their wage (relative to the top quintile) over the period.

### Education and poverty

The importance of the educational level attained in reducing the probability of being poor was observed in the results of a probit model exercise using household data for 1991 and 1993. Individuals from a family with a household head who possessed a higher education were the least likely to be poor, other things being equal. However, the marginal improvement in poverty incidence is greatest for those individuals whose household heads completed secondary school.

Universal access to primary education and partly subsidized secondary and higher education in Argentina does not seem to ensure that the poor gain

from the formal education system. Children from poor families enter primary school at a later age and suffer from high drop-out rates. The poor also tend to receive an education of lower quality than that received by the non-poor. Differences in quality depend to a large extent on the school's geographic location. Poor preparation at the primary level and lower tuition subsidies reduce the chances of students from poor families finishing secondary school. This in turn restricts their ability to be gainfully employed. Hence, while equality of access to educational opportunities theoretically exists in Argentina, the quality and structural attributes of the current education system do not seem to counterbalance the limited opportunities available to children from poor households. Given these circumstances, an intergenerational poverty cycle may be difficult to break.

### **Public social expenditure**

An analysis of the distribution of the benefits of total public social expenditures reveals that traditional social sector expenditures tend to be progressive while social insurance expenditures are clearly regressive. Although the progressivity in the per capita allocation of social sector spending is a positive finding, the poor quality of some services limits the impact of social programs even if considerable fiscal resources have been allocated to them. The lack of efficient targeting mechanisms for most programs also casts doubt on their actual impact on the poor.

### **Poverty strategy**

The achievement of economic stability and growth in the early 1990s has been a key factor in the recent notable increase in the incomes of the majority of the Argentine population. The government views as equally important the creation of appropriate employment opportunities and investment in human resources. In general, a dual track poverty alleviation strategy, namely increasing income opportunities through sustained economic growth and boosting investment in human resources, is well-articulated in Argentina. The challenge is to implement these strategies with affordable instruments and to

target them to appropriate groups in society. With the Bank's assistance, the government is now developing targeting approaches for social programs and the necessary capacity for monitoring and evaluating programs and projects.

The report proposes areas where further work should be undertaken to increase our knowledge of poverty. Prominent among these are: (a) an improvement in the information base for poverty analysis including enhancing the scope and timeliness of provincial household income and expenditure data; (b) analysis of regional poverty pockets including generating appropriate information on rural poverty; (c) a study linking education, employment, and poverty; and (d) an examination of social service delivery at the provincial level.

### **Statistical system**

Part of having an effective social policy is a continuous awareness of the situation of the poor and vulnerable groups in the society. The report highlighted the importance of collecting reliable and up-to-date information on poverty and on factors affecting the poor's situation in all parts of Argentina. The government also emphasized that Argentina's existing household income survey was primarily designed to estimate the unemployment rate; the statistical significance of this variable is higher than any other data in the survey. Systematic poverty monitoring would thus require making improvements in the following areas: (a) the scope and timeliness of household survey information in all provinces; (b) a reduction in household income underreporting and non-response rate; (c) the inclusion of rural areas in the household surveys; (d) systematic updating and increases in geographical coverage in household expenditure surveys to allow the estimation of basic consumption baskets for both urban and rural areas and by province; (e) re-examination of the scope of the aggregate NBI indicator to describe the situation of the structural poor; (f) systematic and timely generation of provincial and municipal social expenditure data by program/project including their target beneficiaries; and (g) periodic studies/surveys of the utilization of social programs by intended beneficiaries using, where appropriate, participatory methodologies.

## Brazil

### Poverty profile

The level of poverty in Brazil is well above the norm for a middle-income country. Within Brazil, there are wide disparities in the extent of poverty. More than half of all poor Brazilians live in the Northeast. In spite of urbanization, rural and urban areas contribute equally to national poverty. Poverty disproportionately affects the young. The participation of children in the labor force in Brazil is at least twice as high as in any other country in Latin America. In the North and Northeast regions, about a quarter of children under the age of five suffer from chronic malnutrition. Poverty alleviation programs should focus more on children than they do now.

Poor rural households are concentrated in the Northeast. The household head is illiterate (frequently even if he attended school) and works in agriculture. About half are smallholders or sharecroppers. The rest are employees or temporary workers. Poor households are large—they have nearly twice as many children as the better-off. Access to utilities is rare.

Poor urban households are evenly dispersed between large cities and small towns; 40 percent live in the Northeast. They have more young children than wealthier households and spouses are not likely to participate in the labor market. The household head tends to be young, does not have a labor card, and most commonly works in services. Many are self-employed. A quarter of these household heads are illiterate; about half attended school for four years or less. These households have significantly less access to water and sanitation services than do better-off urban households.

### Incentive and regulatory framework

Economic growth reduced poverty in the 1970s because formal employment expanded and wages rose. However, in the 1980s, recession hit the private sector, and the government was the engine of growth in the “boom” years. The impact on the poor is reflected in the growing informality of the labor force and negligible income growth. Macroeconomic instability lowered average income for the poor and hurt the poorest the most. Although income declined over the 1980s for all income groups, it fell most for those at the bottom—in contrast with the 1970s when those at the bottom and the top shared equally in the gains from growth.

Price stability must be sustained in order to resume progress in poverty reduction. The poor stand to gain from lower inflation through lower inflation taxes and transaction costs and, indirectly, through high growth and wages associated with a stable economy. Second, one strength of the economy is that there is considerable labor market flexibility and job generation. Thus, there is no compelling rationale for introducing public employment generation programs in most areas of Brazil to reduce poverty. There would be much greater payoff from reducing informal in favor of formal sector employment, for example, by reducing the high level of payroll taxation. The removal of barriers to entry and of incentives to evade taxes and regulation would also begin to incorporate informal activities into the formal sector. The combined effect of these changes would be to raise the real wages of unskilled labor—the main asset of the poor. Third, few of the poor are formal workers. Policies geared explicitly to workers currently in the formal sector—an increase in the minimum wage, for example—are unlikely to benefit the poor.

Although agriculture has performed well in Brazil, there has not been a commensurate reduction in rural poverty. The major reason is that the benefits of agricultural programs in Brazil were captured in the form of high prices for land, which is very unequally distributed. Recently the government’s strategy for rural development has changed. It has reduced taxation on agriculture, and states play a greater role in determining their development strategies. In addition, the government is encouraging small-scale activities selected by beneficiaries. These changes seem likely to improve the welfare of the rural poor and to lead to more pro-poor rural development.

### Public expenditures

Brazil spends large sums of money on social programs—\$90 billion, about a fifth of GDP, in 1990. However, this has not translated into improved social indicators or poverty alleviation. In part, this is because the distribution of the benefits of public social spending in Brazil is pro-rich. The bottom quintile receives only 13 percent of total benefits, compared to 24 percent for the top quintile. The implication is that simply increasing social spending will do little to alleviate poverty. Rather, the priority is to restructure spending across programs and improve the administration and increase the efficiency

of social spending. For example, the share of spending for primary education and nutrition programs for young children should be increased. The data show that many public social institutions—including schools—only partially reach the poor. Other delivery mechanisms will have to be sought—communities and community health workers, for example—and programs should be designed to promote more use of basic social services by the poor.

### Safety nets

Nutrition assistance does not adequately reach the most needy population—young children and the residents of the Northeast. The government could and should do more to address the problems of malnutrition, particularly among young children in the Northeast and Northern regions. The poor do not capture much of the benefits from social security, which is not really designed to reach them. However, it does have a negative effect on them. Recently the government has cut health spending in order to finance social insurance benefits, shifting resources from a progressive to the least progressive component of social expenditures. The distortionary employment effects from high payroll taxes—which account for virtually all contributions—are adverse and significant and hit the poor the hardest.

### Poverty strategy

Two instruments that would address the needs of both urban and rural poor households are: targeting interventions to the Northeast and expanding child care and preschool facilities in poor neighborhoods. Broad geographical targeting should be coupled with complementary targeting criteria (for example, nutritional status) to ensure that benefits reach the poor. The latter would facilitate labor force participation by women and could provide a mechanism for delivering services to young children.

Rural households who can only find seasonal work could benefit from employment generation programs in the off-season. Increasing access to land would also benefit rural households. In the absence of land, migration will probably remain the most important way in which they increase their income. Fortunately, the labor market has easily absorbed these migrants. If rural children stayed in school longer, they would be less likely to remain poor. Poor rural households would also benefit from well-targeted, low-cost expansion of access to basic utilities.

Fewer adults, particularly women, in poor urban

households work than in better off households. Poor households would benefit most from measures to promote employment in the formal sector, especially the reduction of Brazil's high payroll taxes (in addition to the childcare facilities mentioned above). Programs to expand access to water and sanitation services in urban areas could be targeted to the poor.

On the other hand, some policies would not meet the needs of the urban poor. Few of them have a labor card, so increases in the minimum wage and unemployment insurance would probably not be effective tools. General subsidies, even on products or services such as urban transport that represent a large budget share for the poor, would have high leakages to wealthier consumers.

Although rural development policies have improved, they are not as pro-poor as they could be because the rural poor are still at a disadvantage in land markets. Reform of land markets in Brazil would tend to increase the amount of land used by smaller, more efficient farmers. This change would benefit smallholders (who could increase their holdings), as well as agriculture workers. The priorities include reforming the Land Statute and labor legislation and closing income tax loopholes with a view to removing both disincentives to allowing temporary access to land and incentives for land concentration.

### Statistical system

Currently Brazil does not officially monitor trends in poverty, but this should clearly be done systematically as part of a poverty alleviation strategy. It is possible to monitor poverty using the current statistical data in Brazil. Nevertheless, there are some additions that could increase the government's ability to design programs and policies to alleviate poverty and to evaluate their effectiveness. First, more data are needed on household expenditures, which for many reasons are a better yardstick than income for measuring welfare. Second, more data are needed on the utilization of public services, particularly health services. Third, more analysis is needed of the factors that contribute to Brazil's relatively poor social indicators, especially for the poor. Fourth, the quality of the statistical data for rural households should be improved. Focusing on expenditures is a first step, but more information is also needed on production patterns and asset ownership. An initiative has been started to pilot test a new integrated household survey following the Living Standards Measurement model, which would help to fill the gaps mentioned above.



## Cameroon

### Poverty profile

Despite high rates of economic growth during the 1965-85 period, the 1983/84 Household Budget Survey (HBS) found a high degree of poverty in rural areas and marked inequality in income distribution. In 1983/84, poor and very poor households accounted for only 20 percent and 8 percent, respectively of total consumption and were concentrated in rural areas. Per capita food consumption (in CFA terms) of poor households was one-quarter (and, for the poorest households, one-fifth) that of non-poor households. Disparities were even greater for total consumption. The poverty status of households is significantly affected by their age and gender structure, size, education level, and location. Regional disparities in per capita consumption were also marked. Geographic location is, therefore, a strong indicator of poverty in Cameroon.

Since the mid-1980s, Cameroon has experienced rapid impoverishment, with a very sharp decline in per capita consumption and a marked increase in the incidence of urban poverty. While fewer than 1 percent of households in Yaoundé and Douala fell below the poverty line in 1983, more than 20 percent of households in Yaoundé and 30 percent in Douala did so in 1993. In Yaoundé, the level of per capita consumption is about 10 percent lower than it was in 1964. Rural areas have not been spared Cameroon's recent economic collapse, and rural poverty is estimated to have increased considerably in recent years.

### Incentive and regulatory framework

Since 1985, there has been a sharp reversal in economic performance, due to a variety of external and internal factors. GDP *per capita* declined by 6.3 percent per year from 1985 to 1993. Cumulatively, Cameroon has experienced a drop in average per capita income of 50 percent in eight years. Early in 1994, the country embarked—along with the other countries of the CFA franc zone—on a new economic course that has the potential to reverse the economic downturn. It is still too early to assess the impact of, and response to, the devaluation. Preliminary estimates suggest that agricultural exports rose by 11 percent in 1994. Inflation, estimated at 48 percent in 1994, and the recent export taxes on coffee (25 percent), cocoa, rubber, and cotton (15 percent), tea and bananas, can be expected to dilute its positive impact.

Increasing land scarcity, changes in patterns of land

ownership and use, and the coexistence of multiple legal and customary frameworks for addressing land issues present a critical long-term challenge for Cameroon. There is a risk of growing landlessness among the poor and, with it, an incapacity to sustain livelihoods. Land policies need to be grounded in Cameroon's very diversity, and build on an explicit recognition of functioning customary arrangements. This can be achieved if local institutions are identified as providing the framework for land administration at the local level.

Institutional factors affecting poverty reduction include unclear mandates and duplication, the lack of transparency and accountability, weak human and financial resource management, and cuts and imbalances in budget allocations. The country's rich resource endowment leads many to believe that public mismanagement, not lack of resources, is the core development problem that requires fundamental change.

### Public expenditures

There are increasing demands on the public budget, with a continued squeezing out of non-salary expenditures to cover salary costs. Actual non-wage expenditures in 1992/93 represented only 5 percent of total expenditures for education and 13 percent for agriculture and health. Data indicate a strong degree of centralization and marked regional disparities in allocations. The budgets for 1993/94 and 1994/95 suggest that allocations continue to favor sectors that *prima facie* are not focused on poverty reduction.

### Safety nets

Institutions in charge of social safety nets have become ineffective at providing minimum social security to the poor and the vulnerable, principally as a result of budget shortages. Individuals and institutions have adopted various mechanisms for coping with the impact of increasing poverty including: (a) diversifying income sources and mobilizing family labor, with a greater role for women's informal sector income; (b) having recourse to self-medication and traditional medicine; (c) making children, particularly girls, drop out of school; and (d) savings in the informal sector (*njangi or tontines*).

### Poverty strategy

Future poverty reduction can only take place in a

context of sustained pro-poor growth. The strategy focuses on sustaining and strengthening the economic reform effort initiated with the devaluation of the CFA franc in January 1994, including: (i) labor-intensive growth policies favoring the poor and (ii) restructuring public finance, especially public spending, to emphasize critical human resource and infrastructure expenditures that will benefit the poor. Increasing food security is at the forefront, through the promotion of small-scale food production, processing, and marketing sectors, alongside associated investment in infrastructure, marketing, and appropriate technology. More needs to be done to integrate women into the decisionmaking process, and communities need to play a greater decisionmaking role in their own affairs. To address systemic poverty issues, the strategy outlines some elements of a long-term agenda addressing environmental, land tenure re-

form, and institutional performance issues as a foundation for sustainable development.

### **Statistical system**

Cameroon has changed dramatically in recent years. Yet information on trends is very poor, especially on rural income, expenditure, and welfare. A poverty monitoring capacity needs to be developed. The Household Budget Survey (ECAM) should be carried out in 1995/96 to ensure more accurate measurement of consumption trends and household responses. Participatory poverty assessments could become a core instrument of the government's partnership with local NGOs and interest groups. A report and workshop on poverty trends in the country could be organized annually to synthesize the results of the surveys and to discuss findings of relevance to policymakers in monitoring trends and in defining poverty reduction measures.

## Colombia

### Poverty profile

During the past few decades, the living conditions of the average Colombian have improved substantially. Poverty has declined steadily from an estimated 50 percent of the population in 1964 to 19 percent in 1992. Since the early 1950s, life expectancy at birth—now at 69 years—has risen by almost two decades, while infant mortality rates—now 30 per 1,000 live births—have been slashed by a factor of four. Indeed, Colombia has better social indicators than the average for countries at its level of development.

While Colombia's overall poverty picture has generally improved, striking disparities in income, wealth, and living standards remain among regions and socioeconomic groups. The challenge of reducing poverty remains significant. It is estimated that in 1992 more than 6 million Colombians had incomes below a commonly accepted subsistence level, with three out of four of these poor people living in rural areas. Furthermore, the rural poor are poorer than the urban poor. On average, their incomes are 43.3 percent below the subsistence level. The same deficit is only 31.3 percent for the urban poor.

Significantly, child malnutrition and infant mortality remain high despite the fact that continuous progress has been made for several years. Regional differences in most indicators suggest that the efforts required to surmount gaps in income and social well-being are enormous for some areas. Infant mortality rates in Chocó, the department with the worst social indicators, are similar to the national average 20 years ago. The incidence of child malnutrition is 50 percent higher in households in which the mother has no education than in those in which she has primary education. Overall, the sustained improvement in the main social indicators of the last decades should not divert attention from those Colombians still experiencing conditions that the country, as a whole, left behind 10 or 20 years ago. The experience of other countries in Latin America suggests that faster rates of improvement in living conditions can be achieved.

### Incentive and regulatory framework

Colombia's excellent record in macroeconomic management has provided a solid basis for continuous progress in reducing poverty. Colombia's competent

management, based on the government's continuous commitment to correcting internal and external imbalances, is best evidenced by its enviable growth record during the 1980s. During the "lost decade" in Latin America, Colombia maintained an average annual growth rate of 3.5 percent while adjusting to a worldwide recession and to coffee and oil price swings. Economic growth was positive in every year of the decade. Although Colombia's economic growth in the 1980s was not as rapid as in the previous decade, stability was maintained and a recession was avoided, which provided the basis for continued success in reducing both poverty and inequality.

The 1991–92 crisis in the agriculture sector—related to both internal and external shocks—led to significant reductions in rural incomes and a corresponding increase in poverty indicators. Based on the results presented in the poverty assessment report, one concludes that—in terms of reducing poverty—the efforts to respond to the crisis in the agriculture sector were partly misguided. Because the government lacked the instruments to address temporary shocks in the rural sector properly, it relied on policy options that, in retrospect, were inadequate. Most of the measures were in effect a temporary regression of trade liberalization and domestic agriculture pricing policies. As was shown, the trade liberalization program is estimated to have had a positive effect on rural incomes and domestic support mechanisms to have been an inefficient instrument for protecting the rural poor. In terms of credit policies, access to rather than the price of credit is the main constraint to lending in rural areas. For the purposes of reducing poverty, therefore, the government moved in the wrong direction. Unfortunately, the authorities were unable to resist the pressure of interest groups that used the deterioration of rural incomes to pursue their own objectives. By doing so, the government not only sent the wrong signals but jeopardized the success of its own structural reform efforts. Taking advantage of the recent increase in international commodity prices and the good performance of the agriculture sector during 1994–95 (3–4 percent real growth), the government should move away from crisis management and should define a medium-term strategy in the sector and take corrective measures to be better prepared for any future shocks. In this context, the government should be developing two important instruments: putting in

place emergency rural employment programs and restructuring rural government expenditures. Government efforts in this direction would probably have a considerable payoff, as both of these instruments are suitable for targeting and should prove to be cost-effective in helping the poor.

In the medium term, the oil discoveries in Cusiana and Cupiagua provide an excellent opportunity to increase growth and to raise more resources that can be spent on much-needed infrastructure and social services that will directly benefit the poor. Good macroeconomic policy is essential if Colombia is to realize these potential benefits. The appropriate macroeconomic policy framework should be based on a prudent fiscal policy that ensures continuous gains in the fight against inflation and investment in projects with high economic and social returns.

### Public expenditures

During the past several decades, Colombia has made important gains in extending educational opportunities and increasing the average schooling of the population. This was made possible by steady and substantial increases in national spending on education up to the mid-1980s, which were not sustained in the latter part of the decade. There remain considerable inequities in the provision of education both among income groups and between urban and rural areas. The overall quality and efficiency of public education at both the primary and secondary levels are extremely poor. Students from the lowest income quintiles are most seriously affected. Selected national government programs, particularly the *Escuela Nueva*, have made significant contributions to extending education to the poor. However, Colombia will need to reorient its policies and make major new investments in primary and secondary education and preschool programs if the poor are to gain access to quality public education. The government will also have to increase recurrent expenditures that cover basic operating costs of school systems if performance is to improve.

Overall, public spending on education is distributed in a mildly progressive fashion. As Colombia moves toward universal primary schooling, low-income households are receiving a larger share of expenditures than richer ones. Likewise, the distribution of education spending is now more progressive than two decades ago. As coverage increases, public education has reached more disadvantaged groups, though not always the poorest. In 1992, the poorest 20 percent of households accounted for 40 percent

of enrollments in public primary schools and received 39.4 percent of public expenditures at that level. This dynamic is particularly relevant to secondary education, which is bound to expand in the next decade. Today, the second and third quintiles of the distribution benefit the most from public expenditure at that level. If current expansion plans are successfully implemented, secondary education spending in 10 years will be as progressive as spending in primary education is today.

In contrast, public spending on higher education is regressive. Households in the bottom 20 percent of the income distribution account for only 5.5 percent of enrollments and 5.1 percent of subsidies. Although this is a much larger share than the group received in 1974, the poor still do not benefit from public expenditures on higher education. If public actions are to reduce poverty effectively, the heavy subsidization of programs that reach only the wealthy households should be eliminated. The high levels of private spending on higher education indicate users' willingness to pay. Thus, an education strategy oriented towards reducing poverty will require increased cost recovery in higher education and the reallocation of government resources to the primary and secondary levels.

Colombia spends about 6 percent of its GDP on health services. This share is at the high end of the range for middle-income countries. Yet the profile by type of expenditure fits that of low-income countries (a high share of private spending on drugs, a modest share of public spending on direct services, and limited insurance coverage). Private expenditures (about 4 percent of GDP) account for the largest share of health spending. Public expenditures—excluding the social security system (SSS)—constitute 1 percent of GDP. Social security programs in health represent 1.4 percent of GDP. The public health system (PHS) is marred by limited coverage. Only 40 to 50 percent of health services are delivered by the PHS and the SSS. A significant number of Colombians are left without access to basic health care. In 1992, almost 20 percent of individuals in need of medical assistance did not attend a health center because it was too expensive or too far from their home. Among the poorest 10 percent of the population, this share was 36 percent. Differences exist between areas of the country, with rural areas experiencing the highest incidence of non-attendance.

Comparing the distribution of subsidies for the PHS and SSS in 1974 and in 1992 shows the Colombian health system's lack of emphasis on basic and preventive care. Both the PHS and the SSS allocate

more than half of total subsidies for hospitalization and surgery, which are the services least used by the poor. Compared with 1974, the PHS has somewhat corrected this orientation, now allocating a smaller share to those two services. The opposite trend is found for the SSS—the share of subsidies allocated to surgery and hospitalization has increased since 1974.

With most of Colombia's poor having to rely on the PHS for services, sufficient services of appropriate quality are not reaching this group. The PHS reaches only 35 percent of the population, compared with a target of about 60 percent. Overall, PHS expenditure is not sufficiently well-targeted toward the poor—the richest 40 percent of households receive almost one-third of the PHS's expenditures. In addition, the health services to which the poor do have access are characterized by low average quality and efficiency, high private costs, and management weaknesses.

The strategy of the Colombian government for providing energy, water, and sewerage to the poor has been based on the belief that, by maintaining low corresponding prices, poor households would have access to these basic services. However, the resulting massive subsidies have not been well-targeted. Therefore, the poor population have not benefited from them. The main factors explaining this outcome are: (i) regressive service coverage; (ii) poorly designed tariff structures; and (iii) an ineffective stratification scheme. The strategy has resulted in sector-wide financial crisis and inefficient resource allocation. To ensure that future efforts to provide basic services to the poor are successful, sector-wide reforms should be implemented. For energy, water, and sewerage, stratification should be simplified or eliminated to allow better targeting of subsidies to the poor. Alternative modes of provision (such as isolated generating units for energy or tanker trucks for water) should be used for residents in inaccessible or very poor areas, whether peripheral settlements near urban centers or remote rural areas. Housing policy should meet the needs of residents in inaccessible nonserviced areas without creating incentives for others to settle in even more difficult terrain. This framework should provide shelter to the poor and, more important, should increase their access to basic services. The direct subsidy approach the government has recently adopted for home purchase and improvement, land titling, and accessing sanitation services is a step in the right direction. The government should consider directing more of the program's resources to maintaining and upgrad-

ing existing houses and neighborhoods properly rather than financing new units.

