

Précis

Poverty Reduction in the 1990s The World Bank Strategy

IN 1990, WHEN THE BANK FIRST FORMALLY ARTICULATED its strategy for poverty reduction in the *World Development Report*, the prospects for global poverty reduction looked promising. But the international economic environment has changed radically. Although there has been a modest reduction in the *proportion* of people living on less than \$1 a day, the *absolute number* of poor has increased because of continuing high population increases and economic growth that failed to meet expectations, a shortfall that was aggravated by the uneven distribution of growth in many regions. Further fueling the escalation in numbers were the economic transition in Eastern Europe and Central Asia; financial volatility and its impact, particularly in the South Asian economies in the latter part of the 1990s; the AIDS pandemic; civil war; and a chain of natural disasters, particularly in Sub-Saharan Africa and Latin America.

These factors have increased the challenge facing the Bank and the development assistance community over the past decade. The overall volume of official aid has declined (until the past fiscal year), while the agenda of development assistance has increased significantly in scope and complexity. Within the Bank, projects have evolved to take into account the complexities of the implementation environment. An increased focus on the institutional framework for development

assistance has been combined with a move toward greater policy-based lending and sector-wide investments. The Bank has increased its focus on the need to improve development effectiveness. These are moves in the right direction. Yet a great deal remains to be done.

Building A Strategy

In 1990 a review of global experience had indicated that a three-part strategy would





National Geographic photo.

be most effective in the fight against poverty: (1) encourage a pattern of growth that promotes the productive use of labor, the most abundant asset of the poor, through policies that harness market incentives, social and political institutions, infrastructure, and technology; (2) provide improved access to education, nutrition, health care, and other social services to improve welfare directly and to enhance the ability of the poor to take advantage of the opportunities of broad-based growth; and (3) program well-targeted transfers and safety nets to support those living in remote and resource-poor regions or groups affected directly by economic transition.

How Well Has It Worked?

OED evaluated the 1990 strategy as part of the overall effort to revise the Bank's poverty reduction approach. It found that there had been substantial progress, including significant improvement in the social indicators in most Regions. The strategy performed the essential role in highlighting the importance of broad-based growth and bringing into focus the significance of the equitable provision of social services. It also helped to reshape both the composition of Bank assistance and the priorities of other development agencies. And it spurred a significant improvement in the poverty knowledge base that now spans the development community. Improvements in the quality of Poverty Assessments and the use of combined methods of gathering nationally and internationally comparable poverty data have broadened the Bank's conceptualization of poverty and its awareness of the priorities of the poor.

But this is not the full story. Monitoring of results has been insufficient, leaving unanswered questions about the benefits and costs of much of what the Bank does. Implementation of the central elements of the strategy has lagged, and although the 1990 strategy was a

positive step, it did not assemble all the pieces of the puzzle.

The Country as the Focus

The Country Assistance Strategy (CAS), the Bank's basic planning document, sets out the goals and objectives of Bank assistance. A sample of CASs covering the period 1994 to 1999 evaluated by this study show an upward trend in relevance and poverty focus, particularly after 1996; the latest CASs give additional attention to the related problems of governance, institution building, and participation by the poor and other stakeholders.

A Focus on Growth

Growth is at the center of all CASs, and the focus on social service provision is present across the board. But the Bank has found it difficult to move from the generalities of the 1990 strategy to specific, concrete recommendations tailored to individual country contexts and designed to address specific social and structural constraints. Over 90 percent of evaluated CASs recommend the same growth strategy: macro-stability, liberalization, and trade and tariff reform. The linkages between broad-based growth and poverty are not always clear, and CASs rarely assign priorities to policy choices or address possible tradeoffs and the likely impact on the poor. Many CASs still make inadequate arrangements to monitor and evaluate progress toward poverty reduction objectives, so that it is not possible to determine results. Until

Box 1. Will the International Development Targets be Met?

IF THE 4 PERCENT ANNUAL GROWTH RATE predicted for developing countries up to 2015 is accompanied by low inequality, the international target of halving absolute poverty should be met easily, and poverty halved by 2006. If high income inequality accompanies growth, however, the target is not achieved. Stimulating even higher rates of growth will help, but only to a limited extent. Shifting from a high-inequality to a low-inequality growth path has a much larger effect on poverty than adding even 1 percent to the growth rate. To affect inequality, countries need to design growth strategies that increase disproportionately the incomes of the poorest or redistribute income through taxation.

