



OED REACH

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Based on the 2004 *Annual Review of Development Effectiveness*.

The Bank's Contributions to Poverty Reduction

- The Bank has refocused its mission and corporate strategy to help contribute to poverty reduction, based on a two-pillar strategy that emphasizes growth and social issues, including empowerment and security. It has rightly adopted a multidimensional approach to poverty that is broader than just income.
- The Bank should further elaborate its business models – such as PRSPs, LICUS, and MICs – to make them more fully consistent with poverty reduction in varying country settings. Linking the Bank's interventions at the country level to poverty reduction will require a sharper results focus. The Bank's global programs should also be more explicitly linked to needs of developing countries and to poverty reduction.
- The Bank needs to devote more attention to growth and the interaction between the growth and social aspects of poverty reduction. It would be timely to assess the impact of the Bank's work on governance and harness the links between governance and investment climate. The Bank needs to better demonstrate the poverty impact of its interventions aimed at empowerment and human development.

The central mandate and corporate mission of the World Bank is to fight poverty. Toward this end, the Bank provides finance, knowledge, and advice to borrowing member countries, while attempting to tailor the particular mix of these instruments to the challenges facing each country. The Bank has evolved a multidimensional approach to poverty reduction that goes beyond income to include human development, security, voice, and participation.

The 2004 ARDE looks at the growth and poverty reduction experience of client countries and assesses the contributions that Bank interventions have made, taking as its framework the Bank's 2001 poverty reduction strategy.

Progress on poverty reduction has been patchy and uneven

Worldwide, the number of people living on less than \$1 a day has declined since the 1980s. But there have been stark differences in outcomes among regions. Extreme poverty has declined dramatically in East Asia, especially in China. Outside of China, the proportion of people living on less than \$1 a day declined from 32 to 23 percent between 1980 and 2001, but the absolute number rose from 850 to 880 million people. Growth is the critical driver of poverty reduction. Regrettably, only about one-third of developing and transition countries have grown at more than 2 percent per capita for the past decade.

The Bank's strategy and business models

The Bank's 2001 poverty reduction strategy appropriately highlights both the growth and social aspects of poverty reduction. The strategy's two pillars provide a workable operational framework for identifying and categorizing the Bank's interventions, but the two-pillar model tends to overlook interactions between the growth and social aspects of poverty reduction, and has in practice paid insufficient attention to issues of growth. Without growth, no sustainable poverty reduction is likely.

The Bank has tried to align its country business models with the goal of poverty reduction, but these models have not yet realized their full potential. The Poverty Reduction Strategy Initiative, for instance, embraces a multidimensional view of poverty reduction. But most of the national strategies produced so far have not considered the full range of policy actions needed for poverty reduction. With improvement, the PRS Initiative has the potential to allow more effective Bank support for poverty reduction.

At the two ends of the development spectrum – in the LICUS and middle-income countries – the Bank's business models need further work. How best to support LICUS countries remains a formidable challenge. Many middle-income countries – even though they have pockets of poverty and many “near-poor” citizens – have development goals that do not center on poverty reduction. The Bank should further elaborate its business models to make them more fully consistent with poverty reduction in varying country settings.

In participating in global programs, the Bank needs to focus on global policy issues that hinder poverty-reducing growth in its client countries. It should strengthen the links between county operations and global programs to ensure that global programs add value to poverty reduction at the country level.

Bank interventions in support of the poverty reduction strategy

Many of the Bank's country assistance strategies focus on the right issues for poverty reduction, but the links between specific interventions and poverty outcomes are not well articulated or measurable. This incomplete articulation of how country-level assistance helps countries meet specific poverty objectives hampers an assessment of the impact of the Bank's

assistance. Weak country capacity for monitoring results on reducing poverty adds to the challenge in selecting activities with the highest poverty payoff.

Recognizing the importance of good governance to fostering growth and investment as well as improved service delivery, the Bank has developed a variety of tools to put governance issues into the spotlight at both the global and country levels. But it is difficult to attribute changes in governance to the Bank's interventions. This makes it essential for the Bank to establish what it hopes to achieve from its interventions in this area, and to begin to assess the impact of its work so far.

As a key element of its poverty reduction strategy, the Bank supports a range of reforms to improve the legal and regulatory environment for private investment and job creation. These reforms are organized under the overlapping agendas of private sector development and public sector reform. The Bank could do more to harness the synergies between these two closely related areas.

The Bank has encouraged its client countries to increase their levels of social expenditures as a key poverty-reduction measure. But increasing the levels of expenditures has not always ensured that services will reach the poor or will be responsive to their needs. Outcomes have been better when interventions have been linked to institutional reforms and support for capacity development, and when anchored in high-quality analytic work.

The Bank has promoted empowerment of the poor by supporting social development activities. The Bank has been more successful where it has supported home-grown initiatives. The sustainability of such approaches remains weak. Project objectives need to be more realistic about the potential to affect long-standing social relationships that underpin poverty.

Implications

The ARDE demonstrates that the Bank has successfully re-aligned its strategy and corporate focus towards poverty reduction. Its business models for countries at different stages of development – LICUS, low income, MICs – need some sharpening for better poverty reduction outcomes. Most important is the need to focus on demonstrating the results of its interventions, so as to ensure that all dimensions of its work – at the global, country, and project levels – are directed at specific, well-defined and monitorable poverty reduction goals.



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