### **Social safety net**

Colombia does not have an integrated social safety net for the poor. It does have three broad programs of social assistance. The Institute of Family Welfare (ICBF) manages 60,000 family welfare centers that operate in periurban areas, providing daycare and nutrition assistance for preschool children. Various programs of the Office of the President, including a social fund, a program for youth, women, and poor families, and specialized human rights and development programs in Medellín also provide innovative approaches to social assistance. A larger program, the social security system, lacks any poverty focus, though it may be changed to provide basic assistance to Colombia's disabled and elderly. These programs, along with new initiatives such as a food stamp program or a rural employment program, could become parts of an integrated approach to social protection. Before committing further resources to existing programs, their effectiveness needs to be assessed and strengthened. To improve social assistance, Colombia must introduce fresh approaches that do not expand the bureaucracy but transfer real resources to those families—especially children—in greatest need. It has proven to be difficult to reach the rural poor with assistance programs. Reaching them in the future will be a major challenge.

### **Poverty strategy**

The poverty reduction strategy needs to focus on three priority areas: (i) rural development, (ii) social and infrastructural services, and (iii) decentralization, capacity building, and institutional strengthening. It will also be important to improve the monitoring and evaluation of all poverty reduction programs. With the expected oil revenues from Cusiana and Cupiagua, the time is ripe for Colombia to embark on a renewed effort to reduce poverty.

Consistent with a more comprehensive and coordinated rural development strategy, the government needs to provide adequate incentives for the agriculture sector, to invest in economically attractive rural infrastructure projects and services to support production, and to eliminate the urban bias in the delivery of social services by providing high-quality basic rural education and health care.

Resources should be channeled away from existing subsidies for energy, housing, and agricultural price support systems toward basic education, health care, rural infrastructure, and social assistance to the most vulnerable.

With decentralization, poverty reduction and institutional development have become inseparable. Two critical elements in the effort to improve the provision of services will be holding local officials accountable for the effectiveness of services and strengthening user demand.

### **Statistical system**

A clear limitation in assessing the effectiveness of expenditures and programs has been the lack of pre-established monitoring and evaluation systems to measure the impact and cost effectiveness of poverty reduction programs. The development of such information systems is essential, and evaluation modules should be incorporated in all pilot projects of social assistance programs.

## Comoros

GDP per capita in the Comoros remained stagnant in the 1980s and contracted by 1 percent in the 1990s. This is mainly due to two factors — the high population growth rate (2.7 percent) and the low rate of economic growth (around 1 percent). GNP per capita was estimated to be about US\$584 in 1992; however, after the January 1994 devaluation, this figure was revised to US\$510 per capita for 1994. Social indicators are a little more favorable than those of other developing countries in the same income group. Fifty percent of the adult population is illiterate, and infant mortality is estimated at 90 per thousand. Life expectancy is estimated to be 56 years.

Although the Comoros is a poor country, extreme manifestations of poverty such as famine or homelessness are rare. The great majority of people have access to adequate food, clothing, shelter, and, to some extent, water. Data from the 1991 census support the premise that poverty is not widespread and not very severe. A household consumption survey is currently being undertaken, and preliminary results should be available in 1996

### Poverty profile

Due to limited data, it was not possible to draw a conclusive poverty line. However, the 1991 census provided some useful information in identifying population groups that could be living in poverty. Comorians live in tightly knotted rural villages and small towns. The traditional social safety net works well within a village but not across villages. Villages tend to protect their poorest members. This is due to the fact that communities are moral and give money to their poorest members, but transfers are not made between villages. Thus, the overall level of poverty can differ sharply from one village to another.

**Grande Comore** (223,000 inhabitants) is the richest island with income coming from the civil service, the formal and informal sectors, agriculture, and a high level of transfers from migrant residents in France. **Anjouan** (188,000 inhabitants) is the poorest island, where land is becoming increasingly scarce due to high population density and high fertility rates. Remittances from abroad are limited. About 20 percent of households are landless sharecroppers or squatters—these are likely to form the bulk of the truly needy in the Comoros. Education rates are noticeably lower in Anjouan than on the other two is-

lands. Local surveys have shown high malnutrition rates among children. Environmental problems are particularly severe with the erosion of watershed. **Moheli** (24,000 inhabitants) has a low population density and has become the target of significant migration from other islands. Its remaining natural forest is quickly being depleted. Infrastructure is much less developed than elsewhere in the country.

Limited employment opportunities due to slow economic growth contribute to a large extent to poverty in the Comoros. The relatively high wages (in foreign currency terms) and low productivity levels have also contributed to increased poverty as the Comoros is not competitive in international markets. These high wages have constrained the growth of formal sector enterprises, with the number of formal sector employees growing by about 4 percent a year. This figure is above the population growth rate but not nearly enough to absorb a growing number of school dropouts.

### Incentive and regulatory framework

Growth is to be export led, with increases in per capita income and a more equitable income distribution. During the current reform program, growth will be led by agriculture (for domestic and export markets) and tourism. These sectors were favored by the 1994 devaluation. The Comoros' long-term strategy is to increase growth by increasing productivity in agriculture and developing the small-scale and informal sector, while expanding into new areas such as tourism, export processing, and financial and other business services. This growth strategy would generate employment at all levels of the economy, and, as productivity expands, it should cause real incomes to rise. Growth in agriculture, including productivity growth, would benefit the small-scale farmers who constitute the bulk of the poor and near poor.

Agriculture accounts for about 40 percent of GDP, and, aside from a few large plantation owners it takes place on a small scale. The agricultural economy is heavily monetized. This has allowed small-scale farmers to benefit from the recent devaluation directly but at the same time has made them vulnerable to price changes for imported items such as rice. The major environmental problems of the Comoros are closely linked to poverty.

The falling productivity of agricultural land is due

to the high population growth rate and slow acceptance of improved agricultural technologies, which itself is related to the low education level of most of the adult population. The National Environmental Action Plan was adopted and is expected to have a positive effect on poverty and the environment by improving land tenure.

### **Public expenditures**

Public expenditure programs for health and education have been prepared for 1995-97. A safety net was put in place to safeguard social expenditures in health and education in real per-capita terms while at the same time efforts are being made to increase the efficiency of social sector spending. For example, in order to reduce bureaucratic bottlenecks within the Ministry of Health, bank accounts were opened for each health facility to ensure that agreed quarterly budgetary transfers were put directly into the individual health facilities' bank accounts. This was done in parallel with the implementation of health sector reforms enabling each health facility to function in an autonomous manner in its financial as well as managerial aspects, thereby putting in place cost recovery mechanisms. However, to date, actual transfers have yet to be made to the health facilities' individual bank accounts.

### **Social safety net**

A strong traditional safety net consisting of the extended family, supported in part by transfers from abroad (estimated at US\$118 per capita per annum between 1989-93), plays an important role in the Comorian society.

In order to build on the tradition of dynamic tightly knit communities, the Comorian government put in place a Community Development Support Fund (*Fonds*

*d'Appui au Développement Communautaire*), which has successfully implemented community-based projects on the three islands.

Given the matrilineal inheritance and responsibility structure, women are not thought to be an especially vulnerable group.

### **Poverty strategy**

The poverty reduction strategy emphasizes overall economic growth with equity, promotion of job creation activities, improved services to the poor—especially primary education and health care—and a family planning program. It also requires that resources be distributed better over the various facilities on the three islands. Social services will be improved by rationalizing the personnel structure of the Ministries of Health and Education in favor of more qualified staff. For example, a new organizational structure was put in place in the Ministry of Health and staff are in the process of being re-deployed in accordance with the new program. In addition, the government will have to show a stronger commitment to family planning activities. Finally, the government should build on the country's comparative advantage of tightly knit villages and dynamic villages and support self-managed community-based initiatives.

### **Statistical system**

Statistics in the Comoros are of poor quality and are collected at irregular intervals due to a lack of funding. A comprehensive household consumption and expenditure survey is planned in 1996. This will give a better idea of where pockets of poverty may exist and provide a framework for monitoring the poverty situation, including the impact that economic reforms are having on the living standards of the poor.



## *Dominican Republic*

### **Poverty profile**

About one in five Dominicans was estimated to live in poverty and almost one in ten in extreme poverty in 1992. Poverty in the Dominican Republic, especially extreme poverty, is more serious in rural areas. In 1992, rural poverty was almost three times urban poverty, and rural extreme poverty almost twice the level in urban areas. Poverty and extreme poverty tend to be deeper and more severe in rural areas, as measured by the poverty gap index and the FGT P<sup>2</sup> index.

The evolution of poverty over the 1986-92 period mirrored the country's economic performance. In 1986, 18.3 percent of Dominicans lived in poverty, with 10.5 percent in extreme poverty. Poverty and extreme poverty worsened as economic growth slowed and inflation took off. Poverty and extreme poverty increased by around one third between 1986 and 1989. As inflation abated and growth recovered, poverty in 1993 fell to levels close to those in 1986. The only exception was rural poverty, which showed a rising trend over the period, increasing from 24.5 percent in 1986 to 29.8 percent in 1992.

Since on average, the poor have more children per family than the rich, the number of children (under 12) living in poverty and extreme poverty is higher than that of the total population. In 1992, more than one in four children lived in poverty and more than one in ten lived in extreme poverty. Chronic malnutrition (measured as growth stunting) affected almost one in five Dominican preschool children and was more severe in rural areas. Almost 6 percent of children suffered from severe malnutrition. Chronic caloric deficiency affected 9 percent of mothers. Poverty and extreme poverty are more likely to occur in female-headed households, especially in rural areas. Over the period 1986-92, however, female-headed households seem to have made more progress than male-headed ones in reducing poverty and extreme poverty. A possible explanation for this may relate to the high participation rate of female labor in the dynamic free trade zone sector and, possibly, in tourism. Employment in the free trade zones increased from less than 1,000 in 1970 to 165,000 in 1993.

Inequality is relatively high in the Dominican Republic as reflected by a Gini coefficient of 0.49 in 1992. The richest 20 percent of the population received about 57 percent of total income in 1992, while the poorest 20 percent received only 4.4 percent. The

share of income received by the extreme rich and extreme poor increased during the 1986-92 period, but the share of the poor increased by a somewhat higher proportion. Middle-income groups seem to have been the losers. The Gini coefficient deteriorated markedly in 1989 but improved substantially in 1992.

### **Incentive and regulatory framework**

Two main economic policies have had very different effects on the welfare of the poor: (i) stabilization policies and (ii) trade policies. Stabilization appears to have improved the situation of the poor through the reduction in inflation (and increases in real wages), which was achieved during the implementation of the stabilization program initiated in 1990. The positive effect of lower inflation on the poor has apparently more than compensated for the negative effect of the fiscal austerity needed to achieve stabilization. High import tariffs and nontariff barriers to trade affect the poor by slowing growth and by increasing the prices of some protected products that are highly represented in the consumption basket of the poor. Growth and employment expansion have been much higher in the enclave-type export-oriented sectors of the economy (free trade zones and tourism) than in the highly protected import-substitution sectors. The poor pay a high price for protection in the agriculture sector and get little benefit from the subsidy on cooking gas, but pay a small share of the petroleum tax and benefited greatly from the liberalization of milk imports.

### **Public expenditures**

Public expenditures in the Dominican Republic are not high by LAC standards. Since 1980, total public expenditures have fluctuated between 14 and 21 percent of GDP. Public spending on education and health, on the other hand, is among the lowest in the Region. Total social spending has fallen somewhat since the early 1980s, but this has not been a dramatic reduction. More striking, however, is the shift in spending within the social sectors. Since the mid-1980s, there has been a marked shift towards urban social spending in sectors that have relatively little impact on the poor. This shift was the result of a strategy to stimulate growth by expanding public works, leading to a pronounced bias in the expenditure al-

location process for large and visible physical construction projects. Thus, spending on housing and water and sewerage has been favored at the expense of social sectors, which have high recurrent expenditure needs. Education and social assistance have been particularly affected, while health has retained its share of spending. In health, however, about 74 percent of spending goes to hospitals while preventive health services receive only 7 percent of the total.

Even within the favored sectors, public expenditures are highly regressive. In 1989, it was estimated that the poorest 50 percent of the population had been the beneficiaries of only 28 percent of public housing. The middle four deciles received 51 percent of public housing. Despite the heavy investment in water and sewerage (mainly in metropolitan Santo Domingo), about 50 percent of the total population do not have water in their homes. Cost recovery in the housing and water and sewerage sectors is negligible.

### Poverty strategy

The government has yet to develop a coherent poverty alleviation strategy. A number of elements would be needed in such a strategy: (i) sustained growth is essential—the country's economic strategy needs to be outward-oriented and private sector led; (ii) macroeconomic stability needs to be maintained, especially low inflation—controlling inflation is critical, not only for sustained growth, but also because high inflation had a devastating effect on the Dominican poor; (iii) high effective protection and trade distortions need to be redressed, not only as a means of encouraging outward orientation and increased competitiveness in the economy but also to minimize adverse effects on the poor; (iv) an ef-

fective system to monitor living conditions and poverty trends needs to be developed and implemented; (v) public spending on education and health needs to increase as a share of GDP, social programs and spending need to be redirected away from the favored urban sectors toward primary health and basic education (especially in rural areas), with budgetary reform being key to reduce the bias toward highly-visible construction investments, and cost recovery efforts need to be pursued for services benefiting middle- and high- income groups; (vi) even with improved allocations in the social sectors, progress in meeting the basic health and education needs of poor communities will be limited without an effective decentralization program; and (vii) effective targeted programs and safety net mechanisms benefiting poor female-headed households and malnourished children need to be developed and implemented.

### Statistical system

The Dominican Republic has not developed a system of data collection to measure poverty and the living conditions of the poor. This makes it difficult to obtain reliable estimates of poverty levels and trends. The analysis in the poverty assessment is based on three household surveys that were analyzed and adjusted by FED, a local private research foundation: (i) the Income-Consumption Survey conducted by Tufts University in 1986; (ii) the Social Expenditure Survey conducted by the Central Bank in 1989; and (iii) the Income-Expenditure Survey conducted by FED in 1992."Although the surveys were adjusted in accordance with Bank methodology in order to analyze the evolution of poverty from 1986 to 1992, the results are not fully comparable.

## Fiji

### Poverty profile

Fiji is a middle-income country with per capita income in excess of US\$2,000, endowed with extensive natural resources and relatively sparse population densities. Most social indicators—such as educational standards, health status, food and nutritional standards, and general sanitation and cleanliness—are relatively high. Visible poverty is not widespread in Fiji, and a well-functioning safety net system provides a cushion for poorer individuals and households.

The basic data on poverty come from the Household Income and Expenditure Survey (HIES) of 1977, which along with data on a minimum nutritious diet, was used to derive separate poverty lines for urban, rural, and settlement households. (The poverty assessment for Fiji is contained in the World Bank internal report “Fiji: Restoring Growth in a Changing Global Environment” of June 20, 1995.) In 1977, about 8.5 percent of Fijian households were estimated to fall below the poverty line, and these households were estimated to be, on average, 24 percent below the poverty line.

In May 1991, the government set up a poverty task force to establish the extent, nature, and determining factors of poverty in Fiji. The task force completed its report in November 1991. Unfortunately, no recent quantitative data on incomes and expenditures were available that could help determine the nature and extent of poverty in Fiji. In their absence, the task force pieced together a qualitative picture of poverty in Fiji. It identified three groups of poor people: (i) the urban poor; (ii) those living in settlements; and (iii) the Indo-Fijian landless cane-cutters. In urban areas, the poor were mostly to be found in squatter settlements in and around cities, in densely populated low-cost housing areas, and in some urban villages. The urban poor were often among the ranks of the unemployed, the self-employed (such as food-sellers, shoe-shiners, and prostitutes), those in casual employment, and those in low-paid regular employment (such as housegirls, gardeners, and garment factory workers). The second group consisted of a significant number of poor people who lived in settlements known as “Solomon Islander” settlements. A large number of descendants of Solomon Islanders who came to Fiji to work as plantation laborers live in these settlements. They are engaged largely in subsistence activities, and their

weekly cash incomes are low by comparison with other settlements. The third distinct group of poor people that was identified were the Indo-Fijian landless cane cutters. The main reason for their poverty was lack of access to land, or to regular employment—they were able to secure work only during the cane cutting season. The task force concluded that poverty in Fiji is both an urban and a rural problem and a problem that affects all races. The greatest amount of poverty is found in villages, but the most intense poverty is found in urban squatter settlements.

### Incentive and regulatory framework

Economic performance in Fiji during 1991-94 has been disappointing; during this period, real per capita output growth has averaged only 1 percent per annum. More recently, however, the short-term economic outlook has improved—sugar and tourism are doing well, inflation is down, and growth is higher than in the recent past. The critical challenges facing the Fijian economy include: (i) restoring economic growth sufficient to provide jobs to meet the steady expansion of the labor force and to improve the living standards for all Fijians, including the poor; (ii) diversifying the economy to reduce its vulnerability to volatile export markets and taking advantage of opportunities arising from the changing global environment; and (iii) creating a domestic environment conducive to growth that encourages investment in human and physical capital.

### Public expenditures

The basic social indicators for Fiji indicate that the population enjoys high and improving standards of well-being. Even as early as 1965, education and health standards in Fiji were relatively high; since then, they have improved considerably. Coverage of social services has improved and the access of the poor has increased. In a country such as Fiji, which has high levels of provision of basic social services, measuring the extent of poverty and the welfare of the poor using cash incomes alone would be misleading. The government’s strategy of focusing on the provision of services that are important for building human capital and of trying to increase the access to and improve the quality of these services is a sound and strong element of its poverty alleviation strategy.

## Safety net

There are three government programs that provide safety nets and income transfers—the Family Assistance Scheme (FAS); the Poverty Alleviation Fund; and the public rental housing program.

The FAS is the main program for poverty alleviation in Fiji. It was established in 1975 as a safety net for those in serious need. The needy are classified into six groups: the aged, the widowed, the chronically ill, deserted wives, the physically handicapped, and prisoners' dependents. The FAS has been well-administered, providing supplementary cash incomes to the very needy. Those eligible receive a monthly cash allowance ranging from F\$15 in rural areas to F\$80 in urban ones.

In response to widespread concerns about poverty, the 1992 Budget established a poverty alleviation fund to provide capital grants to the poor. The initial allocation of F\$7 million was to be disbursed through NGOs to approved projects. The program, however, was slow to take off and faced various administrative problems. In light of these, the government reviewed the program, and in the 1994 budget, it decided to abolish the fund's cumbersome administrative procedures and to integrate the funding of poverty alleviation with existing programs, such as the FAS, and with the basic health and education budgets.

The Government of Fiji has had the Public Rental Housing Program to provide subsidized rental housing to low income groups since 1964. Right from the beginning, however, the program ran into major operational and financial difficulties. An additional problem has been the failure of the program to target the rental subsidy to the truly needy. A survey in 1992 identified that only 35 percent of the subsidy was reaching the needy; the remaining 65 percent was going to households that were judged to be ca-

pable of paying the full rent for their housing. As early as 1990, the government recognized that the Public Rental Board's program was unsustainable and inequitable in nature. In 1991, it announced its intention to withdraw from the direct provision of low-cost rental housing. This withdrawal still needs to be implemented.

## Poverty strategy

Until recently, the government's main program of poverty alleviation was the FAS, or the "destitute allowance". Recently, the government has begun to articulate a broader strategy for improving the living standards of other low-income groups. A government policy statement in 1993 entitled *Opportunities for Growth* summarized its strategy for reducing poverty as:

- Providing income-earning opportunities
- Ensuring that the poor have the means to take advantage of job opportunities
- Providing a safety net for those who continue to experience severe deprivation.

The government's strategy is a sound one, and indeed, is essentially the same as that articulated in the 1990 World Development Report on poverty. All three elements are needed to make rapid and sustainable progress in reducing poverty in Fiji.

## Statistical system

A household income and expenditure survey was undertaken in 1990. However, the data are still being processed and no results have been released. In order to keep track of changes in the nature and extent of poverty for the design of appropriate policy, it is important to undertake such surveys on a regular basis (every five years) and ensure that the results are analyzed and disseminated in a timely manner.

## Ghana (update)

This summarizes the findings of the Ghana Extended Poverty Study. The objectives of the summary report are to review the present patterns of poverty, to estimate recent changes in poverty, and to assess the prospects for future poverty reduction.

### Poverty profile

The report updates previous poverty profiles by utilizing the third round of the Ghana Living Standards Survey (GLSS), conducted in 1991/92. It also summarizes the results of a *participatory poverty assessment* conducted in 1994. The GLSS data show that just over 31 percent of the Ghanaian population reported per capita expenditure levels below an upper poverty line in 1992 (and just under 15 percent below a lower poverty line). Taking the upper poverty line, poverty is found to be mainly in the Rural Savannah and Rural Forest areas, which account for 60 percent of total poverty in the country. Both the incidence and depth of poverty are found to be greater in Rural Savannah than any other area. Welfare indicators such as school enrollments or availability of clean water supply are worse for the nonpoor in the Rural Savannah than they are for the poor in Accra. The participatory assessment also emphasized the fact that whole communities in the northern areas of Ghana were poor (which was not always the case elsewhere). The incidence of poverty is lowest in the capital, Accra (at 23 percent of its population). Compared with earlier profiles, these results point to a much smaller gap between urban and rural poverty. If household expenditures are expressed in adult equivalents (rather than in per capita terms) the urban-rural differences in poverty incidence all but disappear.

*Gender* is an important dimension of poverty in Ghana, especially in the Northern Region. Women play significant roles in rural economic activities. In Rural Coastal and Rural Forest, they are responsible for 40 percent of all household agricultural activities, and they completely dominate agricultural processing activities. Women were found to bear a disproportionate share of the burden of being poor—they are obliged to spend a great deal of time not only working in family enterprises but nurturing and rearing children, and in important household tasks such as cooking, and fetching water and firewood. On av-

erage, the GLSS reports that members of rural households spend 37 minutes per day fetching water (in 1992). In Rural Savannah, they are obliged to devote 48 minutes each day to this activity. This task is borne mainly by girls and women. Females in Rural Savannah spend on average 70 minutes per day collecting water.

### Incentive and regulatory framework

The report focuses on the impact of the Economic Recovery Program (ERP) on poverty. Ghana initiated an effective adjustment as early as 1983, and avoided many of the problems that arise from unwarranted delays. This relatively swift response to the economic crisis meant that a recovery was sustained for much of the decade. The centerpiece of the recovery program was exchange rate policy. The real exchange rate depreciated sharply between 1984 and 1987. Trade reforms were also pursued vigorously. The result was improved macroeconomic balances, export growth, and a recovery in GDP growth. However, the ERP has three broad weaknesses. First, the slow pace of some reforms, such as export-crop marketing and privatization has given mixed signals to the private sector. Second, since 1992, an election-induced fiscal shock has led to fiscal imbalances and to uneven economic growth because of slippages in economic performance. Third, there has been a disappointing private sector response to the reforms, particularly in terms of investment.

Did poor households benefit from the recovery? The period covered by the GLSS data (1987-92) follows the more dramatic recovery in output during the early years of the adjustment. By the time the surveys take up the story, the major shift to sustainable macroeconomic management was largely achieved. In this sense, the survey data do not reflect the full impact of the ERP on household welfare. Suitably modified survey data indicate a significant fall in poverty—the headcount for the country as a whole fell from 37 percent in 1988 to just 31 percent in 1992, with most of this poverty reduction occurring in rural areas. Nevertheless, poverty has persisted as a major problem, especially in the capital city. Against a general setting of economic recovery and growth, this gradual decline in living standards in Accra is a source of major concern.

## Public expenditures

The report focuses on government social expenditures and assesses their effects on the poor. Based on benefit incidence analysis, the report concludes that social spending is not well targeted to the poor. The bottom quintile of the population gained just 16 percent of public education spending and 12 percent of government spending on health in 1992. This contrasts with the top quintile's share of education spending (21 percent of the total subsidy) and of health (33 percent). On average, urban residents gain more than those in rural areas. The relative disadvantage of rural residents is greater in health. Overall public sector education and health spending is distributed more equally than income-expenditures. If households were given income transfers in place of these subsidized services, income-expenditure distributions would become more equal. The participatory assessment found that the poor found public education and health services to be costly and to be of poor quality in rural areas. This is consistent with the low uptake of these services by the poor.

The report calls for a number of policy changes to improve the targeting of social spending. First, policy reforms in the *health* sector must be pursued. Ghana does not spend enough on the public provision of health, and existing spending is too focused on urban based services. Recent reforms of the financing of rural health services must be monitored carefully. Changes in health user charges should also be considered, as should encouraging self-selection in service use, and diverting the better-off away from and the poor toward using primary-level services. The government should also persevere with its *education* sector reforms. Here the main need is to enhance the quality of schooling. The government must further improve the management of the education sector, and raise standards of teaching, mainly through greater teacher discipline. It must also increase its allocations to non-salary costs, providing more blackboards, books, stationery, desks, and chairs and better building maintenance.