Source: L. Hanmer and F. Naschold, *Can the International Development Targets Be Met? A Preliminary Report* (London: Overseas Development Institute, 1999).

recently safety nets have been something of an afterthought: just over 50 percent of CASs (and only 20 percent in the East Asia Region) cover such provisions for the vulnerable and the ultra-poor. When they were discussed, the focus was generally limited to groups affected by public sector reform.

The Pervasive Effects of Inequality

New evidence on income inequality points to its dampening effect on growth and poverty reduction. Improvements in social indicators have not necessarily been accompanied by less “income poverty.” While the evidence does not undermine the Bank’s strategy, it does suggest the need to focus more clearly on structural inequality as central to any long-term strategy for sustained growth and poverty reduction. Without such a focus, it is unlikely that the goal of a reduction in absolute poverty by 2015 will be achieved (see box 1)

Disparities in Asset Distribution: Treatment in Two Country Cases

The FY99 Malawi CAS confronted persistently high levels of income poverty, rapid population growth, skewed asset holding, and a slowing down of structural reforms. One of the major issues identified in the CAS was the comparatively low growth elasticity of poverty. Analysis of household-level income distribution data suggested that because of the depth of poverty and inequalities in access to land, education, and other assets (between poor and non-poor, and between women and men), the responsiveness of poverty measures to changes in average incomes is comparatively low. In response, the CAS advocated, in addition to measures to support an acceleration of growth, investments and policies to improve income distribution, including building numeracy and literacy skills and access to credit and market information for microenterprise, as well as policies to increase labor productivity, promote labor-intensive exports, increase equity in access to social services (especially HIV support), adopt a more equal distribution of land, and mobilize community participation.

Ecuador also displays a highly skewed distribution of wealth. Poverty is pervasive, especially in rural areas. The FY96 CAS proposed a strategy focused on social sector reforms and the provision of basic infrastructure. But in contrast to the Malawi CAS, it limited the assessment of the relationships among growth, inequality, and poverty and their implications for the growth strategy. The Ecuador Poverty Assessment (1996) clearly points to land as a determining factor for rural poverty, arguing the need to support the existing informal market in land and the titling of the many unregistered farms as a step toward more formal land transactions. But the CAS avoids the issue of land distribution, focusing instead on the role of broad-based education and health in improving opportunities for the rural poor.

Box 2. The Interaction of Growth and Inequality

WHILE GROWTH THAT TAKES PLACE IN AREAS and sectors where the poor live and work may be consistent with a labor-intensive growth path, it can also be accompanied by increasing, declining or static income inequality. In Ethiopia, for example, macroeconomic change looks promising and the first signs are that rural poverty has fallen sharply since the change of government in 1992. Yet those that have gained have been those with assets, including land, oxen for plowing, education, and access to public goods such as roads. Rural households with few assets have lost out. Rural inequality has risen based largely on inequalities in access to assets. Research on the pro-poor bias of growth in India also finds that between 1973 and 1989 growth was essentially pro-poor in Andhra Pradesh and anti-poor in Uttar Pradesh. Although poverty levels declined in both states, and the rural poor benefited, the scale of poverty reduction in Uttar Pradesh was significantly reduced by a worsening income distribution.

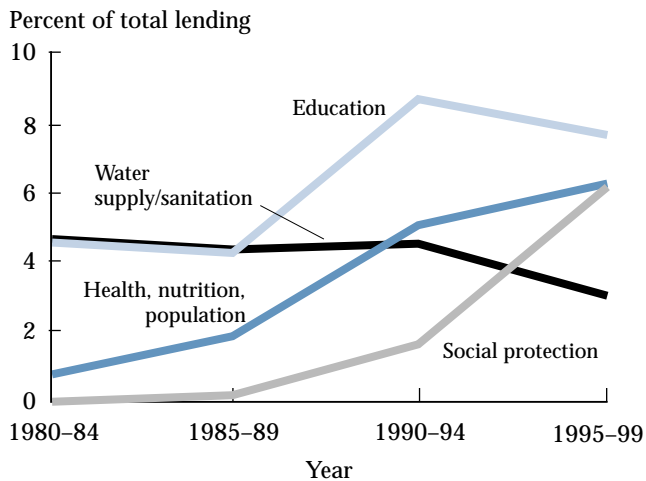
Challenge to the CAS

Fewer than 50 percent of the evaluated CASs recommend growth-enhancing actions such as reforming inequitable tax systems, removing constraints to the informal sector, and improving the regulatory environment for small and medium-size enterprises, all measures that would directly assist the poor. Only 20 percent include explicit treatment of microeconomic constraints and equity issues that affect the access of the poor to physical assets and key markets, while few CASs directly confront the relationship between persistent gender inequalities and the strategy for broad-based growth. Explicit inclusion of these issues, in addition to the removal of macro and sectoral distortions, would clearly accelerate growth and the reduction of poverty, particularly in rural areas (box 2). And growth based on rural development has a notable impact on overall levels of poverty.

