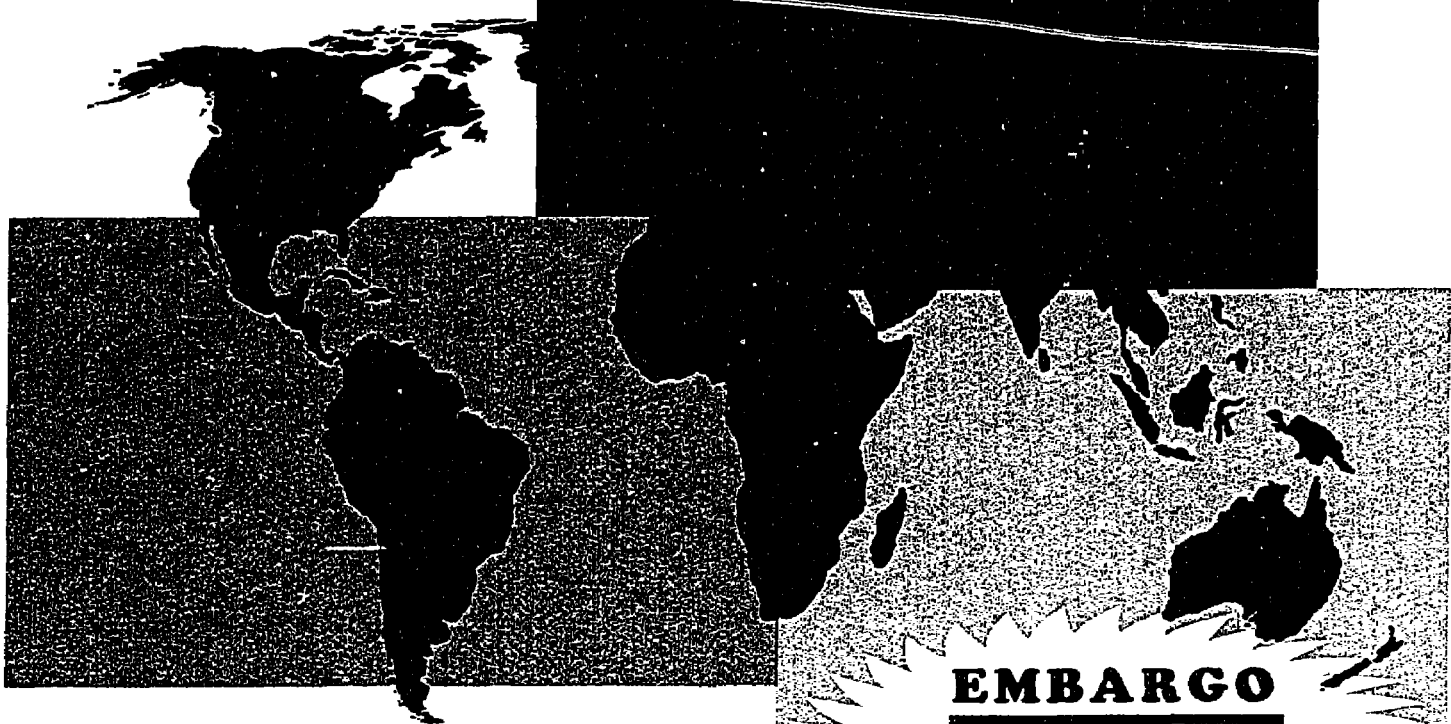


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**Implementing
the
World Bank's
Strategy
to
Reduce Poverty**



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*Implementing the World Bank's
Strategy to Reduce Poverty*

Progress and Challenges

**The World Bank
Washington, D.C.**

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Foreword

Sustainable poverty reduction is the World Bank's fundamental objective. It is the benchmark by which our performance as a development institution should be judged.

This report outlines the progress made so far in implementing the strategy and policies to reduce poverty set out in *World Development Report 1990*, the 1991 policy paper entitled *Assistance Strategies to Reduce Poverty*, and the 1992 *Poverty Reduction Handbook* and operational directive.

The report highlights the challenge we face in helping borrowing member countries to achieve their poverty reduction goals. We cannot afford to be complacent as we confront this challenge. The report shows what best practice in work on poverty reduction can accomplish. The priority now is to ensure that best practice is fully reflected in all the Bank's work and in that of our partners. Annual progress reports will inform our Board of Executive Directors of progress in implementing the strategy to reduce poverty.



Lewis T. Preston
President

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Glossary

Absolute poverty. The position of an individual or household in relation to a poverty line the real value of which is fixed over time.

Gross primary school enrollment rate. The percentage of the total number of children of all ages enrolled in primary school against the total number of children of primary school age.

Headcount index. The proportion of the population whose standard of living (usually measured in income or consumption) is lower than the poverty line.

Infant mortality rate. The number of infant deaths that occur between birth and the age of one, per 1,000 live births in a given year.

Poverty assessment. An assessment that quantifies the extent and nature of poverty and identifies the policy, public expenditure, and institutional issues that constrain effective poverty reduction and that develops recommendations for government action aimed at reducing poverty.

Poverty gap. The difference between the poverty line and the mean income of the poor expressed as a ratio of the poverty line. When multiplied by the headcount index this gives the *poverty gap index*.

Poverty line. The standard of living (usually measured in terms of income or consumption) below which people are deemed to be poor.

Poverty profile. A description of how the extent of poverty varies across subgroups of a population, characterized by, for example, their gender, region of residence, type of economic activity, or source of income.