## Social fund

Based on the participatory assessment, the report finds that a social fund is likely to be more effective

in improving the welfare of the poorest households and communities if its resources can be effectively targeted to the most needy. This means that its resources should be targeted geographically. For the poorest communities in the north, an essential objective would be the creation of employment and income-earning opportunities during the lean season. If these activities improve the rural infrastructure, the social fund would have a double effect on poverty, raising current incomes and improving food security today while also creating an enabling environment for future growth.

## Poverty strategy

The key to future poverty reduction in Ghana lies in accelerating growth in Ghana. Weaknesses in the reform process, notably problems with growing macroeconomic imbalances and the continued intervention of the government in export marketing, have harmed growth prospects in recent years. However, accelerated growth must be broad-based, with a greater role played by agriculture and other labor-intensive activities. Even then, without a major initiative to improve significantly the targeting of social spending to the poor, the benefits of accelerated growth will not reach poorer segments of society. The report, therefore, emphasizes the need to reform the public education and health sectors and to increase the provision of water and sanitation services to the rural poor.

## Statistical system

The Ghana Statistical Service (GSS) has proven itself able to field and process a survey as complex as the GLSS. Yet, it has taken some time to process and clean the data, so that the data and report of the third round were published some three years after the fieldwork was completed. There is a clear need to strengthen poverty monitoring in Ghana and to enhance the capacity of the GSS to undertake this responsibility. Further consideration needs to be given to obtaining a consensus on the nature of poverty and on the poverty line itself. The report calls for a fourth living standards survey to be combined with developing a system of annual poverty monitoring.

## Guatemala

### Poverty profile

Poverty in Guatemala is both widespread and severe. Approximately 75 percent of the population is estimated to live below the poverty line, which is defined as an income that is insufficient to purchase a basic basket of goods and services. Almost 58 percent of the population have incomes below the extreme poverty line, which is defined as the amount needed to purchase a basic basket of food. Poverty is especially prevalent in rural areas in the north, northwest, and southwest and occurs primarily among the poorly educated and indigenous members of the population. More than 90 percent of the indigenous population live on an income that is lower than the poverty line.

There is also a high degree of inequality in income, consumption, and, most acutely, land. According to the most recent agricultural census (1979), only 2.5 percent of Guatemala's farms control 65 percent of the agricultural land, while 88 percent of the farms control only 16 percent of the land. The Gini Index for land distribution was calculated to be 85.9. This unequal pattern dates back to the colonial era when the Spanish crown granted large extensions of land to colonizers.

All of Guatemala's social indicators reflect this widespread poverty and severe inequality. For example, literacy rates are dismal, and gross school enrollment rates are low—77 percent for primary school and dropping drastically thereafter. In health, the infant mortality rate is 55 per 1,000 live births and the maternal mortality rate is 110 per 100,000 live births. In addition, approximately 16 percent of infants suffer from low birth weight, and approximately 50 percent of all children are malnourished.

The latest World Bank projections are that Guatemala could grow at a sustainable rate of 4.5 percent a year between 1995 and the year 2000. Because of the country's high population growth rate, GDP per capita is projected to increase by only 1.7 percent a year. If this GDP growth happens in a distributionally neutral way, any reduction in poverty will be minimal. A study carried out as part of the poverty assessment suggests that, if the per capita income of every household in the 1989 household survey were to grow at a rate of 1.7 percent a year without interruption for 10 years, poverty would decrease from 75 to 69 percent.

### Incentive and regulatory framework

During the 1960s and 1970s, the incentive structure, as represented by tariffs, taxes, and the exchange rate, was biased in favor of a capital-intensive production structure that was highly import-dependent. In the mid-1980s, the incentive structure began to change, mainly as a result of exchange rate reform and trade liberalization. Government policies that reallocated and reduced expenditures induced a change in the structure of relative price products to the extent that the real exchange rate depreciated by about 40 percent between 1986 and 1990. This was an important trend as it implied that in the long run the structure of prices would favor the production of exports and efficient import substitutes as opposed to nontradables. The tariff reforms of 1986 and 1990 reduced the average level of nominal protection and compressed dispersion rates, thus reducing to some extent inherent production distortions. The priority now is to work towards eliminating nontariff barriers.

### Public expenditures

Both households and the government have failed to invest enough in education, health, and nutrition. About three-quarters of Guatemala's population are poor and, given their low incomes, the poor tend to underinvest in the human capital of their children. At the government level, whenever a financing crisis has occurred, as happened in the early 1980s and again in 1989-90, social sector expenditures have usually been the first targets for cuts. As a result, the level of social sector investments fell sharply from 1980 to 1992. By 1992, the cumulative effect of these cuts was to push real health expenditure down to 80 percent below its 1980 level, while real education expenditure was down to some 33 percent below its 1980 level. Infrastructure investment also declined considerably, which has constrained the viability and productivity of producers and, thus, has indirectly affected labor demand. There is a particularly desperate need for investment in rural roads.

Years of underinvestment have been aggravated by low internal efficiency and an inequitable and inefficient allocation of expenditures biased towards urban areas and the non poor. For example, the 1986 Constitution earmarks 5 percent of all tax revenue

to San Carlos University, and in 1990, the operating expenses of the two largest hospitals in the metropolitan area exceeded the operating costs of all of the country's health posts and clinics.

It is important to identify the key source of Guatemala's low social expenditures. In fact, as a percentage of total government spending, Guatemala's health and education expenditures are similar to those of other Latin American countries because it raises much lower taxes as a percentage of GDP than do its neighbors. This should be borne in mind in devising a poverty reduction strategy.

### **Safety net**

Because such a large proportion of Guatemala's population is poor, broad based social initiatives rather than targeted safety nets are the most effective mechanism for reducing poverty in the short term. However, two recent developments present promising approaches to financing infrastructure improvements and supporting rural areas, both of which primarily benefit the poor. The government has established the Fondo de Inversion Social (FIS), supported by the World Bank, which finances but does not run labor-intensive projects proposed by local groups. The Fondo Nacional para la Paz (FONAPAZ) does a similar job but targets those affected by the armed conflict in the country. Both funds offer assistance in the areas of social services, economic and social infrastructure, and institutional strengthening.

### **Poverty strategy**

During the late 1980s and early 1990s, an explicit poverty reduction strategy began to be implemented, although much fundamental change is still needed. The first concern is to pursue policies that generate macroeconomic stability and to manage the economy so as to make efficient use of the poor's most abundant asset—labor. This objective cannot be achieved unless the government is able to raise taxes and to make good use of the revenue it does receive. At present, the private sector is understandably reluctant to give resources to a public sector that it views as inefficient at best and corrupt at worst. A second key element is to increase the access that the poor have to land. This requires not only making it easier for the landless poor to acquire land but also strengthening the tenure of smallholders who already own land. Experience in other countries in the

region shows that consensus building is likely to be an important element in making this possible.

A third element is to structure public investment so that it enhances the earning potential of the poor, either by increasing their human capital or by making their existing human capital more productive. Ideally, there should be increased public financing of human capital investments, which may or may not be feasible in the short term. In terms of service delivery, the government should explore ways to make providers more accountable for the quality of the services they provide. These mechanisms can include: (i) subcontracting the provision of health and education services to private companies through open competitions, (ii) operating public facilities under management contracts; and (iii) introducing performance-based budget allocations, internal markets, and greater community participation in local budget decisions.

### **Statistical systems**

The principal deficiency in the national information system with respect to poverty reduction is the lack of a permanent system of household surveys to collect socioeconomic data. However, currently there are no plans to develop such a system. Because the latest poverty figures date from 1989, it is impossible to tell whether the major policy changes that have taken place since 1989 are associated with an increase or a decrease in poverty levels.

The National Statistical Institute (INE) was planning to conduct a census in April of 1994 although, as of November 1993, funding had not been secured. Also under consideration for 1994 were an agricultural census, an income and expenditure survey (last fielded in 1980/81), and a repeat of the health, nutrition, and family planning survey previously conducted in 1984 and 1987. A large portion of the funding for the health survey would come from USAID, while the financing for the other surveys was not clear at the time the poverty assessment was written. INE also carries out the National Socio-Demographic Household Survey and its companion module, the National Employment Survey, but this survey was last fielded in 1989 and did not contain any data on consumption.

The inability of INE to produce current socioeconomic data is a reflection of several factors. First, the severe budgetary restrictions that characterize the entire public sector limit funding for statistical data gathering. Second, relatively low priority is



given to collecting socioeconomic data. Third, insufficient consideration is given to using the data as an input for policy decisions once they have been collected.

From a poverty reduction perspective, the highest priority should be to conduct the census and to institute a permanent system of household surveys.

Issues of design and efficiency will be important considerations for maximizing the usefulness of data collection given the prevailing budget constraints. Deficiencies in the administrative records and management information systems in the line ministries should also be corrected.

## ***Honduras***

Poverty remains one of the main problems in Honduras. Over the last two decades, economic growth has often been slower than population growth. Income distribution is highly unequal. Recently, agricultural growth has lessened rural poverty and, with it, nationwide disparities. During the same period, however, urban poverty may have worsened.

### **Poverty profile**

A low per capita GDP, a high rate of population growth (almost 3 percent per year), and a highly unequal distribution of income determine the existence of high poverty levels in Honduras. In 1992, around 50 percent of households were living in poverty, and 30 percent were in extreme poverty. Most of the poor live in rural areas and are engaged in agricultural activities or in agriculture related services. Inequality of land tenure is a major determinant of rural poverty. About 7 percent of the poor live in urban areas. Women, especially in rural areas, are a particularly vulnerable group among the poor.

Following two decades of protectionist and interventionist policies that produced large macroeconomic disequilibria, an adjustment and stabilization program was initiated in 1990. The economy reacted with an initial contraction in 1990 after which growth was re-established. Despite an initial increase in poverty levels during the recession of 1990, the number of households under the poverty line decreased substantially once growth was re-established. The proportion of the total population below the poverty line was slightly lower in 1993 than before the adjustment program began.

The rural poor suffered less from the recession and gained more during the period of renewed growth than the urban poor. In 1993, the proportion of the rural population living in poverty was considerably lower than in 1989, while the proportion of the poor in the urban population had increased. Despite these trends, most of the poor continue to live in rural areas.

### **Incentive and regulatory framework**

A necessary ingredient for sustained poverty reduction is the deepening of the reforms in agriculture and a reform of the labor markets. Most of the poor are concentrated in agriculture. Agricultural output

increased in response to the reforms of the structural adjustment program after over a decade of stagnation. The main underlying cause of the stagnation was the decline in real agricultural prices, which reflected world market price trends, exacerbated by an increasingly overvalued exchange rate and by trade policies biased against agriculture. The exchange rate and trade reforms initiated a five year recovery in the sector that embraced virtually all product lines, with real agricultural GDP growing by 5 percent per year and earnings from both traditional and nontraditional exports increasing rapidly. The rural poor benefited significantly from this recovery. To achieve and maintain a higher rate of growth in agriculture, remaining distortions in marketing and rural credit must be eliminated. New products and new technologies will have to be adopted, which will require more investment and an effective system of research and extension. To attract new investment, the prevailing insecurity of land tenure must be eliminated. To make growth environmentally sustainable, new natural resource management policies need to be implemented, especially in forestry.

Most labor markets are flexible, which is reflected in the fact that adjustments to economic fluctuations in the labor market occur mainly as a result of changes in incomes and not of changes in the unemployment rate. Rates of unemployment are low and the fluctuations in real wages are very large. However, misguided policies have introduced ineffectual and costly rigidities in segments of the labor markets. Minimum wage policies are generally ineffective, as 40 percent of wage earners have wages lower than the minimum. However, the existing system imposes high transaction costs on firms seeking to circumvent the legislation. Movements of the minimum wage are also not correlated with movements in wages.

### **Public expenditures**

Public expenditures in the social sectors, at over 9 percent of GDP (including social security), are high relative to income by international standards. This relatively high share of GDP was maintained during the stabilization and reform period. International comparisons of resources allocated to education and health and of the relative efficiency of these efforts show that, controlling for income levels, the propor-

tion of GDP used for public spending in health is close to the international average, and the results in terms of life expectancy are better than average. In education, by contrast, the proportion of GDP spent is higher than the international average, while educational achievement is lower.

In spite of ample coverage of primary education (86 percent), major quality issues remain. Low achievement levels, reflected in high ratios for repetition and dropouts, arise from three main factors: a lack of prioritization in the government's strategy for the sector, insufficient resources for non-salary items in the budget, and a lack of technical criteria for hiring or evaluating teachers. In addition to being inefficient, expenditures in education are also inequitable as the poor do not sufficiently benefit from the services. The poorer regions have lower primary coverage and higher student-teacher ratios than the richer regions, current expenditures per student are lower in the poorer areas, and 18 percent of the educational budget is spent on the 3 percent of relatively well-off students enrolled in higher education.

### **Safety net**

A social investment fund and an income support program were introduced in 1990 to provide a social safety net for the poor. These programs are supported by IDA credits. The social investment fund is designed to generate emergency employment and to build social infrastructure. The income support program's main objective is to deliver subsidies in the form of food coupons to poor primary-school children from female-headed households, low-income children under five, and pregnant and nursing mothers. Expenditures for these social safety net programs were in the order of 1 percent of GDP during 1991 and 1992.

### **Poverty strategy**

A three-pronged strategy for addressing these issues is required. First, poverty reduction requires that policies to promote growth be sustained and be inclusive of the poor. Distortions that reduce the demand for labor, such as special tariff regimes for capital imports, should be avoided. Self-employed activity, especially in agriculture, should continue to be encouraged through extension, credit, and the elimination of ad hoc restrictions on agricultural exports. The new land tenure policies that eliminate discrimination against the poor and women will be important to stimulate the kind of growth that includes the poor. Second, since a crucial determinant of poverty is the low productivity of the labor force caused partly by the limited access that the poor have to social services, especially education and health, public expenditures in the social sectors need to be more effective and the access of the poor to education, health, and family planning services should be increased. Third, the social safety net created to channel public expenditures and nutritional assistance to the poor should be strengthened and the targeting mechanisms should be improved. A key to more accurate targeting will be the generation of more reliable poverty data.

### **Monitoring**

Despite several attempts, the government has failed to develop a good statistical monitoring system. Annual labor force surveys were carried out between 1989 and 1993, but these suffer from important flaws in the design and do not provide important information for the monitoring of poverty. The government is presently looking for funding and technical assistance to establish a program for monitoring poverty.

## Jordan

### Poverty profile

In the last few years, there have been exogenous shocks to the economy that have increased the level of poverty. Between 1987 and 1991, the Jordanian population grew by 34 percent while real domestic output fell by 11 percent. The extent of poverty depends on which survey and which poverty line is used. Using the most widely accepted poverty line, 15 percent of Jordanians were estimated to live in poverty. The poor are twice as likely as the general population to be illiterate. As education rises, poverty falls, and virtually no one with a university education is poor. Poverty is more a problem of low wages than of unemployment since the poor cannot afford to be unemployed. Two-thirds of the poor work in the private sector and are most likely to be agricultural workers. The poverty level is similar among men and women.

There is a strong correlation between household size and poverty—a household of 12 members is almost five times more likely to be poor than a household of six members. The young are disproportionately represented among the poor because the poor have more children, children have no earnings, and families with young children are not yet in their peak earning years. The incidence of poverty is higher in rural areas but only a third of the poor live in rural areas. Regardless of which measure is used, poverty, which was minimal in 1986, is now broader and deeper. Between 1986 and 1992, the expenditures of the poorest quintile fell more than those of the most prosperous (36 percent for the lowest quintile compared to 11 percent for the highest quintile). Income inequality rose between 1986 and 1992, but the bulk of the increase in poverty was due to lower incomes. Two-thirds of the poor's income is derived from wages and a fifth from transfers. Half their income is spent on food.

### Incentive and regulatory framework

The major reason for the increase in poverty between 1986 and 1992 was the economic contraction. Poverty could be virtually eliminated by 2005 with sustained economic growth of 7 percent. Unless growth exceeds 3 percent, poverty cannot be reduced except by redistributing income. Jordan cannot achieve this level of required economic growth under its previous policies. To achieve sustained economic

growth, an adjustment program was introduced based on trade and financial liberalization, deregulation, privatization, and a rationalization of the government's role in the economy. While these reforms may have effects that appear superficially contrary to the interests of the poor, on balance they do favor poor in the short run and in the long term are essential to eliminate poverty.

### Public expenditure

Expenditures in health and education have been effective in assisting the poor, and the principal issue is whether expenditures can be maintained as the population grows. Improved cost recovery, better targeting, and efficiency-enhancing measures will all be necessary to improve quality. Public expenditure on the poor's housing is limited, but there is no evidence that the poor have significant housing problems (80 percent own their own homes).

The record on education has been remarkable and, despite recent budgetary cuts, education spending is relatively well-protected. Public spending is focused on primary and secondary education, and transfers to universities have declined significantly. Overall, the education system appears to be equitable, and the poor have good access to primary and secondary education. However, the relatively few dropouts are among the poor.

Health indicators have improved significantly over the last 25 years. The public sector is the main source of health care service for the poor who have access to a network of primary health care centers and public hospitals, but the sustainability of the public system could be threatened by the fiscal deficit. Nonbudgetary revenues for the system are insignificant, given the low insurance premiums for military and public employees, low fees, and dismal collection rates. Services to the poor could be ensured in the future by better efficiency and targeting. To increase the efficiency of the system, the Ministry of Health can (i) lower costs by eliminating redundant staff and reducing its role in direct provision of health care (as costs in the private sector are lower) and (ii) enhance revenues by increasing and equalizing public insurance premiums and increasing fees and collection rates. To improve targeting, the MOH can (i) increase the poor's share of publicly subsidized services and (ii) differentiate subsidies according to user incomes.

## Safety net

Intrafamilial assistance is the most important element in the safety net. This is complemented by three major government programs: (i) the National Assistance Fund which gives cash to the unemployable poor; (ii) health cards from the MOH that reduce the cost of care for the poor and the disabled; and (iii) food coupons that give universal rationed subsidies on selected food items. NGOs have fewer resources than the government and emphasize social development rather than provision of cash or in kind benefits. The large NGOs deliver social services and, more recently, provide income-generating opportunities to the poor. The social safety net has adequate instruments to assist the poor, and the government could use these instruments to increase coverage and the amount of benefits to present recipients. The safety net program should be evaluated to determine if it is the best means of delivering assistance to the poor.

## Poverty strategy

To eliminate poverty, the assessment recommends a three-part strategy of growth with social equity. This strategy is based on the principle of reducing market distortions and creating an environment conducive to investment, employment, and growth in order to maximize domestic production. The three elements of the strategy are: (i) private-sector led outward-oriented growth; (ii) human resource development; and (iii) a targeted social safety net, using existing instruments to restore social equity. Poverty cannot be eliminated in the absence of any of these elements. Widespread prosperity requires growth, and growth cannot be sustained without continued investment in human resources. As efficient markets alone cannot ensure social equity, the safety net will need to be improved for those who may be left behind by a modernizing, expanding economy.

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## Statistical system

Compared to many developing countries, Jordan has a relatively good database. However, more information is required on: (i) the number of the poor and their living conditions and (ii) how well safety net programs function, including the coverage of the poor, leakage to the nonpoor, and the appropriate level of benefits. This information should be collected at frequent intervals using consistent and improved survey methods and instruments. The data would also be more useful if it were processed more quickly and disseminated more widely.

## Kenya

### Poverty profile

About 47 percent of the rural population is estimated to have been below the poverty line in both 1981–82 and 1992, meaning that there was no significant improvement in the incidence of poverty between those two years. About half of the population was, therefore, unable to consume a minimum requirement of food and essential non-food commodities. Further, the shortfall in consumption (the difference between the minimum required consumption and the actual consumption) increased and inequality worsened; the Gini coefficient increased from 0.4 to 0.49. In urban areas, the incidence of poverty was 30 percent in 1992. The urban unemployment rate doubled to reach 22 percent in 1992.

The majority of the poor in rural areas are food and subsistence farmers and those who derive the bulk of their income from the informal sector; the urban poor are mainly in the informal sector. About a third of rural households are female-headed, and two-thirds of them have no male support, in other words, are headed by widowed, divorced, or separated women with children. The incidence of severe poverty is significantly higher among such households—44 percent compared to 20 percent for male-headed households. A major cause of poverty among divorced and separated women is the loss of access to land. Such women often flee to urban areas where they remain poor.

Kenya has distinctly more favorable social indicators than most countries in the region. However, the distribution of the benefits from better health and education is uneven and is related to income. The bottom expenditure decile has a net primary school enrollment rate of only 62 percent, compared to 82 percent for the top decile. The inequality is worse for secondary education; the bottom decile has an enrollment rate of only 2 percent compared to 20 percent for the top decile. Child status indicators vary by the education of the mother, a partial proxy for income. For example, the rate of stunting is 21 percent among children with mothers who have secondary education in contrast to 37 percent for the children of mothers who have no education. Infant and child mortality rates are about 50 percent higher for children born to uneducated mothers. There is also a strong urban bias. Rural secondary school enrollment rates are half those of urban areas; the rate of stunting is 60 percent higher and in-

fant mortality is 43 percent higher. There is no evidence of gross discrimination against females in human capital investment. Nevertheless, the school completion rate is lower for females, and, in times of economic stress, female students are more likely to drop out of primary school. Girls from poor families in rural areas typically do not attend secondary school at all.

### Incentive and regulatory framework

The price incentives for private sector activities are reasonably undistorted. In agriculture, Kenya is one of the few countries that has not taxed its farmers heavily at any time, and producer prices reflect world prices. As part of its structural adjustment program, Kenya has reformed its exchange rate management and trade. The exchange rate is now determined by auction and the real effective exchange rate has been reduced. Real wages in both the private and public sectors are flexible and have fallen, reflecting market conditions. The distortions in the Kenyan economy arise instead from the overextended public sector. Inefficient parastatals, civil service wages, and interest payments make large demands on the budget, resulting in the neglect of operational and maintenance expenditures. Consequently, many essential public services of particular importance to the poor such as basic health and education services and rural infrastructure suffer from a lack of adequate recurrent funds. Another set of distortions arise from the protection given to the large farm sector in the form of lower tariffs and taxes on farm machinery and subsidized credit. These preserve a highly capital-intensive and inefficient mode of production that uses very little labor.

*Incidence of public expenditures in social sectors.* Real per capita public expenditure on primary schooling was held constant during the 1980s and early 1990s and succeeded in reaching poor households who received a greater share of public subsidies than the nonpoor. Private spending on primary schooling amounts to one-third of total expenditure, well above the share in many low-income countries. Thus, by a combination of public and private spending, nearly universal primary school enrollment was maintained. However, the poor spend less than half the amount the non-poor do on primary education; since the government's contribution is mainly in the form of teachers, this inequality in private spending means

that there are fewer nonteacher inputs in schools attended by the poor and, therefore, a lower quality of education. For the bottom 10 percent of the population, the private cost is altogether too high, resulting in significantly lower enrollment. Parents have to spend nearly 10 times as much on secondary education as they do on primary education, and, therefore, the enrollment of poor children is negligible. Public subsidies go almost entirely to the non-poor, especially in the urban areas. The most inequitable aspect of public expenditures on education is the high share devoted to university education. Although public universities account for only 0.6 percent of Kenya's student population, they absorb 19 percent of the government's recurrent spending on education, and the per student public expenditure is 30 times greater at the university level than at the primary level.

Although per capita public health expenditure declined over the 1980s and the early 1990s, the share of expenditures on preventive health doubled to 20 percent. The continued improvements in life expectancy and in infant and child mortality despite little growth in per capita income suggests that the relative protection given to preventive health services has been helpful. However, the large differences between rural and urban areas in these indicators suggests that the poor in rural areas have not received the same attention. Curative expenditures form the bulk of the public budget, and these in turn are heavily biased towards hospital-based care in those hospitals that are less frequently used by the poor and away from health centers that are used by the poor three times more often than the nonpoor. As a result, the poor receive a less than proportionate share of government subsidies in curative health. The poor have much less access to safe water; in urban slums, the poor buy water at two to three times the price that better-off households pay through individual connections.