The Lending Balance

Bank lending has been broadly compliant with the operational aims of the 1990 strategy. The share of poverty-focused adjustment operations has steadily increased, particularly in International Development Association (IDA) lending (designed for the poorest countries). Lending has increasingly favored sectors particularly relevant to the poor—rural and urban infrastructure, primary and secondary education, basic health, social assistance, and microfinance. And lending for the three main social sectors—education; health, nutrition, and population; and social protection—reached 20 percent of total Bank lending, compared with just 5 percent in the early 1980s (figure 1).

Figure 1. A Shift in Favor of the Social Sectors



Selected poverty-focused adjustment loans have made positive contributions by lessening inflation and protecting social spending levels. Less has been done to address economic distortions that affect the poor, to raise the real level of resources for spending on essential services, and to develop targeted safety net programs.

At the same time, the record of investment lending has been mixed. While the Bank's commitment to the social sectors has increased, insufficient attention has been given to ensuring that lending for social services actually benefits the poor. Investment lending has suffered from problems of fragmentation, and opportunities for leveraging pro-poor growth through complementary investment in private sector development, especially in areas of strong public/private overlap such as basic infrastructure, have not always been taken.

Projects included in the Program for Targeted Interventions (PTI), a tracking mechanism initiated in 1992, have performed better, on average, than other projects in the same sectors, largely because of their greater emphasis on beneficiary and community participation at the design and implementation stage, and their greater reliance on performance monitoring. Lending specifically to community-based projects, including social funds, has performed well overall—81 percent of projects approved since 1987 have achieved satisfactory outcomes. But inclusion in the PTI category does not ensure that a project delivers benefits directly to the poor.

Aggregate Bank lending in the 1990s was greater in countries showing strong borrower and institutional performance and clear effort to reach poverty reduction goals. Recent data on country poverty reduction efforts indicate that during 1997–99, lending commitments were higher in countries that demonstrated better performance on poverty actions (monitoring, targeted poverty programs, and safety nets). But there is still a need to improve both the criteria and the extent of country selectivity based on assessments of country poverty reduction effort.

Nonlending Assistance

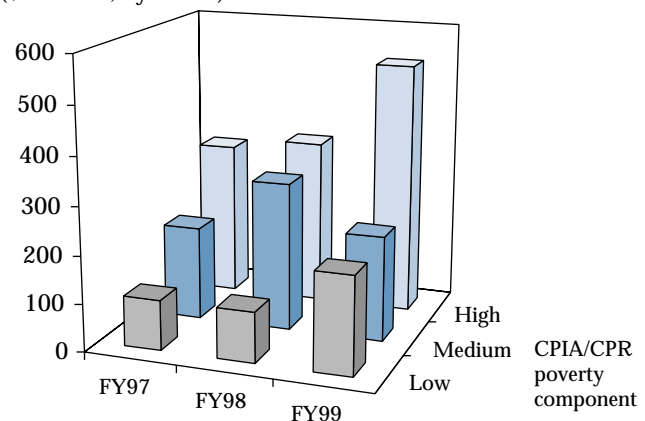
Poverty Assessments

As the link between country information on poverty and the CAS is strengthened, the availability of national poverty data and the quality of Bank Poverty Assessments become increasingly important. Bank staff and stakeholders alike have confirmed that the Poverty Assessments based on a combination of qualitative and quantitative techniques have done much to strengthen the understanding of poverty and related policy issues. The importance of the quality of analytical work on poverty is confirmed by the finding that the diagnostic treatment of poverty in the CAS is positively and significantly correlated with the relevance of the Bank assistance strategy overall. The quality of the Poverty Assessment is also linked to the influence it is likely to have on country clients and stakeholders. And recent evidence on Participatory Poverty Assessments suggests that beyond identifying non-income dimensions of poverty, the methods used can also be effective instruments for shaping policy dialogue with country partners and building country ownership.