Food security interventions are ineffective and inadequate. The open market price of the staple grain was highly unstable during the period examined, and drought management was inadequate. At the same time, the grain parastatal received large subsidies. Frequent use of import controls had the effect of unduly raising the price of food for consumers, more than a third of whom were unable to satisfy the minimum caloric requirement. Public spending on child nutrition was extremely low, about a third of the deficit of the grain parastatal. The bulk of it was spent on the costly and poorly targeted school milk program, to the neglect of other programs such as nu-

tritional education and targeted interventions for infants and preschoolers which are known to significantly improve child health and performance.

### Targeted programs

Three targeted programs were examined: the rural roads maintenance program; the microcredit programs; and the arid lands development program. The labor-intensive minor roads maintenance program was found to reach the poor including landless laborers and female-headed households. Yet the wage paid was higher than the reservation wage of the poor and, as a result, the scheme attracted many non-poor workers. The microcredit programs are run by NGOs and follow group lending practices adapted from those pioneered by the Grameen Bank. Partly because they are new and not as large as the Grameen Bank, their costs are higher, and, in addition, the loan size is larger relative to GNP. They reach fewer women than the Grameen Bank despite the fact that there are 23,000 women's groups, many of which are engaged in income-generating activities. The arid lands of Kenya contain a large nomadic population, most of whom are poor and isolated. Bilateral and NGO projects, although small in scale, have had a favorable effect on meeting basic needs and improving the health of their livestock but less impact on increasing income and on integrating themselves with the rest of the economy.

### Poverty strategy

The lack of sustained per capita income growth is the primary cause of continued poverty in Kenya. Achieving sustained growth in per capita income should, therefore, be the government's top priority. The fastest growth is likely to come in the manufacturing sector, based on a reorientation towards exports. The government should continue import and exchange rate liberalization and export promotion policies, and support these with macroeconomic stability. However, manufacturing accounts for only a fraction of the economy; broad rural development is, therefore, of overwhelming importance for food security and poverty alleviation. Raising smallholder yields, particularly in less well-endowed areas, improving and extending research and extension, improving and liberalizing the dairy and seed industries, and maintaining the road infrastructure (through the Roads 2000 strategy) are all critical for broad-based growth and diversification in rural areas. In addition, all subsidies to the large farm sec-

tor, including the price and marketing support provided by the grain parastatal, should be removed so that the sector becomes more efficient (and therefore labor absorbing) or the land is sold to the many small peasants in the active land market that exists in Kenya.

In the health sector, the share of preventive health in total health expenditures should be increased with an expanded program of child immunization targeted at the poorer districts and poor families. Within the curative budget, spending must shift towards health centers and away from hospitals. Although cost recovery is providing a significant share of expenditures in health centers, this must go hand in hand with a reallocation of public expenditures towards those facilities most used by the poor. In education, a targeted mechanism to reduce the private costs of primary education in the poor areas and for poor students (for example, a system of bursaries for the poor, particularly female students, administered by community and local authorities) is recommended. The government should conduct a study to examine the reasons for the high costs of secondary education and the determinants of low enroll-

ment with a view to finding solutions to the problem. In the meantime, the system of giving secondary school bursaries to poor and female students in rural areas should be continued. In the area of food security and nutrition, the main recommendation is to remove the present high-cost and ineffective interventions and subsidies—the large subsidy to the grain parastatal and the school milk scheme—and concentrate resources on nutrition and child development programs that mainly target infants and preschool children.

A number of special initiatives and targeted programs are recommended: a pilot rural water fund to finance communities and NGOs directly to construct small water schemes, to provide more water kiosks in urban slums, and to support community-based initiatives in waste-removal and sanitation; an expansion of the labor-intensive minor roads program; and an expansion of credit schemes with greater targeting to women and women's groups. In arid areas, road infrastructure should be selectively improved and community based pilot income-earning schemes should be tried out.



## *Kyrgyz Republic*

### **Poverty profile**

Poverty is a prevalent and persistent problem in the Kyrgyz Republic. Even before the disintegration of the Soviet Union in 1991, about one third of the population had a "socially unacceptable standard of living." Much of the existing poverty in the country is, therefore, inherited and structural. The 1993 Kyrgyz Living Standards Survey (KLSS) provides a profile of the post-independence situation, indicating that 40 percent of households lived in poverty with 25 percent classified as very poor. Roughly half of the total population are now thought to be poor. Rural households are 1.6 times more likely to be poor than urban. In the south, a higher proportion of households is poor than in the north, but the oblast with the highest rate of poverty is Naryn (which is in the north). The capital city of Bishkek has the least poverty.

The age of the head of household is an important predictor of poverty; households headed by younger people are significantly less likely to be very poor. Youth poverty is probably due to the depressed labor market situation. If the household head is an entrepreneur, then the household is much less likely to be poor. There is no clear differentiation between the poor and the non-poor on the basis of their sector of employment, occupation, education, or other observed indicators. There is a slightly greater risk of poverty in households whose head is unemployed or not working due to disability. Households where the majority of household income comes from pensions and social assistance are significantly more likely to be poor. However, households headed by women are not more likely to be poor. Overall, households with more children are at greater risk of being in poverty, even after the receipt of social assistance benefits. However, this finding reflects the situation in the rural areas where there is a strong positive correlation between poverty and large family size. This relationship does not hold in urban areas. Poverty does not seem to be correlated with low educational attainment, probably because, up to now, there has been a weak link between educational achievements and earnings in the labor market. The last official estimate (for 1993) is that per capita GDP has dropped to \$830. There has also been a significant widening of income distribution.

### **Incentive and regulatory framework**

Since 1993, the government has made generally satisfactory progress in stabilizing the economy. Directed credits have been eliminated, interest rates have been liberalized, a floating exchange rate has been introduced, and the currency has been made fully convertible. However, during the last three years, industrial output has fallen by over 50 percent and overall input by about 35 percent. The main issues impeding poverty reduction are dramatic and continuing economic decline, associated with adverse external developments (including a breakdown of trade, a severe terms of trade shock, and a loss of fiscal transfers), and the difficulties in creating a favorable environment for the economy to respond to liberalization. Although the government has been withdrawing from the micro-management of the economy, it has not been very successful in developing the institutions necessary for making the emerging market economy operational. The taxation rate is very high on enterprises and disproportionately low on individuals, while tax compliance is unsatisfactory. Although land can now be leased to farmers for up to forty-nine years, it still cannot be privately owned. The medium-term high case outlook envisages a gradual output recovery.<sup>77</sup> Robust growth is not likely to be attained before 1997-98.

### **Public expenditures**

Following independence, in order to stabilize the economy, the government attempted to reduce the level of financing of the broad social programs inherited from the Soviet system, which was at an unsustainable level. Social expenditures fell from nearly 17 percent of GDP in 1990 to 9 percent in 1993, although by 1994, the figure had increased to 14 percent. Social assistance expenditures were most affected and may need to be increased to provide sufficient funding for targeted compensation to the poor (including food security arrangements and a targeted energy subsidy). Spending on education and health now appears to be absorbing appropriate shares of GDP (around 7 and 4 percent respectively). While in 1994 local governments covered 74 percent of the expenditures on education and 84 percent of health expenditures,<sup>78</sup> the current intergovernmental sys-

tem has several features that could jeopardize the social safety net: (i) revenue-sharing arrangements that give subnational governments limited incentives to increase their tax efforts; (ii) a transfer system that provides soft budget constraints for subnational governments and reduces incentives to cut expenditures or increase the revenue collection efforts; (iii) local tax administrations that might be more loyal to the local level leading to potential non-compliance; (iv) limited correspondence of expenditures, revenues, and transfers, which forces local governments to accumulate large payment arrears; and (v) full expenditure autonomy at the local level, which leads to ad hoc expenditure cuts or large arrears for social expenditures, especially in the poorer regions. Measures should be taken to ensure minimum universal standards of the social safety net to all the population.

### Safety net

The safety net inherited by the Kyrgyz Republic is sophisticated but inefficient. With the assistance of the World Bank and other aid agencies, the government is trying to make the safety net better targeted and more affordable. The funding of social assistance and social security comes from a number of sources, including payroll taxes for the extra-budgetary funds and the republican and subnational budgets. One of the early developments following independence was the amalgamation of the revenue raising for three existing social insurance funds (the Employment Fund, the Pension Fund, and the Social Insurance Fund, covering mainly sickness benefits) into one administration—the Social Fund.

The most important type of social insurance benefit is the old age pension. Pension rates are theoretically linked to past earnings, but the pension system is collapsing as pensions are set at unrealistic levels, well above the financial capacity of the Social Fund. The impact of the arrears on the pensioners is aggravated by the arbitrary way in which the available funds are distributed. Politically more important regions, such as the city of Bishkek, receive pensions on time, while in many provincial and, in particular, rural areas the payments are delayed by six months or longer.

The payment of unemployment benefits has been less of an issue so far, as open unemployment has been low. This picture is changing, however, as it is expected that unemployment will rise significantly in 1995.

The system of categorical social assistance benefits, which were poorly targeted, was replaced by a "common monthly subsidy" on January 1, 1995. Its effect has been to ensure that families with an average, non-working income below the minimum wage will continue to receive a monthly subsidy, so that their income rises to between 75 and 130 percent of the minimum wage.

Compounding the economic decline, the lack of institutional capacity is also a critical issue in providing an adequate safety net to the population. The World Bank's Social Safety Net project, focusing on the institutional development of the governmental bodies responsible for social assistance, employment services, vocational training, and socioeconomic statistics, will serve as a catalyst for strengthening the existing system.

Access to education and health services was universal in the past. Both sectors, however, are now burdened with a number of deficiencies and inefficiencies including excessive capacity.

State owned enterprises used to play a very important role in financing kindergartens, polyclinics, sanatoriums, and other social facilities, which created parallel social services to the municipal ones. However, in the face of severe financial difficulties, enterprises have started to divest themselves of their social facilities, which often takes place in a chaotic way. A rationalization of all social services is, therefore, needed. The World Bank is preparing a project to help the government to rationalize the health care system.

### Poverty strategy

The report emphasizes that macroeconomic stabilization and structural reforms are the keys to reducing poverty in the medium term. In general, individuals need to be encouraged to make maximum efforts to help themselves and to avoid poverty through their income-generation activities, but the government has a major supporting role to play. Overall, there would seem to be four main elements in the poverty reduction strategy:

- (i) maintaining macroeconomic stability and promoting economic growth in order to regain lost income levels as quickly as possible and to maximize the demand for labor;
- (ii) pursuing reforms in key sectors of the economy, particularly in the agricultural and industrial sector while implementing an effective regional development policy, further strengthening the

employment service, and creating a mechanism for alleviating the negative social effects of the restructuring and price adjustments in the energy sector;

- (iii) strengthening the social safety net, which will be particularly important in the short run, by further rationalizing the social assistance and social insurance programs and enhancing the capacity of the Ministry of Labor and Social Protection; and
- (iv) maintaining and strengthening the provision of essential social services, especially for children and the poor, such as health and education.

### **Statistical system**

The 1993 Kyrgyzstan Living Standards Survey has provided a starting point for the modernization of the Kyrgyz statistical system. Continuing problems include the inadequacies of the sampling methods and other technical aspects of generating the data, as well as a general lack of knowledge about the use of such data in policymaking. The government's capacity to generate and use statistical information will be enhanced as a result of the technical assistance that is being provided under the Social Safety Net project (that will assist in carrying out seven additional surveys using a panel approach and three modules on family planning, agriculture, and energy).

## Mauritania

### Poverty profile

Over the past 25 years, droughts have transformed Mauritania from a nomadic to a sedentary society—from an estimated 78 percent nomadic in 1965 to 12 percent in 1988—and to an economy almost equally split between rural and urban activities. The rapidity of this change has disrupted virtually every aspect of the lives of this ancient society, deeply rooted in the traditions of its rigid social structure. The living conditions of most Mauritians have worsened, and, more importantly, their vulnerability to poverty has increased. The socioeconomic ramifications of this sedentarization and urbanization are enormous and leave no one untouched. Of the 2 million Mauritians, those considered to be poor from an income perspective represent about 57 percent of the population (those who spend less than US\$275 a year). Households below that expenditure level consume less than 80 percent of the recommended daily calorie requirement of 2,300 calories. High rates of malnutrition (34 percent chronic and 17 percent acute) were found throughout the country and for all income groups during the period 1987-90.

Poverty appears more severe in rural areas (particularly in the east and the Senegal River Valley) than in urban areas. Nearly 30 percent of Mauritanian households are headed by women, partly explained by high divorce rates and increasing long-term migration; the rate is higher among poor groups. Although data indicate that the level of average expenditures for female-headed households is similar to that of male-headed households, factors such as higher dependency ratios, lower education levels, lower participation in formal employment, and heavy reliance on income transfers suggest that the vulnerability of female-headed households is greater.

*Incentive and regulatory framework.* Long-term reforms designed to foster competitiveness and growth will certainly be demanding and difficult. Irrigation development along the Senegal River basin, undertaken in the mid-1970s as a way of maximizing the fertile and productive land around the flood plain of the river and of promoting the agriculture sector in Mauritania has produced mixed results to date. The area has attracted a number of private investors to develop irrigated schemes. Yet, given the high cost of developing and maintaining new sites, the expansion of irrigated land is progressing slowly. Forward

production linkages into the rural economy tend to be small, given the monopolistic and capital-intensive structure of the processing, transportation, and marketing of rice, thereby minimizing the impact of irrigation on poverty. Moreover, the development of the river valley for irrigation has given rise to land disputes as cultivators claim to have been inadequately compensated for their land and farmers practicing recession agriculture have experienced production losses from irrigation expansion. Finally, the import levy on rice, introduced as protection for local rice production and thus an incentive to private entrepreneurs to exploit the potential of irrigated land, may be having negative effects on poor households. These considerations suggest that the economics of the irrigation system, particularly of rice, and of the management of the dams, the impact of irrigated agriculture on poor households and the impact of the rice levy on other cereal prices, on consumption patterns, and on agricultural activity need to be re-examined. Finally, the pilot land tenure reform program, which was designed to grant stability of land tenure and to protect traditional land rights, should be pursued with vigor but closely monitored.

Despite a policy of promoting small- and medium-scale enterprises, the investment code continues to favor large capital-intensive enterprises. The government has not defined a long-term employment policy. In the short term, it is implementing a labor-intensive program to strengthen institutional capacity and to generate employment in the construction industry in urban areas. The government has also declared artisanal fishing a priority as a means of raising incomes and generating employment. Yet, despite this declaration, which would, among other things, grant small-scale fishermen exclusive fishing rights in certain in-shore localities and provide them with financial resources, progress in implementation has been slow.

### Public expenditure

With regard to the financing of social services, the government has singled out education and health as priority sectors. However, the share of recurrent expenditures devoted to human resources—around 40 percent—has essentially remained unchanged (with slight increases in real terms) over an extended

period. Public investment in sectors other than rural development and infrastructure has averaged only 12 percent of total investment expenditures, of which 2.5 percent is for education and 3.5 percent is for health. Over the past two years, however, the share of primary education in the total education budget has increased to 36 percent. The government's restructuring program for primary education has shown progress, as reflected in the increase in gross primary enrollment from 49 percent in 1987 to 57 percent in 1992 mainly as a result of the school construction program that provides matching funds to local communities for the construction of low-cost classrooms. The government's health strategy is directed towards the provision of preventive and primary care services to the largest proportion of the population by increasing access to, and improving the quality of, health services. Decentralization and the introduction of pilot cost recovery schemes in Nouakchott and seven wilayas are progressing well. The government is also piloting a drugs program that provides essential generic drugs at the district health level in seven wilayas. This program is a success and will be expanded. A study to define a monitoring system on the use of health facilities by poor households is underway.

### **Social safety net**

Traditional social safety nets have failed to adapt to the changing needs and circumstances brought about by the rapid socioeconomic transformation. New social groups, such as neighborhood-based women's groups, have emerged in response to the inadequacy of these networks. The sale of assets, mainly livestock, has reduced households' wealth and future income base. Migration, although an insurance against food insecurity and a source of household income, is causing seasonal labor shortages in agriculture and placing heavier burdens on women.

Food aid, which covers 40 percent of Mauritania's cereal requirements during normal periods, has ensured food for large segments of the population. Food-for-work programs, in operation since 1985, use food aid as a means of encouraging community participation in the development of small rural infrastructure. While these programs create temporary employment and respond to community needs, they have overemphasized the quantity of infrastructure built and paid little attention to either short-term issues (impact on the food insecure) or to long-term effects (impact on the incomes of the poor).

### **Poverty reduction strategy**

The Government of Mauritania has defined the elements of a poverty reduction strategy and proposed a five-year action plan for combating poverty, both of which it presented at the consultative group meeting in May 1994. The proposed strategy is largely in line with the recommendations outlined in the poverty assessment. The challenge of this strategy is to define policies and actions that address both rural and urban development in a country that has undergone dramatic demographic shifts.

More specifically, the strategy focuses on rural income generation and increased agricultural productivity, employment creation for the urban poor, and efficient and equitable access to basic social services. In the financing and delivery of social services, the adequacy of overall resource allocations, the appropriateness of intrabudget allocations, the potential for mobilizing nongovernmental resources, and the efficiency with which the services reach the poor are key issues to monitor in the poverty reduction strategy. The cost recovery schemes in the education and health sectors are progressing well and should be continued. A system to monitor households' use of these services needs to be put in place in the near future in order to ensure that the cost-recovery schemes do not block access to poorer segments of the population.

### **Statistical system**

In 1987, Mauritania launched a permanent monitoring system of social conditions, which the National Statistical Office (ONS) is successfully implementing (a household budget survey for the sedentary and nomadic populations was conducted in 1992 and another one is planned for 1994). The data collection and processing capability of the ONS is strong, but its analytical capability is limited. The ONS has proposed creating an analysis unit that would maintain a socioeconomic data base for policymakers, an idea that requires serious consideration in an effort to reap maximum benefit from the expensive and time-consuming collection activities. To complement quantitative data with the sociological aspects of poverty, it is proposed that qualitative assessments be undertaken in areas such as the dynamics and coping mechanisms of female-headed households and the living conditions of squatter neighborhoods of Nouakchott.

## *Mauritius*

### **Poverty profile**

Mauritius' rapid economic progress over the last decade has reduced the incidence of poverty and has contributed to reducing income inequality among members of society. Between 1980/81 and 1991/92, the share of the population living below the poverty line declined from 28.4 percent to 10.6 percent, while the Gini inequality index went down from 0.46 to 0.37. Greater disparity in incomes has been found to exist among urban populations relative to semiurban and rural ones; there is scattered evidence that unemployed adults comprise the majority of the very lowest income groups.

### **Incentive and regulatory framework**

The foundation of Mauritius' economic success has been the provision of a stable internationally competitive regulatory environment favoring labor-intensive activities in selected sectors such as sugar, textile manufacturing, and tourism. This set of policies has contributed to a reduction in the unemployment rate, from 20 percent in 1983 to 1.8 percent in 1990, while increasing the participation of women in the labor market from 25 percent to 41 percent over the same period. With a view to becoming an upper middle-income economy early in the 21st century, Mauritius is in the process of harmonizing incentives across sectors. In spite of the progress to date, significant challenges remain for Mauritius in eliminating distortions between industrial groups in the labor market and in reducing the size of the public sector, which accounts for 13 percent of total employment.

### **Public expenditures**

Mauritius has demonstrated a strong commitment to human resource development by allocating significant shares of public expenditure to education and health. However, public expenditure on education is low compared to the middle-income countries of East Asia. Furthermore, Mauritius maintains an elitist system of education where about only two-thirds of children in each primary education cohort move in to secondary education, and only about 10 percent obtain secondary school diplomas. Mauritius has begun to address this challenge in light of its medium-term growth objectives. Health care is free in Mauritius with health facilities being fairly well

distributed over the country to provide reasonable access to treatment for basic illnesses. The Government of Mauritius is in the process of preparing a health sector reform in order to increase the efficiency and effectiveness of the sector and to address financing and regulatory issues. Overall, public expenditure on education and health amounts to 78 percent and 60 percent of total expenditure in the two areas. Although in US dollar terms, the level is comparable to expenditures of other middle-income countries, Mauritius may have to invest more in human capital if it is to achieve its objective of becoming an upper middle-income country early in the 21st century.

### **Safety net**

The extended family structure has provided Mauritius with an important safety net, without burdening public finances. The joint family has reduced household overhead costs, taken care of children to allow mothers to work in factories, and provided security to widows and orphans. Although the joint family is in decline in Mauritius, it is estimated that about 11 percent of Mauritians benefit from these transfers. Mauritius' many social services, including a social security system, constitute an elaborate support mechanism for most conceivable types of personal and family problems.

### **Poverty strategy**

Mauritius' poverty strategy is to continue expanding its employment opportunities while modernizing the economy to reach upper middle-income status by the end of the 21st century and also maintaining an elaborate social safety net. The small pockets of extreme poverty, which are most likely to consist of uneducated individuals with no job skills, would best be helped by providing short-term nutritional and medical assistance. Skills acquisition programs could provide a longer-term solution.

### **Statistical system**

There is considerable national capacity to monitor trends and to use the information to design and develop social strategies. Regular household budget and consumption surveys are carried out, and the Government of Mauritius is considering carrying out a national poverty study.

## Nicaragua

Nicaragua is one of the poorest countries in Latin America. In the 1980s, per capita GDP declined to one-third of its 1977 level due to the combined impact of inappropriate macroeconomic policies, institutional changes toward a centrally controlled economy, continued civil strife, and a trade embargo. Starting in 1991, the government initiated ambitious reforms to support Nicaragua's transitions from war to peace, from dictatorship to democracy, and from central planning to a market economy.

### Poverty profile

Using data from the 1993 Living Standards Measurement Survey, the poverty assessment computed poverty and extreme poverty lines. The *poverty line* was defined as the level of "total" per capita monthly expenditures at which an individual obtains the minimum daily caloric requirement (2,226 calories per adult). The *extreme poverty line* was defined as the level of per capita monthly "food" expenditures at which an individual obtains the minimum daily caloric requirement. According to these definitions, half of the population, or about 2 million people, fall below the poverty line. Forty percent of the poor, or 20 percent of the population, fall below the extreme poverty line and are food poor; that is, they cannot meet the daily minimum caloric requirement even if they were to devote all of their consumption to food.

Poverty and extreme poverty are overwhelmingly rural. With 41 percent of the country's population, rural areas contain 63 percent of the poor and 78 percent of the extreme poor. Rural poverty is also deeper than urban poverty. The average expenditures of the urban poor are 11 percent below the poverty line, while those of the rural poor are 37 percent below the poverty line. The poverty profile also shows major regional disparities in the incidence of poverty. With 23 percent of the population, the northern (Jinotega and Matagalpa) and the Segovias (Esteli, Madriz, and Nueva Segovia) regions contain 46 percent of the country's extreme poor, with the average expenditures of the rural poor being 48 percent below the poverty line. In contrast, Managua, with one-third of the country's population, has only 7 percent of the extreme poor. Poverty is largely a problem of underemployment and low productivity rather than one of widespread un-

employment, and is concentrated in the agricultural sector. Over three-quarters of poor households derive most of their income from agriculture as farmers or wage laborers. Small farmers engaged in basic grains production are the poorest of all. Informal sector employment was not found to be a good predictor of poverty. Informal sector earnings are well above the poverty line, indicating that it is high dependency ratios that make them inadequate on a per capita basis. Although poor women participate less in the labor market than nonpoor women due to household work (childcare, fetching water, and collecting wood for cooking), female-headed households were not found to be at a greater risk of poverty than male-headed households.

Poor households have, on average, almost twice the number of children than nonpoor households, an important factor that explains low per capita incomes resulting from high dependency ratios. Poor households also have less education than the nonpoor, another key factor explaining low earnings capacity. Over half of the extremely poor in rural areas and over a third in urban areas are illiterate. With the important exception of enrollments in primary education, the poor have worse social indicators than the non poor, particularly in rural areas. Comparing very well with the rest of Central America, access to primary school is almost universal. However, many poor children do not complete primary school due to late entrance, high repetition, and the low quality of schooling. The poor have less access to health care services, including immunizations and prenatal and birth care and lack of access to water and sanitation services. The study also found a strong correlation between poverty and child malnutrition. Almost one-third of all children below the age of five are malnourished, a proportion that increases to four out of 10 among the extreme poor in rural areas. In the poorest regions, the northern and the Segovias, almost half of the rural children are malnourished. The poverty assessment found that: (i) a literate mother nourishes her children better; (ii) each additional child in the household increases the probability of malnutrition; (iii) breastfeeding is associated with lower malnutrition among children under 18 months; and (iv) children in households without water and sanitation are twice as likely to be malnourished as children in households with water and sanitation.

## Incentive and regulatory framework

The promotion of economic growth, the basis for poverty reduction, has been a driving force behind the government's stabilization and adjustment program initiated in 1991. The program has been highly successful in stabilizing the economy. Although the adjustment program included significant downsizing of the public sector, the liberalization of domestic and foreign trade, and the liberalization of the financial sector, its measures were not sufficient to trigger the resumption of growth. In the 1990–93 period, GDP per capita fell by 8 percent. Economic conditions improved markedly in 1994. Real GDP growth was 3.2 percent, the highest rate since 1983, and inflation declined from 20 percent in 1993 to 12 percent. Most encouragingly, 1994 saw strong growth in agriculture and nontraditional agricultural exports.

Reducing poverty will depend on sustaining and deepening the economic reform program and further refining policies that will promote growth. To this end, the government must increase its focus on strengthening the institutional structures that are needed for markets to function efficiently so as to generate growth. This will involve rebuilding the state apparatus to support the private sector and to assist the poor by providing essential infrastructure and strengthening the human capital base. Policy and incentive reforms must be designed to increase the responsiveness and flexibility of product and factor markets to price signals. Given Nicaragua's economic structure, the constraints imposed by the difficult property rights problem, considerable political uncertainty, and a difficult external environment, the revival of growth must be based on the agricultural sector over the medium term. Strong agricultural growth would not only provide a powerful stimulus to the rest of the economy and contribute to export diversification, but would also have a marked positive impact on the incomes of the majority of the poor.

The government's reform program aims to downsize the public sector further to increase public savings, to restore a safe foreign reserve level, and to permit the expansion of credit to the private sector. The key measures of the economic program encourage broad based and nondistortionary economic growth, which would absorb and make productive use of the poor's most abundant resource—labor. Eliminating tax, tariff, and other policies that distort the relative prices of capital, labor, and land would also encourage a labor-intensive pattern of

growth. Public sector reform is also crucial to the poor. First, it is crucial to create a small and responsive public sector capable of facing declining foreign aid without fiscal crises. Second, a smaller public sector will also mean that fiscal savings can be made that can be spent on: (i) alleviating key bottlenecks identified in the poverty assessment as constraining poverty-reducing growth such as the lack of rural infrastructure, the poor quality of primary education, and inadequate access to basic health care and (ii) expanding efficient and well-targeted safety net programs.

## Public expenditures

Nicaragua's public spending in the social sectors is higher than in most Central American countries. In 1994, the share of public spending on the social sectors was over 9 percent of GDP or about 40 percent of total public sector spending. Nevertheless, the poverty assessment found that, with the exception of primary education, such spending is not well targeted to the poor and results in inadequate funding for basic services. Per student spending in primary education is US\$55 per year compared to a Latin American average of US\$100. At the same time, higher education, which was shown in the poverty assessment to serve the non-poor exclusively, receives US\$800 per student per year. Nicaragua's higher/primary spending ratio (14.5 times) is the second highest in the region (after Brazil). In 1994, annual per capita public health care spending was US\$23.2, higher than that of any other Central American country except Costa Rica, and much higher than is typical for an economy with a similar GDP per capita. However, the coverage of primary health care is insufficient.

To implement the government's education strategy and to improve the quality and increase the internal efficiency of primary education, more resources are needed at this level. To this end, the generous subsidization of higher education must stop. Improving targeting of preprimary and secondary education resources is also needed. Because the purpose of publicly financed preprimary programs is to compensate children from disadvantaged backgrounds, they should be exclusively targeted to the extreme poor. In the case of secondary education, where the poverty assessment found that public spending is also regressive, there is ample room for cost recovery. In the health sector, increasing the access of the poor will require further reallocating public expenditures toward primary health care and in-



creasing cost recovery from the non-poor who were found to be major users of public health services. There is ample room for cost recovery, particularly in urban areas.

Apart from macroeconomic fragility, political instability, and an overvalued real exchange rate in competitiveness terms, the poverty assessment found that the recovery of the agricultural sector has been slow due to several sector-specific constraints:

- The inadequate implementation of sectoral policies and the lack of a strategy for addressing rural poverty. There is little coordination among institutions, which have weak formulation and implementation capacity. No emphasis has been placed on defining policies and programs that are cost-effective while also benefiting poor farmers, such as agricultural research, training and extension services.
- Insecurity of land tenure and inefficient land markets. Although the government is addressing this issue, progress is slow.
- Although many programs exist, there is a lack of viable financing schemes for small and medium-size farmers, and many programs use credit as a means to transfer a subsidy or social assistance.
- Although Nicaraguan basic grains can compete effectively at the regional level, small producers are unable to benefit because of the high costs of information, poor rural infrastructure (particularly rural roads), the high costs of transportation, and nontariff barriers, such as complicated and discretionary export requirements.

## Safety net

In the 1991–94 period, the government mobilized between 1.0 and 1.2 percent of GDP for safety net programs (the rehabilitation of basic infrastructure, integrated rural development programs for war victims, emergency employment, and nutrition). The social safety net has several positive features. First, some programs take a demand-driven approach. Second, partly as a result of this orientation, it gives communities an incentive to organize themselves, increases social participation, and fosters the democratic process. Finally, its strongest agency, FISE, is a financing entity; implementation is left to private contractors, local bodies, and NGOs.

The poverty assessment recommends that the government address the following problems of the safety net: (i) program fragmentation due to the lack of a coherent framework that clearly defines the role of

the safety net vis-à-vis the line agencies; (ii) inefficient institutional arrangements with an excessive number of programs and overlaps with line agencies, insufficient emphasis in rural areas, and unclear targeting criteria and mechanisms; (iii) inadequate information systems in safety net agencies resulting in a lack of data on actual beneficiaries, the value of transfers, program costs (total, administrative, and unit costs), and the effectiveness of programs; (iv) insufficient attention to water and sanitation and to the short-term nutritional needs of pregnant and lactating mothers, children under five years of age, pre-school and school-age children; and (v) the inadequate role of the Ministry of Social Action, which instead of coordinating and monitoring the implementation of poverty alleviation programs, has become another executing agency.

## Poverty strategy

Although the government has made major progress, it should clearly spell out its overall poverty alleviation strategy and express it in a policy document. This document should specify priorities, programs, and measures to be pursued over the short- and medium-term, including a defined and articulated implementation plan with institutional responsibilities. The strategy should have three main elements. First, it should sustain a stable environment to enable rapid economic growth. Policies that absorb and make productive use of rural labor will expand employment and income-earning opportunities for the majority of the Nicaraguan poor. Second, the strategy should maintain and deepen the focus on the provision of basic social services for the poor. Family planning, though, should become a national priority as high dependency ratios are a major determinant of poverty, and an estimated 160,000 poor women, mostly in rural areas, need protection against unwanted pregnancies. Third, a revised and coherent social safety net, well targeted to the poor, is needed to protect the most vulnerable groups. Addressing child malnutrition and emphasizing the provision of water and sanitation should become a priority for the safety net. The poverty strategy document should be the instrument for coordinating donor support. The findings of the poverty assessment point to the need for comprehensive donor coordination around a single government strategy, particularly regarding agricultural sector and safety net programs.

## **Statistical system**

The effectiveness of policy interventions in reducing poverty depends on the quality and timeliness of the information available to measure changes in poverty over time and for monitoring progress in the well-being of the poor. The government is well positioned to develop a good statistical monitoring system by institutionalizing the experience of the 1993 Living Standards Measurement Survey, which provided an adequate database. To this end, IDA and the government have already agreed to repeat

the survey and to analyze its results. Because of the extent of rural poverty, the second survey should include a special module on agricultural activities. To strengthen its institutional capacity for policy analysis, the government should organize a high-level technical unit, responsible for monitoring and evaluating the government's poverty alleviation strategy. This unit would need staff with adequate analytical skills, capable of performing tasks from conception to data analysis. The institutional affiliation of this unit should be consistent with the public sector reform program.

## Poland

### Poverty profile

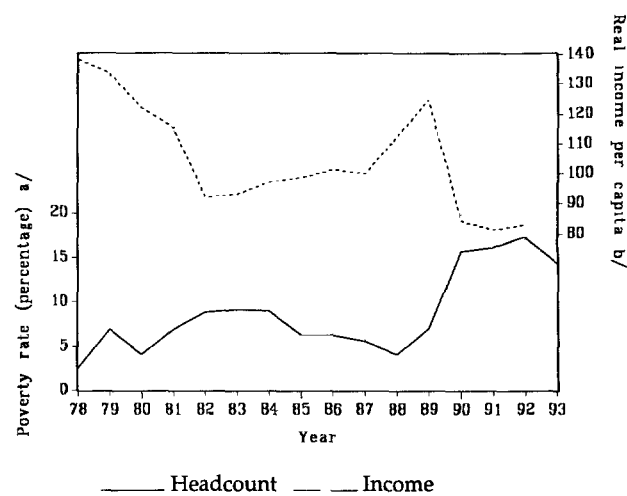
The analysis is based on the 1993 Household Budget Survey (HBS) conducted by the Polish Central Statistical Office. The data are for the first six months of 1993 and are expressed in June 1993 prices. Those who are considered to be poor are all members of a household whose expenditures per equivalent adult are below the level of the minimum pension. The minimum pension is used in Poland to screen applicants for social assistance (if a household earns more than that level per person it is disqualified for social assistance). In June 1993, the minimum pension was about \$71 per month, which, taking the 2:1 ratio between the purchasing power of the Polish zloty and the current exchange rate, equals about \$PPP140 (PPP=purchasing power parity or international dollars) per month, or a little over \$PPP4 per day per equivalent adult. This is about \$PPP3 per person per day.

Using this poverty line, 14.4 percent of the Polish population was classified as poor. The estimated number of poor, however, is very sensitive to small changes in the poverty line. This is because a lot of the population is bunched closely around the poverty line. Thus, if we raise the poverty line by some 25 percent, the number of poor almost doubles, rising from 14.4 percent of the population to 26.2 percent. Along the spectrum of conceivable poverty lines ranging from the minimum pension (\$PPP4 per day) to the social minimum (\$PPP10 per day), each 10 percent increase in the line adds about 6 percent of the population to the ranks of the poor.

Throughout the 1980s, the poverty rate (calculated using the same real poverty line as for 1993) oscillated between 5 and 10 percent of the population. In 1990, the first year of the stabilization, it jumped to 15 percent where it has stayed since. However, as shown in Figure 1, the poverty rate in 1993 seems to be edging downwards.

Poverty can be said to be deep if the average income (expenditure) of the poor is far below the poverty line. The poor are then clearly a separate "underclass." This is not the case in Poland. Polish poverty is "shallow." On average, the poor person's expenditures are only 12-15 percent less than the minimum pension. Shallowness persists with the use of higher poverty lines. It is due to the fairly compressed distribution of expenditures among the poorer segments of the population. This means that

Figure 1. Poverty rate and real income, 1978-93



Poverty rate (solid line): the percentage of the people who are poor (left axis).  
 Real income per capita (broken line): as reported in household budget surveys, 1987 = 100 (right axis).  
 Poverty line: constant in real terms, June 1993 minimum pension.  
 Real is nominal deflated by CPI. Data for 1980, 1981, and 1989 have been adjusted for underreporting of inflation.

few of the poor have extremely low expenditures—in other words, there is no identifiable underclass.

### Who are the poor?

The population can be divided according to socio-economic group (for example, workers or farmers), education level, gender, type of locality (for example, big city or medium city), and age. Table 1 summarizes who the poor are using several of these criteria. Figures 2 and 3 show that the poverty rate (the percentage of the poor within a given group) uniformly declines with age and education level.

- Over one-third of the poor are poor because somebody in their household is unemployed. About 60 percent are poor because their income is insufficient even if there are no unemployed people in their households. (This 60 percent breaks down almost evenly between workers, on the one hand, and farmers and mixed on the other.) Only 5 percent of the poor are older people.
- About 60 percent of the poor live in villages (40 percent of the Polish population as a whole live in villages). An additional 27 percent live in towns with under 100,000 inhabitants. Therefore, only

**Table 1. Who are the poor? Breakdown by the different criteria**

Cause of poverty (%)	By socioeconomic group (%)	By size of locality (%)	By type of household (%)	By age <sup>a</sup> (%)
Unemployment..... 35	Workers..... 38	Big city..... 8	Couple..... 3	Children..... 34
Low working income..... 60	Farmers..... 17	Medium city..... 5	+1 child..... 5	Working-age adults.. 61
Old-age <sup>a</sup> ..... 5	Worker-farmer (mixed)..... 12	Less than 100,000.....27	+2 children..... 17	Elderly..... 5
	Pensioners..... 17	Villages..... 60	+3 children..... 14	
	Self-employed .. 3		>4 children..... 15	
	Social income recipients..... 13		Single parents... 4	
			Others..... 43	
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

a. Children are under fifteen; old are 65 years of age and over.

13 percent of the poor live in larger cities

- People who live in villages are not only farmers. In effect, only one-quarter of them are farmers and an additional one-fifth are worker-farmers. Thus, the high share of rural poverty does not directly translate into a high rate of farm poverty.
- People living in large families (with three and more children) account for 30 percent of the poor. However, more than 40 percent of the poor belong to "non-nuclear" families (for example, three-generational families, or a couple with children living with spouse's cousin).
- Since large families are so prominent among the poor, children also account for many of the poor. In effect, one-third of the poor are children under

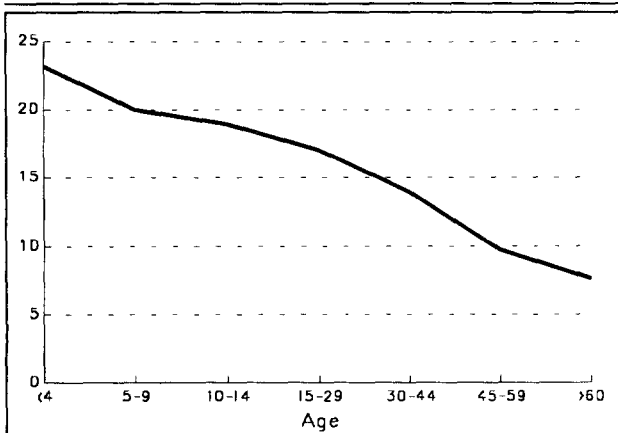
15 years of age, about 61 percent are people of working age, while only 5 percent are elderly.

### Incentive and regulatory framework

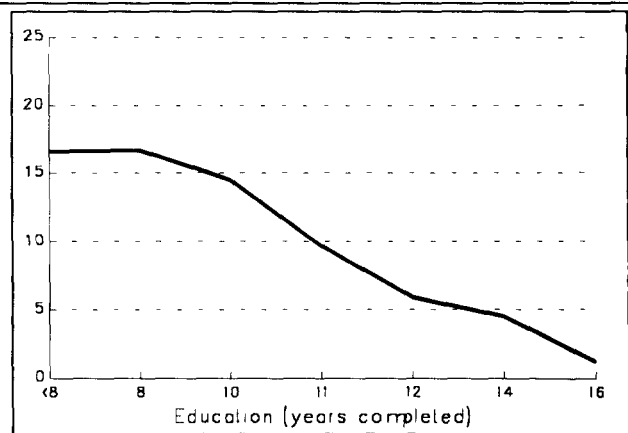
- *Growth.* The strong relationship between income and poverty is illustrated in Figure 1. The resumption of growth is crucial to reduce poverty. However, the implication of shallow poverty is that even small increases in income may have a substantial impact on poverty. It is estimated that each percentage point increase in income (without distributional changes) produces a 0.5-0.7 point reduction in poverty. In other words, a 5 percent growth rate should reduce the percentage of the

**Poverty rate, 1993 (in %)**

**Figure 2. As function of age**



**Figure 3. As function of completed years of education**



poor from the current 14.4 percent to between 11 and 12 percent in one year. If such a growth rate were to be maintained over the remainder of the decade, the poverty rate could drop to about 5 percent of the population by the year 2000.

- *Labor policies.* Since 95 percent of the poor are poor because they are unemployed or because their wages are low, labor policies are the most important factor that affects poverty. There are currently several types of "labor interventions" such as public works, wage subsidies for the unemployed, and retraining. Public works are organized by local governments. They concentrate on the maintenance of local infrastructure, construction works, and municipal services. They last up to six months. Public works wages cannot exceed 75 percent of the average wage (this is twice the minimum wage or twice the flat unemployment benefit). Wage subsidies are received by employers who create new jobs, that are taken by the unemployed. Employers receive, for a period of up to six months, a subsidy equal to the worker's unemployment benefit. Training programs for the unemployed are fully financed by the government, even when training services are subcontracted to private training agencies. The unemployed receive a training benefit that is 15 percent of the average wage in excess of the regular unemployment benefit.

Wage subsidies seem to be more efficient than public works. They are less costly for the government, and workers tend to find "real" jobs afterwards more often. However, employers who receive wage subsidies usually require higher-skilled workers than do the public works. This makes it more difficult to use wage subsidies to employ the long-term unemployed. Neither wage subsidies nor public works seem to be particularly effective at solving the problem of long-term unemployment. This may also be due to the actual unemployability of the hard core long-term unemployed, resulting, for example, from the complete lack or erosion of their skills.

Experience with training programs varies significantly between voivodships (administrative units in Poland). In some, the impact of training on the chances of finding employment is close to zero. In others, it is estimated that up to one-half of ex-trainees find a job within six months. This variation is explained by the quality of courses offered and by variation in the quality of training agencies and their awareness of the structure of labor demand. The better ones come close to the experience of training programs in the most successful developed countries.

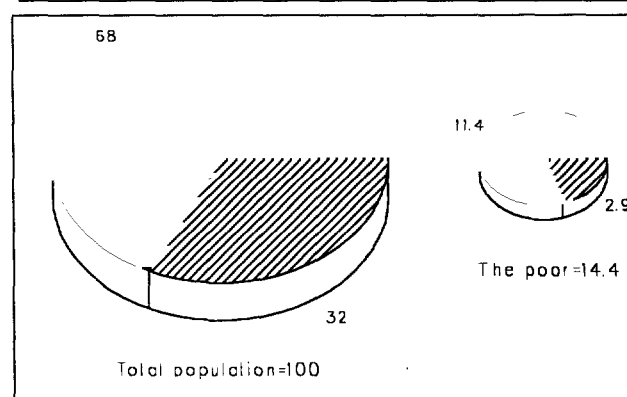
## Public expenditures and social safety net

Social cash transfers, which include pensions, family allowances, unemployment benefits, social assistance, and other social insurance payments (for example, maternity leave and sick leave), accounted for 19 percent of GDP in 1993. The single largest component is pensions: 15 percent of GDP. Unemployment benefits account for 1.9 percent of GDP. Cash and in-kind social assistance is small—a little over 0.5 percent of GDP. Overall, social transfers are very costly. Poland spends more—in terms of GDP—than standard market economies at the same or higher levels of income. Portugal and Spain, with per capita GDPs respectively two and three times higher, spend 11 and 13 percent of their GDP on social cash transfers.

About 50 percent of households receive pensions and family allowances. Family allowances cover almost 90 percent of Poland's children (the only exceptions being the children of "rich" farmers because family allowance is income-tested for farmers). Unemployment benefits are received by almost 10 percent of households, and social assistance by 3.6 percent. In total, 68 percent of the population receive at least one social transfer other than pensions. Among the poor, four out of five receive at least one social cash transfer other than pensions (see Figure 4).

Between 50 and 80 percent of the recipients of social transfers (other than pensions) are not poor even before they receive a particular transfer. The worst record is that of the family allowance, 80 percent of whose recipients are non-poor. How much money goes to the non-poor—in other words, how important is the "leakage"? Table 2 shows that leakage

Figure 4. The population and the poor



Note: Those who receive transfer (other than pensions) are shaded dark

**Table 2. Ex-ante targeting: Where is the money going (in percent)**

	To the poor <sup>a</sup>	To the non-poor ("leakage")	All
Unemployment benefit	55%	45%	100%
Family allowance	26%	74%	100%
Other social insurance	49%	51%	100%
Social assistance	60%	40%	100%
Total	47%	53%	100%

a. People are considered poor or non-poor before the receipt of a particular social transfer.

ranges from 40 to 74 percent of total transfers. It is significant that even for social assistance, whose key objective is the reduction of poverty, the leakage amounts to 40 percent of spending.

### Antipoverty strategy

- *Labor market policies.* Public works should be treated as a measure of last resort and should be strictly targeted to the long-term unemployed and the poor. The main effect of wage subsidies is the advantage they give to the targeted group compared with other job seekers. Such a redistribution of jobs may be justified if it gives employment to disadvantaged groups, who otherwise might never get a job. Wage subsidies should, therefore, be targeted to groups with the least competitive capacity, such as the long-term unemployed and women.
- *Social assistance.* The current system uses the minimum pension per capita as a screening device for social assistance eligibility. However, it does not guarantee that level of income to anyone. Several elements indicate that a minimum guaranteed income (MIG) should not be introduced at present. First, the costs of such a guarantee would be between 2 and 4 percent of GDP. Second, social assistance offices are already swamped, due to increases in the numbers of applicants in the last few years, and their capacity to assess the income and employment situation of applicants is weak. Third, the incentive effects of a MIG would be negative; there would be practically no difference between the MIG and the minimum wage. Incentives to look for a job would decrease. The poverty trap problem would become sharper. Instead of getting regular jobs, people would be pushed toward the informal sector, where they could work but not pay any taxes and hope to be able to claim guaranteed income.

One of key concerns is high poverty among children (see Table 1). There are no social assistance programs targeted to preschoolers and school-age children of low-income families. Two new benefits may

be introduced. One is a voucher for poor families to be used for childcare. This would make it easier for mothers to join the labor force and increase their income. The second measure would provide a school lunch for primary-school children, again restricted to those from poor families.

- *Workfare.* Social workers feel that social assistance recipients, particularly those who have exhausted their unemployment benefits, should participate in community service as condition for receiving aid. This view is based on the fact that incomes and employment in the informal sector are extremely difficult to verify. A significant proportion of people who collect social assistance is thought to work in the informal sector. Workfare may be introduced, initially on a pilot basis, in voivodships where the numbers of long-term unemployed are the highest.

### Statistical system

All Polish poverty studies are based on annual household budget surveys, which are of a very good quality. In 1993, some earlier HBS defects were corrected for the first time. The HBS is currently representative of the entire Polish population. The problem is that the coverage of a number of income sources has become weaker than in the past due to the growth of the informal economy. This is the reason that this poverty assessment used expenditures (rather than income) since the extent of underestimation is thought to be smaller with expenditures than with income.

Since there is already an adequate database, it should be relatively easy to introduce a formal poverty monitoring system. The system would have two major components, both updated annually: a poverty profile and information regarding the incidence of social transfers. Based on these two elements, an independent agency, entrusted with the implementation of the monitoring system, would suggest improvements in the delivery of social transfers to the government.

## Russia

### Poverty profile

The poor in Russia are primarily families with children, the unemployed, the disabled, the single elderly living alone, and women. The homeless and previously institutionalized population as well as some refugees form a small but critical group of the poor. The working poor are the largest group—66 percent of the poor live in households where at least one adult is employed. The largest sub-group of the working poor are families with children (approximately 60 percent of poor households have one or more children), and single parent and young families are particularly at risk. Generally, the younger and more numerous the children there are in the household, the more likely that the household is poor. Family size and composition is a strong predictor of a household's poverty status, and poor and very poor families are larger on average than non-poor families.

Unemployment is strongly linked with poverty, and an estimated 63 percent of households headed by an unemployed person were poor in 1993. Approximately 60 percent of unemployment benefit recipients are limited to the minimum benefit, and nearly 20 percent of the registered unemployed are involved in informal sector activities. Although the average duration of unemployment in Russia to date has been short (six months), it has increased, suggesting a rising number of long-term unemployed. Job losses have been disproportionately borne by women and early retirees.