Despite tangible change, the improvement in the quality of Poverty Assessments is still modest overall, as well as being variable across the Bank. Although qualitative and participatory work have entered the Bank's mainstream, the overall framing of Poverty Assessments is still based on drawing a poverty line defined in monetary terms, which restricts the scope of the resulting strategy recommendations. Dissemination of poverty data and the analysis contained in Poverty Assessments has not always been adequate, and Bank efforts have not been focused sufficiently on supporting borrower capacity to utilize quantitative and qualitative poverty data. Limited availability of poverty data continues to be a problem in many countries, particularly in Africa and Latin America, although the Bank has been influential in addressing this constraint in South and East Asia.

Figure 2. World Bank Lending and Country Poverty Reduction Effort

Average lending per country
(\$ millions, by tercile)



OED also found that nearly half the Poverty Assessments reviewed did not inadequately address the individual elements of broad-based growth, social service provision, and safety nets, nor did they justify the balance among these elements in strategy recommendations. Many still do not address global or macro linkages to poverty or discuss sectoral issues in detail; particularly the prominent role of food policy and rural development in contributing to poverty reduction. In the survey of stakeholders, 30 percent of respondents felt that the treatment of rural poverty issues in the assessment was unsatisfactory. OED's recent evaluation of the Bank's implementation of the rural development sector strategy—*From Vision to Action*—notes that effective rural development work is closely correlated with the quality of related analytical work, particularly the focus on rural poverty.

Public Expenditure Reviews

A complementary tool, the Public Expenditure Review (PER), assesses the efficiency, equity, and accountability of public expenditures that affect the welfare of the poor. By focusing on intersectoral tradeoffs, the efficiency and effectiveness of spending, and the cost-effectiveness of safety nets and targeted programs, the PER can contribute to the policy dialogue and the framing of a poverty focused assistance strategy. Thus far, however, there has been inadequate attention to public expenditure issues—only 15 of the 42 CASs reviewed made direct reference to PER findings. This is partially because PERs were not always available for the country in question, but also because of the highly uneven treatment of poverty-related issues in the PERs that were done.

The relationship between nonlending work and the CAS points to improved coverage and diagnosis of poverty issues, but also demonstrates the uneven quality and availability of the work, as well as the failure to take full advantage of the information that has been gathered.

The Road Ahead

The Bank has made significant progress in focusing its strategic and operational work on poverty reduction, and the process continues. The key challenge is to improve implementation:

- Operationalize the 2001 strategy for poverty reduction in full consultation with representatives from civil society, the private sector, and the Bank's devel-

opment assistance partners. This should include clear, monitorable benchmarks for assessing implementation performance.

- Move beyond a fragmented, project-based framework to emphasize the integration between macro- and micro-level interventions.
- Better integrate quantitative and qualitative data about the diversity of the poor—particularly gender issues and indigenous and socially excluded groups—and their informal safety net strategies, and improve ex ante analysis of the likely social impact of proposed policy changes.
- Step up policy guidance and training to match the increased focus on poverty and the new directions in thinking and operations. This should be accompanied by a systematic program of knowledge dissemination and training—which would include borrower staff—on monitoring and implementing poverty reduction strategies.
- Develop a strategic framework for evaluating poverty outcomes alongside the new policy framework. This should include Regional strategies for improving the stock of evaluative data on the relationship between Bank assistance and poverty outcomes and a set of criteria for identifying self-evaluation priorities to maximize learning about poverty reduction.
- Focus on supporting a wide spectrum of capacity development, both inside and outside government, to prepare, implement, and evaluate national poverty reduction strategies. This should be based on extensive consultation and participation. Support for capacity building should be done sensitively and flexibly to ensure that local ownership is not undermined.

Ultimately, whether the Bank's poverty strategy makes an impact depends not only on how the Bank performs, but also on the performance of borrowers and other development partners, as well as the part played by exogenous factors. The challenge of poverty itself is both multidimensional and multisectoral. It is the interaction among policies that sustain long-term growth, improve the distribution and the stock of human capital, curb corruption, and enhance the social and physical capital of the poor that is likely to make the real difference. Operationalization of the WDR 2000 presents a unique opportunity for the Bank to heed the lessons of experience and enhance the poverty reduction impact of its operations.