Households with a disabled head are more likely to be poor, and the presence of a handicapped family member also increases significantly the chances that the household is poor (35 percent of households with disabled member(s) are poor).

Average pensions have been better protected in real terms, and the position of pensioners actually improved relative to wage earners during the transition. However, the minimum pension was allowed to erode significantly in real terms, meaning that those pensioners who live alone and are restricted to receiving only the minimum pension (typically widows) faced real hardship. The poverty rate for elderly women (aged 55 and over) was 44 percent higher than that for elderly males. However, there are relatively few pensioners in that situation (about 25 percent of pensioners live alone), as more than 20

percent of pensioners continue to work and receive wage income in addition to their pensions. Pensioners have the lowest rates of measured poverty in Russia, and there is a very strong inverse correlation between poverty status and age, meaning that older heads of household are significantly less likely to be poor and more likely to be a donor of private transfers rather than a recipient.

While poverty during the transition has broadened in scope, it has also become more dynamic in nature. Headcounts for poor families (expenditures below the official poverty line) in Russia were 25.2 percent in July-September 1992, 31.9 percent in June-September 1993, and 26.8 percent in October 1993-February 1994. Very poor families (those with expenditures less than 50 percent of the official poverty line) comprised 8.4, 12, and 10.4 percent of households respectively. During the 1980s, approximately 10 percent of the Russian population had a per capita income below the minimum consumption basket, based on overly generous consumption allowances for food and non-food items.

In addition, poverty during the transition, although wider, is also more dynamic than poverty under the old system. During the survey periods, a significant percentage of households rose out of poverty, while new households fell below the poverty line. In fact, nearly half of the very poor households in 1992 were not poor one year later, and only 7.3 percent of all households were consistently poor (1.0 percent of the very poor) between 1992 and 1994. Layoffs, involuntary leave without pay, and wage arrears are temporary shocks that cause households to be poor, while successful marketing of home production, profitable entrepreneurial ventures, and finding a well paying job contribute to households rising out of poverty.

Finally, regional disparities in living standards have sharply widened during the transition, as price liberalization has resulted in sharply differing the costs of living and the average wages of the oblasts (regions) of Russia. The prevalence of one-company towns has meant that restructuring has been disproportionately concentrated in certain regions (such reductions in light industry in the textile-producing oblasts of central Russia). Other regions, that were traditionally poor under the old system (Dagestan, north Caucasus, and some areas in the Far East) have not yet benefited from the new economic opportunities in European Russia.

## Incentives and regulatory framework

Recorded GDP fell by more than 40 percent from 1991 (although significant informal sector activity is not included in official statistics), and inflation was extremely high in 1992-1994, though falling from 23 percent per month on average in 1993 to 10 percent in 1994. Tighter fiscal and monetary policy in 1994 led to a deceleration in inflation, but output had not recovered noticeably. The overall drop in output partly reflects necessary industrial restructuring and a movement towards market prices for energy and raw materials. Progress on structural reforms has been uneven, with significant progress in price and trade liberalization, but privatization (although affecting 60 percent of the industrial workforce) has not yet had a major impact on enterprise behavior or increased profitability overall.

## Public expenditures

Fiscal imbalances resulting from government support to state-owned enterprises and poor tax collection have imposed enormous pressure on the Russian economy during the transition. Total transfers have fallen significantly since 1992, but still amounted to 8 percent of GDP in 1994, while public expenditure on social protection (pensions, unemployment benefits, family and maternity allowances, and local social assistance) comprised 9 percent of GDP in 1994. Evidence suggests that social spending in the aggregate has not been disproportionately affected by fiscal adjustment to date, although there is a need to restructure existing spending. In the aggregate, health and education expenditures in Russia have been broadly maintained as a share of GDP, although declining GDP means a large decrease in real aggregate and per capita spending. The reduction in social spending by enterprises (by an estimated 30 percent in 1993) means a reduction in the availability of social services such as childcare. At the same time, although total investment has fallen drastically, the share of public investment in the social sectors has been relatively stable.

Decentralization is one of the most important systemic changes to have occurred in Russia since 1991, and the regions have become responsible for planning, delivering, and financing most public services. However, the rapid and often chaotic decentralization of fiscal responsibilities has resulted in a system of intergovernmental relations and finance that is fraught with inconsistencies, uncertainties, and problems. The increasing regional disparities in pov-

erty result from the differential impact of restructuring on oblasts with different economic structures as well as the local responsibility for financing social assistance, which means that poorer oblasts are correspondingly less able to assist the relatively larger numbers of poor people within their jurisdiction. Local-revenue sharing measures are in force, but to date, this process has not provided poorer regions with adequate financing for the increased demand for social services.

## Safety net

The safety net in Russia is comprised of formal cash transfers (social insurance and assistance programs) as well as informal support from private plots of land and private transfers among households and individuals. Formal cash transfers are extensive and consist of pensions, unemployment benefits, family allowances, social assistance (a means-tested poverty benefit and local social services), sickness pay, and maternity benefits, as well as household subsidies for housing and utilities and health care. However, three out of 10 very poor households receive no public transfers whatsoever, and one out of five poor households receives no public assistance.

Some cash benefits have hovered around very low levels—the unemployment benefit is about 15 percent of the average wage, and family allowances are from 1 to 8 percent of the average wage. These amounts are too low to lift recipient households above the poverty threshold. Local authorities are responsible for financing most public services (health, education, and local social assistance).

The pension system has maintained high levels of average pensions, but minimum pensions have often fallen below the subsistence level, and current projected expenditures are not affordable (due to a low official retirement age of 55 for women and 60 for men). Most unemployed people do not receive or take up benefits. For example, in 1992, fewer than 3 percent of households headed by an unemployed individual received the unemployment benefit.

In early 1994, the system of family allowances was simplified into a single benefit (with a few additional tiers for single mothers). Family allowances are available to all children, regardless of need, but actual program costs have fallen below projections, suggesting that either take-up has been low or that benefits are not being delivered. Although centrally financed, benefits are administered by enterprises.

In 1994, a regional program of social protection was adopted, as a result of which those people with



incomes below the regional subsistence minimum are accorded the first priority for assistance. Local programs comprise in-kind benefits and services, and typically have three common components: an incomes test; in-kind benefits rather than cash transfers; and the local financing of assistance. Present local social assistance arrangements are highly personalized and administratively demanding, requiring individual interviews and home visits.

In May 1995, a draft federal law providing for the introduction of a poverty benefit for households and individuals with per capita incomes below the regionally specific subsistence minimum was adopted on the third reading. Although this law is certainly a significant step forward and broadly consistent with previous World Bank recommendations, there are still problems with the law as written and it is not clear whether Russia will be able to afford the cost of this new benefit. In particular, poor households face in effect a 100 percent marginal tax rate, so that the poor have no incentive to increase their work effort unless they can somehow be certain that the additional income will put them well over the poverty threshold, resulting in a poverty trap. The poverty trap is worse for households with children, as the amount of social assistance available to families with two or more children may actually exceed the average wage. A tapered benefit, related to a given household's income shortfall, could help to alleviate these adverse incentive effects.

Public transfers are not well targeted in Russia. Although family allowances are spread relatively evenly across income deciles, they are not particularly progressive. Even worse, pensions are clearly regressive. Local social assistance is concentrated on the highest income decile, and scholarships are focused on the non-poor. Unemployment benefits are better targeted.

### Poverty strategy

Stabilization and renewed economic growth are critical for poverty reduction in Russia as they increase access to income-earning opportunities. Sustained reductions in inflation are necessary to provide adequate social protection. The continuation of structural reforms and privatization could yield significant growth opportunities, although the extent and

severity of poverty and increasing wage and income inequality suggest that many people may still remain in need.

Besides encouraging private-sector growth, the government needs to consider carefully the targeting and incentive effects of existing and proposed benefits. Poverty status in Russia is related to certain clearly observable attributes, such as the number and age of children, the presence of an unemployed family member, and which oblast they live in. But these correlations alone are not robust enough to design a comprehensive categorical approach to poverty reduction. Unfortunately, incomes testing is complicated by adverse incentive effects and poor administrative capacity. Means-tested benefits should be the option of last resort, after eliminating as many potential claimants as possible through alternative methods. For example, setting the minimum pension above the social assistance income threshold would mean that the elderly do not have to resort to social assistance. This is also especially the case for unemployment benefits, which are clearly too low.

Regional disparities could be better addressed through a system of revenue sharing via matching block grants. Temporary employment schemes and earned income tax credits could help to address regional disparities in labor market opportunities and the problems of the working poor.

### Statistical system

In 1993–94, the State Statistical Committee of the Russian Federation and the World Bank piloted a representative household survey, the Russian Longitudinal Monitoring Survey (RLMS). In stark contrast to official income and expenditure statistics based on the long-running Family Budget Survey (FBS), the RLMS was based on a representative household sample and provided the basic information for the poverty profile. Goskomstat is presently trying to reform the FBS based on experience gained through the RLMS, and intends to introduce the revised approach from 1996. Further technical assistance and support is needed to ensure that the sample is representative and that the survey instruments reflect the needs of policymakers and analysts in Russia during the transition and in a market-oriented economy.

## Senegal

### Poverty profile

An analysis of the 1992 Priority Household Survey reveals that, during the harvest season in 1991/1992, about 33 percent of the entire population could not secure a minimum caloric intake of 2,400 calories per adult equivalent per day. Poverty in Senegal is essentially a rural phenomenon, with over 80 percent of poor households living in rural areas. However, urban poverty is quite significant in Dakar where the incidence of poverty is estimated at 12 percent. Many of the urban poor live in unsanitary conditions in periurban areas. Overall, poverty is concentrated in the informal sector (agriculture and nonagricultural activities). The key determinants of poverty at the individual level are the level of capital (both human and physical) used in the activity and the extended family.

### Incentive and regulatory framework

The assessment examines the impact of the tax and tariff system, the preliminary effects of the 1994 devaluation, and the implications of land tenure arrangements. It was found that taxation on basic goods such as fuel, rice, and sugar is regressive. Furthermore, these preliminary results seem to indicate that the devaluation may have hurt the poor since many of the basic commodities consumed by them are imported. The land tenure system tends to reinforce incentives to use land in a manner that is not environmentally sustainable. This is bound to exacerbate poverty in the long run.

### Public expenditures

No thorough public expenditure review was undertaken. However, it was noted that spending on operations and maintenance in key social sectors such as education dropped to low levels.

### Safety net

Family ties or ethnic networks provide the basis for the traditional safety net. This operates through social functions such as ceremonies where the poor have an opportunity to receive transfers in cash or in kind. However, it must be noted that the system favors more current consumption than investment in productive activities. Furthermore, those who fall through the cracks of the traditional social safety net tend to be forced into high-risk activities such as borrowing at very high interest rates, prostitution, or begging. Also, the formal sector seems to provide more for the non-poor than for the neediest.

### Poverty alleviation strategy

The basic guiding principle is to adopt comprehensive and sustainable policies to increase the competitiveness of the economy and to reverse the regressivity and the distorted nature of the fiscal system. In particular, it is recommended that family planning services be expanded to rural areas and that emphasis be given to increasing literacy among women. Cost recovery programs in the poorest regions must be monitored, and the increased use of generic drugs must be considered. Finally, AGETIP operations should be extended to rural areas.

### Statistical system

The completion of the Priority Household Survey represents a significant step forward in improving the statistical system in Senegal. The second household survey provides the information that was missing from the first and will allow the database for poverty analysis to be consolidated. To reap the full potential benefits from this consolidated database, it is important that the data be widely available to a large audience and analyzed. This issue is being pursued in the context of future Bank work.

## *Sri Lanka*

### **Poverty profile**

In the post-Independence period, Sri Lanka has made good progress in reducing consumption poverty. Real per capita GDP grew at an average annual rate of 2.5 percent in the 1950–93 period. The distribution of household income by decile towards the end of the period was similar to that in the early 1950s, although there were fluctuations in between. Thus, consumption poverty at the end of this period must have been much lower than at the beginning, regardless of the particular poverty line chosen. Based on an analysis of household data using a poverty line close to the “one-dollar-a-day” poverty line (per person at 1985 purchasing power parity), the study found that the proportion of individuals with consumption expenditures below the poverty line was about 22 percent in 1990–91 (24 percent in rural areas and 18 percent in urban areas). The study also found that individuals are more likely to be poor if working members of the household are employed in agriculture; that households where poor individuals live are larger; that the poor are less educated than the non-poor through the differences are not very pronounced; that the poor have somewhat lower labor force participation rates, which is partly explained by age composition; that there is a positive correlation between poverty and unemployment; that the poor devote a very large proportion of their consumption expenditure to food, with rice alone accounting for 25 percent of their total consumption; and that the incidence of poverty for female-headed households is about the same as for male-headed households.

Progress in reducing consumption poverty has been accompanied by excellent progress in increasing literacy and other basic education indicators, and mortality and fertility have both declined to the point where the country has almost completed its demographic transition. There are, however, some areas of Sri Lanka’s human development performance that need attention. Data on morbidity suggest that the incidence of malaria has increased sharply in recent times, and evidence from a number of surveys indicates substantial undernutrition in young children. Unlike in other developing countries, however, undernutrition does not result in high levels of infant and child mortality, possibly because of a combina-

tion of good basic health services and the fact that most mothers have had a basic education.

### **Incentive and regulatory framework**

Although Sri Lanka’s long-term growth rate in per capita terms compares favorably with most of the developing world, it falls well short of the growth achieved in the last three decades by the high-performing East Asian economies. This is because its policies were less supportive of economic growth. Problems with macroeconomic management have constrained domestic saving and investment and fueled inflation. Export growth was constrained by inward-looking trade policies, interventions in the labor market, and, at times in the past, exchange rate overvaluation. In the agriculture sector, performance has been constrained by pervasive controls on land ownership and use, on marketing, and on pricing. Starting in 1977, a new economic strategy has been pursued that aims to increase the role of markets and the private sector by reducing restrictions on pricing, investment, and external trade and payments. A program for privatizing government enterprises is also being pursued. The economic reform effort slowed down during the 1980s, but has been pursued with greater determination since 1989. Success in implementing the economic reform program would increase the prospects for long-term economic growth and poverty alleviation.

In the short term, the post-1989 economic reforms do not appear to have had a negative effect on a majority of the poor, although some specific groups may have been affected. In particular, government spending on the social services (including spending on education, health, welfare, housing, and community services) did not decline after 1988 as a share of GDP, in spite of a decline in the budget deficit from 15.7 percent of GDP in 1988 to 8.1 percent of GDP in 1993. The retrenchment of employees from privatized government enterprises has been voluntary in most cases, with employees receiving a compensation package. The reduction of protection to import-substituting manufacturing and some agricultural products has probably caused short-term hardship for certain groups of producers, although poor consumers benefit from the reduction in domestic prices induced by reduced protection (especially in the case of foodstuffs).

## Public expenditure

The poverty assessment's analysis of public expenditure was limited to education, health, water supply and sanitation, and transfer programs. In the education sector, the study notes that, while the country has achieved high levels of enrollment in primary and secondary education, there is ample room to improve the quality of the education provided to all children, as well as to increase the equity with which resources are allocated. Improving quality would require reducing expenditures on salaries by reducing teacher numbers, many of whom are in the cities where there is a surplus of teachers, and providing more resources for essential school supplies and materials. Additional measures to improve the quality of general education would include emphasizing science and language training, especially English as a second language, making a greater effort in teacher training, and revising the curriculum with the aim of making general education more relevant to the needs of the economy and society. Increasing equity in the access to good quality general education, which would be strongly pro-poor, would require reducing the existing disparities in resources among schools, both within and across provinces.

In the health sector, the government's health services are faced with the challenge of a changing population structure (fewer children and more older people) and, consequently, a changing disease pattern. There are also several critical problems concerning the composition of government health expenditures. These include insufficient attention to preventive services, unbalanced functional distribution of current expenditure (with too much being absorbed by higher-level health facilities), declining ratio of current expenditure to capital stock, and insufficient expenditure on the repair and maintenance of health facilities.

In the water and sanitation sector, substantial progress was made in the 1980s towards the goal of achieving universal coverage of safe water and adequate sanitation facilities. By 1990, about two-thirds of the population had access to some type of formal water supply source, and close to 60 percent had access to satisfactory sanitation facilities. There are, however, significant disparities in coverage among provinces and between urban and rural areas, and the current public investment program would reinforce these disparities rather than reduce them. In-

come transfer programs are discussed in the section below.

## Safety net

In Sri Lanka, as in many other developing countries, a private safety net in the form of private transfers exists and is an important mechanism for alleviating the effects of economic misfortune. Another important component of the safety net is comprised of the activities of a large number of nongovernmental organizations (NGOs). NGOs are involved in a rich variety of activities with an emphasis on providing social welfare services. In addition, the government operates an array of income transfer programs to assist certain groups of the population with cash or food coupons. Spending on transfer programs was equivalent to 2.5 percent of GDP in 1992. Transfer programs suffer from several weaknesses. The government appears to be meeting reasonably well the needs of the population displaced by the long-standing civil conflict, although some improvements may be possible in terms of targeting and the provision of water and sanitation facilities in the camps. Programs addressing the needs of the destitute poor defined as poor households with heads who are disabled, elderly, or widows; destitute orphans; the destitute elderly; and the destitute disabled appear to be severely underfunded. Other transfer programs (such as food stamps) target too broad a segment of the population, and the real value of individual benefits has been allowed to deteriorate over time with inflation.

## Poverty strategy

Since poverty in Sri Lanka is not a phenomenon restricted to a small group in society but rather affects more than one-fifth of the total population, broad-based growth at a high and sustained pace will be necessary in order to achieve a rapid decline in poverty. The chief focus of Sri Lanka's future poverty alleviation strategy needs to be the acceleration of growth, with emphasis on agriculture and labor-intensive manufacturing, while protecting public spending for human development and increasing its efficiency and equity. These tasks constitute a major challenge, especially in view of the civil conflict and the persisting resource constraint in the public sector. The civil conflict has resulted in a severe disruption of economic activity in the conflict areas and a

large diversion of resources away from high-priority spending in order to finance military and police activities. In addition, the indirect negative effects in terms of the adverse impact on incentives for private investment and, therefore, growth could be substantial. Hence, a peaceful resolution of the civil conflict is of critical importance for poverty alleviation. Along with this resolution, Sri Lanka needs to continue to implement its economic reform program. Greater efforts have to be made to reduce the fiscal deficit. Structural reforms also need to be deepened. This includes completing the rationalization of the trade regime to eliminate the antiexport bias, introducing tax reforms, deepening the privatization of public enterprises, deregulating foreign direct investment, pursuing reforms leading to a more flexible labor market, and tackling land market rigidities and other high-priority areas of reform in agriculture. At the same time, reforms of government programs in education, health and water supply and sanitation are necessary to increase the efficiency of resource allocation and to ensure a fair distribution of the ben-

efits from these programs. Finally, income transfer programs need to be rationalized and better targeted to the poorest segments of society.

### **Statistical system**

The government should start to monitor poverty indicators on a regular basis. This could be done on an annual basis now, since, starting in 1993, the Department of Census and Statistics has added a household income and expenditure module to its quarterly labor force survey for the last quarter of the year. Thus, the government could define an official poverty line and proceed to monitor poverty indicators (incidence and other indicators) at the end of each calendar year. The Department of Census and Statistics has also been conducting a larger household income and expenditure survey every five years since 1980/81. These larger surveys should be used by the government and academic researchers to carry out a more disaggregated analysis of poverty indicators every five years to complement the annual monitoring exercise.

## Vietnam

### Poverty profile

Poverty reduction has been a central goal of the Vietnamese government since unification and was a driving force behind the economic reforms initiated in 1989. While recent growth performance and future prospects are good, Vietnam remains a very low-income country with a per capita GDP of less than \$200. With a relatively equitable distribution of resources, poverty is widespread throughout the country. The challenge for the 1990s lies in taking advantage of Vietnam's substantial growth potential while at the same time ensuring widespread participation in the benefits of development.

This poverty profile is based on the 1993 Vietnam Livings Standard Survey (VLSS), the first nationally representative household survey conducted by the government with technical assistance from the World Bank. The report sets new poverty lines for Vietnam based on a benchmark per capita calorie requirement of 2,100 calories per day (taking into account geographic price variations in the cost of the same food basket) as well as an allotment for non-food essential items. Comparing this poverty line with the distribution of per capita expenditure from the VLSS, about 51 percent of the Vietnamese population is classified as poor. Half of the poor, 25 percent of the population, are food-poor in the sense that they cannot meet their daily basic calorie requirement even if they were to devote all of their consumption to the basic food basket.

Poverty is much higher in rural than urban areas. The incidence of rural poverty averages 57 percent—twice as high as the 27 percent poverty incidence found in urban areas. Ninety percent of all of the poor are concentrated in rural areas, and 76 percent of the poor are farmers. Among farmers, those who have less diversified economic activities both on and off the farm are poorer than others. There is also considerable variation among regions. The highest incidence of poverty (71 percent) is found in the north central coast, while the lowest rate (33 percent) is found in the southeast where the economy is dominated by Ho Chi Minh City. Despite regional disparities, the overwhelmingly striking feature of the poverty profile is the consistently high levels of poverty throughout all rural areas of the country, even those generally considered to be better-off. Government policies to reduce poverty must focus primarily on rural areas.

Ethnic minorities represent 15 percent of the Vietnamese population and, with the exception of the Chinese, they have a higher incidence of poverty than the national average—ranging from 66 percent among the Tay to 100 percent of the H'mong. Female-headed households are not poorer than the national average. Poor households tend to be slightly larger than average, as well as younger, with more children under the age of 15 and fewer elderly over the age of 60.

Vietnam has achieved a remarkably high level of literacy, with an average of 88 percent of adults older than 15 being literate. This implies that there is a high degree of literacy among the poor. The literacy gap that remains is not very large, with literacy ranging from 79 percent among the poorest 20 percent of the population to 94 percent among the richest. Malnutrition is very high in Vietnam, especially among the poor. The prevalence of stunting among two to three year old children reached nearly 70 percent in the poorest quintile, more than twice as high as among the richest 20 percent. The fertility rate is also considerably higher among the poorest quintile where on average women have 4.9 children compared to 1.8 in the richest quintile.

### Incentive and regulatory framework

Vietnam has been carrying out an ambitious adjustment and reform program ("Doi Moi") since 1989 and is making a steady transition to a market economy. The country has achieved notable success with its reform program. Initial structural reforms included the decollectivization of agriculture, price liberalization, unification and the devaluation of the exchange rate, and the hardening of the budget constraint for state enterprises. At the same time, the fiscal deficit that was the root cause of inflation was reduced through a combination of tax reform, the elimination of subsidies, and expenditure restraint. Other reforms addressed the financial sector, state enterprises, and foreign trade. Real GDP growth has averaged 8 percent a year, and at the same time inflation was reduced from 400 percent in 1988 to 5.2 percent in 1993. The success of these economic reforms was particularly evident in the agricultural sector where the country was transformed very quickly from a rice importer to a major rice exporter. The role of private trade and production in agriculture swelled, which more than offset the contraction in the state sector.

Vietnam's transition experience is different from that of other former command economies as well as from that of countries undergoing radical structural adjustment programs in that it resulted in rapid growth and poverty reduction. There are several reasons for this, including: the relative importance of agriculture rather than industry; an adequate compensation package offered to retrenched workers; a quickly growing private sector; social services delivered outside state enterprises. As a result of these factors, the social costs of adjustment in Vietnam were much milder than experienced elsewhere.

While the initial economic reforms benefited the poor quite quickly and directly, the next stage of reforms is more indirect. Vietnam is moving from the relatively easy price liberalization measures to more difficult structural reforms such as restructuring state-owned banks, privatizing public firms, and streamlining the trade regime.

Projections indicate that sustaining the average growth rate of 8 percent for the rest of the decade—with regional growth patterns unchanged—will have a powerful effect on the magnitude of poverty, lowering the overall incidence of poverty to 29 percent by the year 2000. Since there is considerable variation in growth rates among regions, poverty will be reduced much more quickly in the some areas than others. If all regions were to grow at the same rate of 8 percent per year, the overall incidence of poverty would decline more quickly to 23 percent by the year 2000. These projections highlight the need to supplement broad macroeconomic policies with targeted efforts to promote rural development in Vietnam's poorer and slower growing regions.

## Public expenditure

Much of the success of the government's structural adjustment program since 1989 was due to prudent fiscal management, which had important implications for the level and sectoral allocation of public expenditures, including the sectors most directly related to poverty alleviation. In real per capita terms, capital spending was reduced by 60 percent between 1990-91, while current spending declined by 20 percent. A notable feature of the fiscal adjustment was that social sector spending was protected relative to other sectors, so that its share of discretionary government expenditure actually increased. Government expenditure began to recover in 1992, and by 1993, both capital and current expenditures had been more than fully restored to pre-adjustment levels. Assessing the sectoral impact of these fiscal

developments is, however, complicated by a lack of transparency in the government's budget classifications.

The assessment examines the incidence of the benefits of public expenditures for health care and education. It finds that only one-third of the education budget is spent on the well targeted primary education program (22 percent of the subsidy for primary education is spent on the poorest 20 percent of the population.) However, half of the education budget is spent on higher level programs that are not well targeted—the richest quintile captures 50 percent of the subsidy for senior secondary schools and 67 percent of the subsidy for postsecondary schooling. The poorest quintile benefits from only 11 percent of all education subsidies, while the richest quintile captures 38 percent. Similarly with health care, the poor tend to use the commune level health center more than other groups do, yet only about 5 percent of the health budget is allocated to primary health services, and most of the budget is directed to hospitals, where the wealthier people go. Overall, the poorest quintile receives only 11 percent of all health subsidies, while the richest quintile captures nearly 30 percent. Out-of-pocket expenditures for public health care and education are significant. The report recommends better targeting of public spending to reduce barriers to the utilization of primary and lower secondary schools and commune health centers and district hospitals that are used by the poor, as well as improving the quality of services.

The issue of intergovernmental fiscal relations is examined in detail in the assessment. The impact of public expenditures on poverty alleviation depends not only on how much is spent on pro-poor sectors but also on where it is spent—to what extent are these expenditures directed to those regions and provinces with large concentrations of poverty and fewer local resources—and how well it is spent—to what extent are policies implemented so that the benefits accrue to the intended groups? Local governments are responsible for many of the important poverty-related expenditure programs, including irrigation, agricultural extension, rural roads, primary education, and basic health services, and spend about one-third of the overall government budget. Yet their autonomy in adjusting the allocation of expenditures or raising additional revenues is limited. As a result, important pro-poor services are underfunded in rural Vietnam.

The assessment examines existing arrangements for expenditure and tax assignment, as well as the design of intergovernmental transfers. It recom-

mends building on the existing system of intergovernmental finances while making adjustments in the following areas: (i) devolving some independent revenue-raising authority to local governments; (ii) creating a more adequate method for resolving vertical and horizontal imbalance through revenue sharing arrangements and general purpose grants; (iii) identifying activities of national importance for which specific purpose transfers should be made and determining the matching requirements that should be established for different provinces; and (d) providing adequate stability in intergovernmental fiscal arrangements.

### **Safety net**

Vietnam has a large program of social transfers financed by budgetary expenditures on pensions and social relief amounting to 10 per cent of the budget, nearly as much as is spent on education and health combined. Overall, these expenditures are not well-targeted towards the poor. More than 80 percent of the budget is spent on social security (pensions and disability payments) for government workers. The poorest quintile benefits from only 7 percent of all these expenditures on pension and disability payments. In contrast, nearly 40 percent of government expenditures on social transfers is captured by the richest quintile.

Social safety net expenditures need to be better targeted towards the poor in rural areas where they can play an important role in promoting rural development by providing insurance against failure and encouraging people to take greater risks. Government expenditures on social relief for those who are not protected by the formal social security program appear to be well-designed but are very low, accounting for less than 10 percent of budget spending on social transfers, and reach only a small proportion of the poor. Reallocating budget expenditures from pensions to social relief would strengthen the poverty alleviation impact of social spending.

### **Poverty strategy**

Vietnam's strategy for reducing poverty includes the three key elements of broad based growth, human resource development, and social safety nets. The vast majority of Vietnam's population, its labor force, and its poor are located in rural areas where livelihoods continue to be primarily linked to small-scale agriculture. Rural development, broadly conceived, is going to be critical for growth, raising living stan-

dards, and reducing poverty. The government can play a key role in helping to promote broad-based growth by continuing to deepen reforms and by ensuring an incentive framework that encourages the development of exports, of agricultural products as well as those of labor-intensive industries. Reducing poverty in rural Vietnam will require both higher incomes from agricultural production and diversification to nonfarm activities. With 900 people already on each square kilometer of agricultural land and 1 million young people entering the labor force each year, off-farm opportunities need to expand. The government can promote farm and off-farm linkages by investing in rural areas (infrastructure, agricultural research and extension, and human resources), improving the delivery of rural financial services, and increasing the efficiency of local public expenditures by reforming intergovernmental finances. Human resource development will require better targeting of social services as well as improvements in the quality of services. By providing these services throughout all parts of the country, labor will be mobile and, in some cases, will move to areas with higher potential. Vietnam should pursue its stated objective of making the formal sector pension program self-financing and should allocate more budget resources to social welfare relief for the very vulnerable.

### **Statistical system**

The government has taken important steps towards increasing its capacity to collect and analyze poverty-related data on a regular basis. The government conducted its first Vietnam Living Standards Survey in 1993 and a much larger household survey, the Poverty Monitoring Survey, to monitor living standards in 1994. The report recommends implementing on a regular basis a new household survey that integrates the sectoral breadth of the Living Standards Survey and the regional depth of the Poverty Monitoring Survey in a two-part core and module design. The implementation of a survey designed along these lines would need to be supported by: (i) strengthening institutional linkages between the Government Statistics Office, as the technical agency responsible for the quality of data production, and its client policymakers in the State Planning Committee and the relevant line agencies, (ii) improvements in the timeliness of turnaround from the surveys, and (iii) continuing improvements, through training and hands-on experience in the analytical skills of policymakers and researchers in Vietnam.



## Zambia

### Poverty profile

Poverty in Zambia is serious and widespread. The 1994 Zambia poverty assessment states that, in 1991, about 69 percent of all Zambians were living in households with expenditures per adult equivalent below a level sufficient to provide basic needs. Poverty prevalence in rural Zambia stands at 76 percent. It is more prevalent, deeper, and more severe than urban poverty. Rural poverty is more prevalent in remote provinces and is especially severe in remote districts within a province. The rural poor engage in agricultural activities—primarily on semi-subsistence farming—and rely mostly on family labor for agriculture production. Households with high poverty rates are, on average, larger, female-headed, and have high effective dependency ratios. Although the rural poor are less dependent than the urban poor on market-purchased food, the largest proportion of their household budget is spent on food.

The prevalence of urban poverty was negligible in the late 1970s, but it increased to just under 50 percent of the urban population in the 1990s. Urban poverty is diverse spatially. Most urban poor live in unplanned squatter settlements on the periphery of urban centers, where the lack of legal status and service provision constrain their productivity. Food and housing account for 97 percent of the total expenditures of the urban poor. As the formal sector continues to shrink, the majority of the urban poor engage in activities within the informal sector. Both the urban and rural poor's welfare is negatively affected by malnutrition, poor health status, and low levels of education. Chronic malnutrition affects 47 percent of core rural poor households and affects 41 percent of the urban core poor. The currently unsustainable population growth rate is straining the capacity to deliver social services and also constraining households' coping ability by increasing already high dependency ratios.

### Incentive and regulatory framework

The poverty crisis in Zambia is a result of long-standing inappropriate policies compounded by severe external shocks. Despite some partial and half-hearted attempts at adjustment during the 1980s, the situation worsened; the reforms were neither systematic nor sustained. Unemployment increased in urban areas, and rural terms of trade worsened as

government tried to cushion the impact of external shocks on the urban population by keeping maize prices low and financing this subsidy by foreign borrowing. Zambia's policy was biased against agriculture and rural development, which meant that the country's potential for smallholder agriculture was neglected; consequently the sector was never able to contribute significantly to reducing poverty. Building on renewed adjustment efforts started in the late 1980s, the current government has pursued an aggressive and comprehensive adjustment and stabilization program. Trade liberalization has lowered the price of key consumer goods and benefited the majority of Zambians. On the other hand, maize liberalization is a case where the experience so far has been mixed. On the positive side, smallholders are beginning to diversify their crop mix away from maize, reducing their vulnerability to drought and political interference in the maize marketing system. However, in many remote areas, the private sector has not taken up where the public sector left off, and where it has, private monopolies have often taken over. In the longer-run, in response to liberalization, there will have to be a shift out of maize in more remote areas. However, in the short-run, some intervention is needed to protect the most vulnerable, although the instruments are not well-defined yet. As long as real interest rates remain high, there will be a minimal private supply response. This is also true for areas critical to poverty reduction—the informal sector and private sector marketing of maize and agricultural outputs. The main reason for high interest rates is continued government deficits and the resulting continuously high inflationary expectations. Cash budgeting must be further tightened and the parastatal loopholes closed. This must be combined with the continued protection of core expenditure items in the water and sanitation, health, and education sectors and in safety nets. Budgeting and disbursement procedures should be modified to avoid bottlenecks in the disbursement of allocated funds to service providers.

### Public expenditures

The report states that the continued decline in the economy has caused a squeeze on public expenditures and persistent government deficits for the last 20 years. Even with GDP growth of more than 5 percent a year, the debt-to-GDP ratio is likely to remain

disturbingly high, leaving little room for maneuvering public expenditure policies without a major increase in revenues. The report indicates that, in the 1980s, agriculture, infrastructure, and the social sectors suffered more than their proportional share of the fall in expenditures. Social sector spending declined sharply, with education bearing the brunt. The failure to increase social spending compounded by the bias in favor of tertiary services hurt the poor disproportionately. The government is trying hard to ensure increased budget shares for social spending and to remove the bottlenecks to using allocations effectively. To reverse the decline in public expenditures on health and education, the government allocated a greater share to health and education in the 1994 budget and promised to protect these services during budget implementation. It also protected (in absolute terms) key areas within the social sectors such as nonpersonnel recurrent costs for primary services. In the 1994 budget, the allocation of recurrent departmental charges in the health sector to each district was determined by giving a per capita allocation weighted by its population density. In the 1995 budget, these weights will also include a poverty measure to ensure that poorer provinces receive larger per capita grants. The elimination of subsidies, which used to amount to between 15 and 20 percent of spending in the 1980s, shows the determination of the government to liberalize the economy. The subsidy removal has hurt the poor in the short run (by increasing the price of maize meal, which is now leveling off relative to other prices) but is necessary for setting the stage for growth and poverty reduction. However, subsidies to parastatals remain on the budget but are not shown as subsidies.

### **Safety nets**

Private safety nets (including kinship and church-based aid), which functioned relatively well in the past, have deteriorated with the decline of the economy. Two main target groups for safety net interventions have been identified within Zambia: the incapacitated poor (permanently vulnerable) and those with some productive capacity who are vulnerable to shocks. Several successful programs cover the second group and have good potential for expansion. These include the follow-up program to the drought relief: the Program Against Malnutrition (PAM), Program Urban Self-Help (PUSH), and the activities of the Microprojects Unit (MPU). All three programs have been successful in giving transfers

based on the payment of labor while providing infrastructure and improving service delivery systems. The relative success is probably attributable to a shared implementation philosophy of involving beneficiaries in the planning and implementation of the activities and of relying on local (both government and nongovernment) networks for monitoring and facilitation. The important differences in emphasis among the programs could make them complementary and cost-effective if their activities are well coordinated at the central and district levels. The only public sector program with significant potential for addressing the needs of the incapacitated poor is the Public Welfare Assistance Scheme (PWAS). The implementation philosophy is sound, relying on local committees for identifying the poor with auditing, guidance, and monitoring from the center. The activities reflect the poor's own perception that the indigent poor are a community responsibility, while the support for other groups is the responsibility of individual and kinship groups. PWAS has had problems in monitoring and targeting. Explicit guidelines should outline general principles while leaving the identification of the needy and the payment method to local committees. Currently, less than 1 percent of the national budget goes to this program.

### **Poverty strategy**

The ongoing reform process in Zambia is likely to foster growth and poverty reduction. However, unless specific actions are taken to enhance specific opportunities for the poor and to support their ability to respond to them, the decline in poverty will be slow and insufficient to satisfy the reasonable demands of the poor. Accelerating poverty reduction in Zambia requires consistent action in four main areas. First, the ongoing pro-poor reform elements must be sustained and deepened. This will require maintaining stabilization and liberalization policies, accelerating parastatal reform and the privatization program, encouraging private sector growth, and promoting a more efficient public sector. Second, actions are required to increase the output and production activity of smallholders and to create market and transport linkages with urban areas. It is essential to facilitate smallholder agricultural growth by providing rural infrastructure and technology and supporting private marketing, storage, and processing. Third, it is essential to encourage human resource development to ensure that Zambians have greater access to quality education, health care, family planning, and nutrition services. Fourth, a strat-

egy must be developed to provide a safety net to vulnerable groups and the poor. To ensure that the benefits of such a strategy do indeed reach the poor, two activities must also be considered: (i) the implementation of programs must be decentralized, integrated, and participatory and (ii) a systematic monitoring system must be established.

### **Statistical system**

There have been several successful experiences with data collection and analysis, mainly funded by donors. Government agencies such as the Central Statistical Office (CSO) have preferred to have the programs and projects proliferate to ensure the continued employment and increase benefits to their staff. The National Commission for Development Planning has to date not been able to coordinate data collection and analysis

nor the monitoring of poverty. Even when data are collected, they are often not analyzed or not used in policymaking. The government needs to ensure that poverty monitoring is done in an integrated, systematic manner using various research methodologies. A start has been made with the 1991 and 1993 Priority Surveys. Ongoing activities need to be coordinated, strengthened, and mainstreamed to ensure that they have a greater impact on policymaking. The report suggests that the government support the following measures: (i) establishing a regular participatory poverty impact monitoring system; (ii) changing social statistics collection to one unified system of household surveys, institutional data collection, and sentinel site surveillance; (iii) improving existing coordination mechanisms among data producers and users to facilitate the use of the data for policymaking; and (iv) expanding policy-relevant research on poverty.

## Zimbabwe

### Poverty profile

Zimbabwe has a lower poverty rate and better social indicators than most African countries. In an effort to increase equity rapidly following independence in 1980, Zimbabwe gave priority to human resource investments and support for smallholder agriculture. Smallholder agriculture expanded rapidly during the first half of the 1980s owing to improved technologies, increased land availability, and better government services and prices. Social indicators improved quickly. By 1990, Zimbabwe had a lower infant mortality rate, higher adult literacy, and higher school enrollment rate than the developing country average. However, this success in improving social indicators was not matched by economic growth (which has failed to keep pace with population growth), and hence expectations for rising living standards have only partially been fulfilled. Employment growth has not been adequate to absorb the number of new entrants to the workforce. Moreover, the earlier gains in smallholder agriculture have not been sustained. The overwhelming majority of Zimbabwe's poor live in semiarid communal and resettlement areas, but there has been very little economic growth in these areas since the mid-1980s. Even existing levels of production are now threatened by the environmental fragility of the

natural resource base and the unsustainability of existing farming practices. Meanwhile, population growth has continued at about 3 percent per annum, in spite of widespread use of family planning. The lack of growth in small-scale agriculture and the slow growth in employment suggest that the improvement in social indicators has not been matched by a commensurate increase in the incomes of the poor. In recent years, the social sector achievements of the independence period are being threatened by drought, the decline in public resources, and the AIDS pandemic. The box below provides a portrait of the incidence and characteristics of poverty in 1990/91, when the only complete income and consumption survey was carried out.

### Incentives and regulatory framework

A number of factors have held back growth and increased economic participation by the poor. Before 1991, market incentives were dulled by extensive government interventions and administered resource allocations. In agriculture, the inherited array of commodity market control mechanisms was extended to include fixed or floor prices for most crops, compulsory delivery of controlled crops to marketing boards, controlled consumer prices for food staples, and restrictions on imports and exports. The sale, lease, or sub-division of

#### Key facts about poverty in Zimbabwe

- Twenty-five percent of the people in Zimbabwe were poor in 1990/91 (in other words, had insufficient purchasing power to buy a basic consumption basket of food, clothing, shelter, education, health services and transport), while 7 percent were very poor (in other words, had insufficient purchasing power to buy an adequate basic food basket). The average rate of poverty for Sub-Saharan Africa as a whole is 47 percent.
- Poverty is more common in rural areas (31 percent) than in urban areas (10 percent), and the overwhelming majority of Zimbabwe's poor (88 percent) live in rural areas. Communal farming areas have 76 percent of the poor and 82 percent of the very poor in Zimbabwe.
- Poverty is most common and deepest in the low rainfall areas of Matabeleland South, Masvingo, and Matabeleland North provinces. Current communal farming practices in these areas are environmentally unsustainable. Moreover, drought and low asset holdings by the poor in these regions make them particularly susceptible to food insecurity.
- The severe drought of 1992 greatly increased the vulnerability of the poor in communal areas by depriving them of the majority of their cattle.
- The poor typically have limited access to good land, are heavily dependent on farming for their income (as they receive little off-farm income and small remittances), are less educated, live in larger households, and, if they are in urban areas, are unemployed.
- Preliminary analysis indicates that the direct impact of adjustment reforms on the real incomes of the poor is small overall. However, poverty appears to have increased during the 1990s, principally because of the lack of economic growth.

agricultural land was heavily regulated, while the land resettlement program was ineffective. Indigenous participation in the formal economy increased slowly during the 1980s and remains low. However, the number of new indigenous enterprises in the formal sector has increased in recent years, as larger numbers of potential entrepreneurs have acquired both educational qualifications and managerial experience.

### Public expenditures

Zimbabwe's achievements in human resources put it near the top of developing countries in terms of its absolute achievements and its pace of attainment. Enrollment in primary schools has doubled since independence, with rapid growth in rural schools, and there is almost no gender bias in primary schooling today. Growth in secondary education has been greater, with enrollments going from 75,000 in 1980 to over 650,000 today. To achieve these gains, education's share of the total budget increased between independence and 1990/91. However, this trend was reversed, and public expenditure on education as a share of GDP has declined steadily over the last four years. Nonetheless, Zimbabwe still invests a relatively large share of both GDP and public resources in education, and the challenge is to enhance efficiency. Public sector education expenditures are allocated disproportionately to higher levels of education, and are directed more toward academic than technical/vocational/agricultural training and general skills upgrading. The vast majority of students leave the school system without learning significant skills relevant to the labor market. Likewise, the country invested significant shares of its resources in health care for the poor during the 1980s, increasing sector expenditure from 2 percent of GDP in 1980 to 3 percent by 1990. Over the last four years, however, expenditures have fallen back to 2.5 percent of GDP, primarily because of the impact of the drought on government revenue and the general compression of government expenditures. Preventive care declined from 16 percent of the health budget in the late 1980s to 13 percent by 1994. The decline in resources is creating strains and threatening the sustainability of health sector achievements. Some key health indicators have deteriorated in recent years.

### Safety net

To ensure continued human development and poverty reduction, Zimbabwe needs to return to the key principles that shaped its early successes—provid-

ing adequate resources and targeting on activities most in need of public support—and to devise burden-sharing mechanisms that will ensure that the poor have access to basic social services. For the many Zimbabweans who do not have the opportunity to take part in a growing economy, a social safety net is critical to ensure that basic needs can be fulfilled. It should emphasize: (i) nutrition/food security and (ii) access to water, health, education, and shelter. The government's drought relief and child supplementary feeding programs have been large and effective at delivering supplies. Yet the direct targeting of public resources to the poor is often not effective; thus, self-targeting mechanisms coupled with widespread availability need to form the mainstay of a successful safety net. The existence of communal land management, whereby households are given access to land where they can build a shelter and produce some of their food, is probably the most important part of the social safety net in Zimbabwe. The second important strand is free or virtually free access to primary education and basic health care. Additional rural area programs include food-for-work in food-deficient areas. With urbanization and increasing urban poverty, the household food insecurity found in urban areas needs to be addressed. Subsidized whole-grain yellow maize, sold through retail outlets in high-density areas at 60-70 percent the price of white maize, might largely solve this problem.

### Poverty reduction strategy

Reducing poverty will require growth in employment and increased productivity in smallholder agriculture. These in turn will be dependent on economic growth, continued investment in human resources, and an increase in the assets owned or controlled by the poor, including land. Achieving higher sustained growth depends on integrating Zimbabwe in the world economy, making fuller use of the nation's abundant labor resources, and using relatively scarce land, capital, and managerial skills more efficiently. To build effectively on past investments and policy reforms, the Bank has suggested actions in three key areas: (i) reforms to generate a more supportive macroeconomic management; (ii) improvements in the incentive environment, with particular reference to land use and the competitiveness of exporters; and (iii) focusing public expenditure on human resource investments and other initiatives to support sustained poverty reduction and provide the infrastructure needed for growth.

Increasing utilization of high-to-medium quality agricultural land offers one of the greatest potential sources of further agricultural growth and poverty reduction. At the same time, achieving more efficient and sustainable use of land and other natural resources within the densely populated communal areas has significant implications both for poverty reduction in rural areas and the growth potential of smallholder agriculture. The issues of land distribution and natural resource management must address problems of land use efficiency and the equity of present land ownership. There is over-utilization of natural resources in communal areas and under-utilization within commercial farming areas in Zimbabwe's rural economy. These practices have led to declining soil fertility and crop yields in many communal areas. The present dualistic agrarian structure and distribution of land is inefficient, environmentally unsustainable, and a barrier to the achievement of both rapid agricultural growth and the reduction of rural poverty. To address the co-existing problems of natural resource over- and under-utilization, what is needed are institutions that can: (i) bring about an efficient transfer of land between those with surplus land to those who can make productive and sustainable use of it and (ii) can facilitate better natural resource management at the farm and community levels in areas with population pressures.

While sound macro management and an improved incentive framework will help to put the economy on a stronger growth path, public expenditure will need to enhance participation, provide supportive infrastructure, and protect those whom the benefits of growth do not reach. To be effective in promoting equity, these expenditures must be selective, well-targeted, and designed primarily to empower the poor by giving them access to wider opportunities. This translates into three complementary forms of investment: (i) investing in human re-

sources (health, education, and training); (ii) increasing the return to assets, especially those held by the poor; and (iii) a social safety net. It is important to deliver services as cost-effectively as possible. One option is to make service provision more demand-driven and accountable through a combination of decentralization and community involvement. The private sector should be invited to compete in areas where market conditions do not require public sector involvement. In addition to increasing poor households' stock of productive human and physical assets, steps need to be taken to increase the returns that those assets can generate. This is best accomplished by providing physical and institutional support in the form of infrastructure and services. Continued public support for water, rural transport, and marketing infrastructure is justified because of their importance to increasing equity and reducing poverty.

### **Statistical System**

Zimbabwe has a number of activities to monitor poverty, although there is no comprehensive monitoring system. The government is involved in several large-scale data collection activities: a five-yearly Income, Consumption and Expenditure Survey (the 1990-91 survey was the main source of data for the poverty assessment), Demographic and Health Surveys, the Population Census, and food security surveys. Sentinel Surveillance Surveys monitor the impact of structural adjustment and drought and cover 4,000 households approximately biannually. A 15,000 household Poverty Assessment Survey is underway. The potential for using these data has not been fully realized because of legal restrictions in access to the data and because coordination has been complicated because the surveys are conducted by several different ministries. Several NGOs also conduct research and monitoring activities.

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## Notes

<sup>1</sup> The largest increase is for countries in Europe and Central Asia (ECA). Whereas data were available for only three countries (Hungary, Poland, and Yugoslavia) for the fiscal 1992 progress report (World Bank 1993b), they are now available for fifteen other ECA countries: Belarus, Bulgaria, Czech Republic, Estonia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Romania, Russia, Slovakia, Slovenia, Turkmenistan, and Ukraine. There has also been a large increase in the number of countries in Sub-Saharan Africa (SSA) for which at least one survey is available, from five to nineteen countries. For the first report, data were available for Botswana, Côte d'Ivoire, Ghana, Rwanda, and Uganda. The new countries are: Ethiopia, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Mauritania, Niger, Nigeria, Senegal, South Africa, Tanzania, Zambia, and Zimbabwe. The coverage for the Middle East and North Africa (MENA) has gone from two to six countries: Algeria, Egypt, Iran, and Jordan have been added to Morocco and Tunisia. For countries in Latin America and the Caribbean, coverage has increased from twelve to sixteen: Bolivia, Dominican Republic, Guyana, and Nicaragua have joined Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Panama, Peru, and Venezuela. East Asia and the Pacific (EAP) has increased coverage from five to six: Viet Nam has joined China, Indonesia, Malaysia, the Philippines, and Thailand. In South Asia (SAS), the countries covered are Bangladesh, India, Nepal, Pakistan, and Sri Lanka. Still more surveys are being or have been undertaken, but their results are not yet available. These counts exclude some surveys that were not considered adequately representative or of adequate quality in other respects, and they exclude some surveys for which sufficiently detailed results were not released for public use.

<sup>2</sup> These forty-four countries are, by region: China, Indonesia, Malaysia, the Philippines, Thailand; Bangladesh, India, Sri Lanka; Côte d'Ivoire, Ghana, Nigeria, Uganda, Zambia; Jordan, Morocco, Tunisia; Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Jamaica, Mexico, Peru, Venezuela; Belarus, Bulgaria, the Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, Turkmenistan, Ukraine, and Yugoslavia. Countries in bold are those for which data have become available for at least two points in time since the first progress report (World Bank 1993b).

<sup>3</sup> Regional coverage of these surveys is relatively good, with the exception of Sub-Saharan Africa and the Middle East and North Africa.

<sup>4</sup> *World Development Report 1985* reported that the average lag in the distributional data was eleven years (the average available survey date was 1974). In *WDR 1995* the time lag was down to six years (Ravallion and Chen 1996).

<sup>5</sup> The methodology for the estimates in the first progress report (World Bank 1993b) is explained in Ravallion, Datt, and Chen 1992.

<sup>6</sup> For instance, an income-based measure of inequality will usually show higher inequality than a consumption-based measure, as a result of consumption smoothing over time.

<sup>7</sup> For example, data for many of the ECA countries have a number of shortcomings: the survey sample is biased since it

excludes the lower and higher portions of the nominal income distribution; the respondents stay in the sample permanently, leading to respondent fatigue; and consumption of food products produced on private plots is calculated at official state prices and hence is undervalued. These problems have been corrected in more recent surveys in ECA.

<sup>8</sup> At 1985 U.S. purchasing power parity (PPP).

<sup>9</sup> In South Asia, East Asia and the Pacific, Europe and Central Asia, and Latin America and the Caribbean, more than 80 percent of the population is covered by a household survey (98, 88, 86, and 84 percent, respectively). In Sub-Saharan Africa, 66 percent of the population is covered. In the Middle East and North Africa, only 47 percent of the population is covered.

<sup>10</sup> The most widely used PPP indices, which were used in previous poverty reports (World Bank 1990 and 1993b), are in the Penn World Tables (Summers and Heston 1991). The new PWT 5.6 includes some revisions to past PPP exchange rates in light of better data and in an effort to force convergence between consumer price indices and the price indices that had been used in previous PWT. This exercise has resulted in some significant changes, the most striking of which are for China. Using exactly the same distributional data for the same year but updating the PPP exchange rate for consumption (switching from PWT 5.0 used in the earlier reports to the newer PWT 5.6) nearly triples the percentage of China's population living below a dollar a day in 1992 at international prices. This adds a significant number of poor to the previous estimate for China (and that for East Asia) solely as a result of a data revision in the PPP exchange rates. This is because a large change in the PPP for a country can produce dramatically different poverty lines in local currency and hence a change in the incidence of poverty. Nevertheless, the PWT 5.6 is the latest available comprehensive set of consumption PPP rates and is widely considered to be the most reliable. For this reason, this report uses the PPPs from PWT 5.6.

<sup>11</sup> Unlike past estimates, no model-based extrapolations have been used for countries without survey data. Most are household consumption surveys, and consumption expenditure (including the imputed value of consumption in kind) per person is used as the indicator of household welfare. When only an income survey is available, mean income per person has been rescaled according to the estimated consumption share from the national accounts. Some minimal quality criteria have been applied in selecting surveys for the data set, though differences in survey methodology entail unavoidable comparability problems. As in previous estimates, adjustments have been made to line up the surveys in time. If there is a survey within one year of the "target" date, that survey is used. If there is not, then the closest survey is used, with the survey mean being adjusted according to the rate of growth in real private consumption per person from the national accounts. When the target date falls between two surveys, this is done for both, and a simple average is taken. This could not be done for ECA in 1990 because of the substantial amount of missing data in the World Bank's data base. As in past estimates, the U.S. dollar is not converted into local currencies at official exchange rates but rather at rates that attempt to ensure PPP—so that US\$1 is worth roughly the

same in different countries in terms of what it can buy. For currency conversions, the PPP rate for consumption in 1985 in Penn World Tables 5.6 has been used.

<sup>12</sup> van Eeghen 1995.

<sup>13</sup> For example, disseminating information about private health care and education, setting up a regulatory framework for private sector activity, and creating finance and insurance schemes for patients and students.

<sup>14</sup> World Bank 1996c.

<sup>15</sup> This includes US\$800,000 for social sector projects, which, from fiscal 1994 onwards were put into a separate category of lending.

<sup>16</sup> These projects are the *Lao PDR Forest Management and Conservation Project* (IDA, fiscal 1994); the *China Second Red Soils Area Development Project* (IDA, fiscal 1994); and the *Indonesia National Watershed Management and Conservation Project* (IBRD, fiscal 1994).

<sup>17</sup> The CGAP was formally constituted in June 1995 with participation from Canada, France, the Netherlands, the United States, the Asian Development Bank, the Inter-American Development Bank, the International Fund for Agricultural Development, the United Nations Development Programme, the United Nations Capital Development Fund, and the World Bank. A small secretariat, housed within the World Bank, will solicit proposals from participating institutions and donors. It will screen, evaluate, and approve funding within the framework established by the CGAP.

<sup>18</sup> These projects include the *Albania Rural Development Project* (IDA, fiscal 1995); the *Bulgaria Agricultural Development Project* (IBRD, fiscal 1994); the *Central African Republic Livestock Development and Rangeland Management Project* (IDA, fiscal 1995); the *Côte d'Ivoire Rural Savings and Loans Rehabilitation and Promotion Project* (IDA, fiscal 1994); the *Egypt Agricultural Modernization Project* (IDA and IBRD, fiscal 1994); the *Guinea Financial Sector Operation* (IDA, fiscal 1995); the *Latvia Agricultural Development Project* (IBRD, fiscal 1994); the *Morocco National Rural Finance Project* (IBRD, fiscal 1994); the *Niger Pilot Private Irrigation Promotion Project* (IDA, fiscal 1995); the *Tunisia National Rural Finance Project* (IBRD, fiscal 1995); the *Vietnam Agricultural Rehabilitation Project* (IDA, fiscal 1994) and the *Zambia Second Social Recovery Project* (IDA, fiscal 1995).

<sup>19</sup> Webster, Riopelle, and Chidzero 1995.

<sup>20</sup> Approximately US\$500 million has been allocated to microenterprise development.

<sup>21</sup> These projects are the *Bolivia National Land Administration Project* (IDA, fiscal 1995), the *Dominican Republic Irrigated Land and Watershed Management Project* (IBRD, fiscal 1995), the *Nicaragua Agricultural Technology and Land Management Project* (IDA, fiscal 1994), and the *Thailand Land Titling III Project* (IBRD, fiscal 1995).

<sup>22</sup> Looking at just the outer years, the proportion of agricultural lending in the PTI has increased from 38 percent in fiscal 1992 to 56 percent in fiscal 1995.

<sup>23</sup> World Bank 1995a.

<sup>24</sup> Ravallion 1995.

<sup>25</sup> These projects are the *Colombia Agricultural Technology Development Project* (IBRD, fiscal 1995), the *Mali National Agricultural Research Project* (IDA, fiscal 1994), the *Mauritania Agricultural Services Project* (IDA, fiscal 1994), and the *Morocco Irrigated Areas Agricultural Services Project* (IBRD, fiscal 1994).

<sup>26</sup> In Mauritania this entailed broadening the curriculum of the country's two agricultural institutions.

<sup>27</sup> Also, the *Côte d'Ivoire Labor Force Training Support Project* (IDA, fiscal 1994) aims to develop the skills of, and retrain,

displaced workers, women entrepreneurs, and workers in microenterprises and small firms. It will also support training and apprenticeships for first-time job seekers.

<sup>28</sup> This topic is discussed in more detail in Ozório de Almeida and Graham 1994 and Alves and Graham 1995.

<sup>29</sup> World Bank 1994e.

<sup>30</sup> World Bank 1994e.

<sup>31</sup> Another project, the *Lao PDR Luang Namtha Provincial Development Project* (IDA, fiscal 1994), contains a labor-intensive rural road development component that will increase the access that rural communities have to markets and services by linking them to the national network, developing local capacity to improve low-volume roads and to maintain them on a sustainable basis, and encouraging the involvement of private contractors.

<sup>32</sup> These projects are the *Central African Republic Livestock Development and Rangeland Management Project* (IDA, fiscal 1995), the *Chad National Agricultural and Livestock Services Program* (IDA, fiscal 1995), the *Côte d'Ivoire National Agricultural Services Restructuring Project* (IDA, fiscal 1994) and *Agricultural Export Promotion and Diversification Project* (IDA, fiscal 1995), the *Dominican Republic Irrigated Land and Watershed Management Project* (IBRD, fiscal 1995), the *Madagascar Agricultural Extension Program Support Project* (IDA, fiscal 1995), the *Mexico On-Farm and Minor Irrigation Networks Improvement Project* (IBRD, fiscal 1994), and the *Kingdom of Morocco Irrigated Areas Agricultural Services Project* (IBRD, fiscal 1994).

<sup>33</sup> The World Bank's lending in this area is discussed on pages 20-21.

<sup>34</sup> These projects are the *Romania Employment and Social Protection Project* (IBRD, fiscal 1995) and the *Turkey Employment and Training Project* (IBRD, fiscal 1993).

<sup>35</sup> This section is drawn primarily from World Bank 1995d.

<sup>36</sup> If these programs are well designed and implemented, they are cost-effective because they increase the efficiency of investments in primary and secondary education, contribute to children's future productivity and income, and reduce their dependence on social services. Childcare programs can also have a salutary effect on children's older siblings by freeing them to attend school, as well as on their mothers who have more time available to work in the home or to generate income.

<sup>37</sup> The Bank has been supporting early childhood development programs in a number of ways. The following are examples of three recent projects that aim to increase the chances of poor children breaking out of the poverty cycle. Delivering services directly to children is the goal of the *Integrated Child Development Project* in Bolivia (IDA, fiscal 1993). It has helped to establish almost 9,000 day care centers for over 200,000 impoverished children aged from six months to six years. Caregivers from the community are selected and financed to rehabilitate their homes, which serve as the day care centers. The centers provide the children with an integrated package of services, including nutritional supplements, basic education services, and, through agreements with local health centers, access to preventive and curative health care. An integrated approach has been utilized in both the *First* (IDA, fiscal 1991) and *Second* (IDA, fiscal 1993) *Integrated Child Development Services Projects* in India. These two Bank-assisted projects are intended to reach about 17 million preschool children and 7 million pregnant and nursing women. They use community organizations and NGOs to design and deliver a range of center-based services, including supplementary nutrition, immunizations, health checkups, referral services, and early education, to more than 12 million children aged



from six months to six years. Educating caregivers is the central goal of the *Initial Education Project* in Mexico (IBRD, fiscal 1993). Since 1981, parents in rural areas in Mexico's ten poorest states have participated in weekly meetings on child development. Community educators trained under the *Initial Education Project* organize these meetings and make home visits using illustrated guidebooks to help parents with basic health, nutrition, and developmental education. More than 1 million children are expected to benefit from the enhanced skills of their parents.

<sup>38</sup> See, for example, World Bank 1990, p. 80.

<sup>39</sup> Investment in secondary education has remained constant at about 20 percent of the total, and lending for university education has declined from a total of US\$66.8 million in fiscal 1993 to US\$14 million in fiscal 1995.

<sup>40</sup> See recent World Bank studies on educating girls: Odaga and Heneveld 1995 and Kane 1995.

<sup>41</sup> It is known that roughly a quarter of married women in developing countries say they would like to space or limit the number of children they bear but that they are not using any form of contraception. Therefore, there is substantial potential for reducing the birth rate by ensuring the wide availability of good quality family planning services and by educating women about modern contraceptive practices and about the risks involved in frequent childbirth.

<sup>42</sup> Critical interventions include prenatal care to prevent low birthweights, programs to encourage breastfeeding and to improve the way in which children are weaned, and programs to inform parents about the special feeding needs of young children and about good hygiene practices. Monitoring the height and weight of children is important for detecting growth problems early. These initiatives can be particularly effective if they are based in the community because they are accessible, can address a wide range of women's needs, and save women time spent traveling to health clinics.

<sup>43</sup> The biological vulnerability of women due to the demands of childbearing is exacerbated in societies in which girls are considered to be less valuable to their families than boys are and thus receive less food than boys do.

<sup>44</sup> *Enriching Lives: Overcoming Vitamin and Mineral Malnutrition in Developing Countries* (World Bank 1994b) reported that millions of lives around the world could be saved and the quality of life of hundreds of millions markedly improved—very inexpensively—by increasing the amount of three key vitamins and minerals in people's diets. These micronutrients are Vitamin A, iodine, and iron.

<sup>45</sup> These figures do not include the nutrition components in structural adjustment or sectoral adjustment projects.

<sup>46</sup> If a broader definition of social safety nets is used that includes, for example, basic education and primary health, this support is much greater.

<sup>47</sup> World Bank, 1993d.

<sup>48</sup> World Bank 1995c.

<sup>49</sup> For instance, during the last three years, the National Capital Region and the Cagayan Valley, which account for only 2.8 percent of the nation's food poverty gap, received as much as 34.5 percent of subsidized rice. In addition, it costs the government three pesos to transfer one peso of income to households that are not necessarily the poorest in the country.

<sup>50</sup> World Bank 1995b.

<sup>51</sup> The eight countries in LAC are Bolivia, Ecuador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, and Peru. In SSA, these countries include Botswana, Burundi, Cape Verde, Chad, Comoros, the Gambia, Ghana, Kenya, Lesotho,

Madagascar, Malawi, Mozambique, Rwanda, Tanzania, Zambia, and Zimbabwe.

<sup>52</sup> For further details, see Glaessner and others 1994.

<sup>53</sup> The target group is usually chosen according to some criterion such as income, nutritional status, age, or geographical location. Unfortunately, it is not always easy to target assistance to the poor. First, it is often difficult in practice to identify the recipients by their income or their household characteristics because of a lack of data in many countries. Second, even when identification is possible, limited administrative capacity can prevent the benefits of the program from reaching the intended beneficiaries. Third, a lack of public understanding about the need for, and benefits of, targeting often prevents it from being done successfully.

<sup>54</sup> The type of targeting that is ultimately chosen depends on country circumstances, the objectives of the program, the type of benefit, the administrative capacity of the implementing agency(ies), and the financial resources available to carry out the program. However, the information that is used to determine an individual's eligibility is usually only an imperfect proxy for the individual's real welfare.

<sup>55</sup> For instance, if a government wishes to abolish its universal programs and adopt programs that target benefits specifically to needy and vulnerable groups, this is likely to be highly unpopular because the politically powerful upper and middle classes will stop receiving benefits. The poor typically have less of a political voice than the nonpoor and, therefore, often end up with less say in the allocation of resources than powerful interest groups, such as elites and the military. Ironically, in situations where a program is not well targeted and the benefits leak to powerful, middle-class groups, the program may have more political support than if the benefits were enjoyed entirely by the poor. In addition, a lack of public understanding about the effects that fiscal constraints have on social welfare expenditure and about the intersectoral trade-offs that these constraints create (for example, the choice between increasing pension levels versus investing in the health and education of children) also makes it difficult for governments to make changes.

<sup>56</sup> The total of twenty-seven adjustment operations does not include three debt-reduction operations. Debt-reduction loans are by their nature balance of payments support, which cannot be poverty focused.

<sup>57</sup> Although Emergency Recovery Loans (ERLs) are classified as investment operations by the Bank, they are distinct from normal investment operations in that they are designed to provide immediate assistance after a major emergency, are processed quickly under abbreviated procedures, and are often fast disbursing. In fiscal 1995, the World Bank reclassified five fiscal 1993 ERLs and five fiscal 1994 ERLs as Rehabilitation Import Loans (RILs), which are adjustment operations. The percentage of poverty-focused adjustment operations and the amount of poverty-focused adjustment lending have been revised to reflect these changes.

<sup>58</sup> Ravallion and Chen 1996 found that a 10 percent increase in growth resulted in a 65 percent drop in people living below 50 percent of the mean income or expenditure in the initial survey, a 20 percent drop for those under 75 percent of the initial mean, and an almost 10 percent drop for those living under the initial mean income or expenditure.

<sup>59</sup> World Bank 1995f.

<sup>60</sup> This is not to say that some people do not lose out as a result of the reforms. As devaluation will raise the price of imports, it often results in a rise in the prices of imported items.

However, as the majority of the poor cannot afford to, and hence do not usually, consume imported items, this potentially negative effect of a devaluation on the poor is usually minimal. This cost usually falls on the nonpoor. Before the devaluation, when they did buy imports the poor usually paid black-market prices in any case. As a result, there may not be much of a price increase for them after liberalization.

<sup>61</sup> See Box 3.4 on Tanzania for one illustration of this policy.

<sup>62</sup> Nevertheless, it remains difficult to distinguish between the effects on the poor of the initial shocks, such as the inflation examples given above, and the actual effects of measures of adjustment programs. It is also difficult to compare what has happened under adjustment with the outcomes that would have occurred had there been no adjustment or if an alternative policy package had been adopted.

<sup>63</sup> The incidences of public spending in health and education estimated by these and other exercises are reported in Castro-Leal, Dayton, and Demery 1996.

<sup>64</sup> Rosch 1994.

<sup>65</sup> This study includes results of 144 Bank-supported operations implemented in fifty-three countries for which audits on Project Completion Reports were available in the OED. As with all such studies, this study was limited by the availability of data on poverty. Only twenty-two countries had sufficient data for the analysis of poverty trends.

<sup>66</sup> van der Gaag 1995 is one example.

<sup>67</sup> Related sector adjustment operations include health or education sector adjustment operations but exclude such operations as financial sector loans that relate to restructuring the banking sector, which would not be appropriate to include in social sector expenditure-related measures.

<sup>68</sup> Carvalho and White 1995.

<sup>69</sup> Project ratings are often better during project supervision than at project completion.

<sup>70</sup> This was also true for the energy, industry, mining, and tourism sectors, although each had only one PTI project under implementation.

<sup>71</sup> The total of twenty-seven adjustment operations does not include three debt-reduction operations. Debt-reduction loans are by their nature balance of payments support, which cannot be poverty-focused.

<sup>72</sup> Although Emergency Recovery Loans (ERLs) are considered investment operations by Bank definition, they are distinct from regular investment operations in that they are designed to provide immediate assistance after a major emergency, are processed quickly using abbreviated procedures, and are often fast disbursing. In fiscal 1995 the World Bank reclassified five FY94 ERLs and five FY93 ERLs as Rehabilitation Import Loans (RILs), which are adjustment operations. The percentage of poverty-focused adjustment operations and the amount of poverty-focused adjustment lending have been revised to reflect these changes.

<sup>73</sup> In fiscal 1995, poverty assessments were completed for Argentina, Brazil, Cameroon, Colombia, Comoros, the Dominican Republic, Fiji, Ghana (update), Guatemala, Honduras, Jordan, Kenya, Kyrgyz Republic, Mauritania, Mauritius, Nicaragua, Poland, Russia, Senegal, Sri Lanka, Vietnam, Zambia, and Zimbabwe.

<sup>74</sup> "Kenya Poverty Assessment," World Bank, March 1995, p.10.

<sup>75</sup> World Bank forthcoming (draft, August 1995).

<sup>76</sup> The poorest 20 percent of the population benefits from only 7 percent of the expenditures on pension and disability payments, while the richest 20 percent receives nearly 40 percent of social transfers.

<sup>77</sup> CAS for Kyrgyz Republic, April 1995.

<sup>78</sup> "Kyrgyz Republic Intergovernmental Finances" — (World Bank internal—green cover—report)

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Gautam S. Kaji  
Managing Director

Caio Koch-Weser  
Managing Director

May 31, 1996

To: All Operational Managers and Staff

### **Poverty Reduction in Bank Operations**

More than 1.3 billion people in developing countries live on less than a dollar a day. With rapid population growth, there will be a strong tendency for that number to rise. Against these odds, we — in partnership with governments, other donors, NGOs, and communities — need to redouble our efforts if we are to be successful in our central mandate, helping countries to reduce poverty.

To gauge recent progress in implementing the Bank's poverty reduction strategy and to learn lessons for our future work, we have recently completed the review: *Poverty Reduction and the World Bank: Progress and Challenges in the 1990s*, which was discussed at the Operational Policy Committee (OPC) and subsequently at the Board.

The report and the ensuing discussions reaffirmed the primacy of sustainable poverty reduction as the Bank's overarching objective, and indicated priorities for strengthening the implementation of our poverty reduction strategy. Five major implications for operational work warrant your attention:

First, sustainable poverty reduction remains the benchmark by which our performance as a development institution will be measured. It is the bottom line for measuring the results on the ground of our efforts; and staff and managers will be judged on their contribution to achieving it. To this end, we need to continue to develop, experiment with, and improve methodologies and indicators for evaluating the impact of our interventions on poor people's lives.

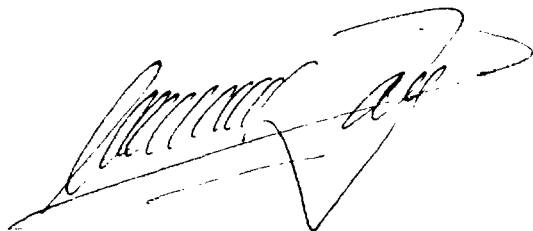
Second, coherent poverty reduction strategies, building on the results of poverty assessments and other poverty analysis, need to underpin our Country Assistance Strategies (CASs). These should show how Bank efforts are designed to support and complement government and other partners' efforts to reduce poverty.

Third, to support our strategy work, we need to extend and deepen our analysis of poverty. Full poverty assessments should be undertaken in those countries without assessments or where the initial assessments were incomplete. In other countries, follow-up poverty assessments should continue to be carried out periodically as a basis for informing the country dialogue with governments and partners and the CAS. Social assessments and participatory approaches to poverty assessments are important vehicles for deepening our understanding of poverty and sharpening our strategies for addressing it. Poverty analysis also should be routinely included in public expenditure reviews and country economic memoranda.

Fourth, experience and analysis confirm that sustained growth is a necessary condition for poverty reduction. But it is not sufficient. The pattern of growth and the poor's access to basic social services also matter. These issues should be treated explicitly in poverty assessments and CASs, so that the Bank can propose specific actions for increasing the productivity of, and economic opportunities for, the poor.

Fifth, to improve our ability to determine the impact of policies and projects on poverty, efforts to collect data on poverty need to be mainstreamed into country activities, just as collecting data for the national accounts is considered a core government task.

In both the Board and the OPC discussions, there was wide support for the proposal that the Bank should have a *World Development Report* (WDR) on poverty every ten years — hence in the year 2000, following on the tradition of the 1980 and 1990 WDRs. Major reviews of the poverty strategy will be undertaken every five years; brief substantive updates will be prepared on an annual cycle.







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**Headquarters**

1818 H Street, N.W.  
Washington, D.C. 20433, U.S.A.

Telephone: (202) 477-1234  
Facsimile: (202) 477-6391  
Telex: MCI 64145 WORLDBANK  
MCI 248423 WORLDBANK  
Cable Address: INTBAFRAD  
WASHINGTONDC

**European Office**

66, avenue d'Iéna  
75116 Paris, France

Telephone: (1) 40.69.30.00  
Facsimile: (1) 40.69.30.66  
Telex: 640651

**Tokyo Office**

Kokusai Building  
1-1, Marunouchi 3-chome  
Chiyoda-ku, Tokyo 100, Japan

Telephone: (3) 3214-5001  
Facsimile: (3) 3214-3657  
Telex: 26838



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