Poverty-focused SALS/SECALS. Structural adjustment loans (SALS) and sector adjustment loans (SECALS) are a category of Bank lending that includes policy-based operations that aim to eliminate distortions affecting the poor and/or support a public expenditure program that focuses on poverty re-

duction. They may also support the provision of safety nets or targeted transfers to specific groups in poverty. They also include SALS/SECALS that support poverty monitoring.

Priority poverty indicators. Country-specific indicators that taken together provide an overview of the state of poverty in a country. Include headcounts of poverty and indicators of both income and social aspects of poverty. The priority income indicators are: unskilled wage rates (urban and rural) and rural terms of trade. The priority social indicators are: net primary school enrollment, under-five mortality, immunization, child malnutrition, and public expenditures on basic social services. Also included as social indicators are the following demographic indicators: female and male life expectancy, total fertility rate, and maternal mortality.

Program of targeted interventions. A category of Bank lending that includes projects that meet one of two criteria: the project includes a specific mechanism for identifying and reaching the poor, and/or the participation of the poor in the project significantly exceeds the proportion of the poor in the population as a whole.

Purchasing power parity. A conversion rate among currencies that establishes comparability in terms of command over goods and services.

Relative poverty. The position of an individual or household compared with the average income in the country.

Safety net. A mechanism that is intended to provide for those among the poor who are unlikely to benefit from economic growth or human resources development. The safety net includes income transfers for those chronically unable to work—because of age or handicap—and for those temporarily affected by natural disasters or economic recession.

The World Bank. The World Bank refers to the International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA). IBRD loans are directed

toward developing countries at more advanced stages of economic growth and social progress. IDA finances programs and projects on concessional terms in the poorest countries.

Summary and Conclusions

The World Bank's fundamental objective is to achieve sustainable poverty reduction in the developing world. Based on a review of country experience, the Bank's *World Development Report 1990* (WDR) articulated a two-part strategy for reducing poverty. The first part involves promoting broad-based growth that makes efficient use of the poor's most abundant asset—labor. The second part involves providing the poor with access to basic social services. WDR 1990 also recommended that safety nets be established to protect the most vulnerable members of society. To apply this strategy in its operations, the Bank prepared the policy paper *Assistance Strategies to Reduce Poverty* (1991). To guide staff in implementing the strategy, the Bank issued an operational directive and the *Poverty Reduction Handbook* (1992).

This progress report summarizes trends in poverty and in country policies for reducing poverty, and it reviews the actions taken by the Bank to support countries in implementing the WDR 1990 strategy. The report concludes that developing countries have made substantial progress in reducing poverty over the past three decades, although there has recently been some loss of momentum. The key challenge is thus to resume the more rapid rate of poverty reduction of earlier years. Countries that have shown little progress in reducing poverty will need to adopt policies to promote rapid growth that make efficient use of labor as well as policies that increase access to social services. In countries where there has already been considerable success in reducing poverty, the focus should be on improving public expenditure programs to promote equitable access to social services and to physical infrastructure and on eliminating policy distortions that adversely affect the poor's interests.

Meanwhile, the World Bank—in keeping with its commitment to poverty reduction—has made wide-ranging efforts to reflect the WDR 1990 ap-

proach in the design and implementation of its country assistance strategies. The key challenge for the Bank is to extend and deepen that effort. This will entail completing many poverty assessments over the next two and a half years and incorporating the results of these assessments into country assistance strategies. It will also involve a concerted effort to intensify analytical and country work on the following issues: (i) assessing the distributional impact of public expenditures and of labor market and other policies; (ii) systematically incorporating lessons learned from the evaluation of ongoing and completed programs and projects into the design of new policies, programs, and projects; and (iii) pursuing participatory approaches to poverty reduction within countries, with country counterparts, with donors and other official agencies, and with nongovernmental organizations (NGOs) to ensure ownership of and commitment to the poverty reduction strategy among all relevant development partners.

Poverty and Country Policies

Trends in Poverty

Over the past three decades, developing countries have achieved substantial gains in living standards, as measured by income and social indicators. However, the rate of improvement slowed during the 1980s. The proportion of the population living in poverty (defined as those living on less than \$1 a day in 1985 prices) has fallen slightly since 1985, but the absolute number of poor people has risen. Recent estimates suggest that in 1990, 1.1 billion people in developing countries were living in poverty, about 8 percent more than in 1985. In Asia the proportion of the population that is poor declined steadily during the 1980s. In East Asia and the Pacific, it is estimated that there were fewer poor

people in 1990 than in 1985, while in South Asia there were more. Both the absolute number of poor and their relative share in the population are estimated to have increased in Sub-Saharan Africa, in the Middle East and North Africa, and in Latin America and the Caribbean. The depth of poverty has also increased in these regions.

Social indicators have improved over the past three decades, but their rate of improvement generally slowed during the 1980s, particularly in those countries with the lowest per capita income. There are significant regional variations, and in a number of countries social indicators remain at very low levels. Many of these countries are in Sub-Saharan Africa and, to a lesser extent, in South Asia and the Middle East and North Africa. However, the rate of improvement in South Asia and in the Middle East and North Africa since the 1960s has been consistently high, while the rate of improvement in Sub-Saharan Africa has been much lower, about half the rate of South Asia. From the mid-1960s to the mid-1970s the improvements in social indicators that were achieved by low-income countries were greater than those achieved by middle-income countries, but there was a reversal of this trend by the 1980s when indicators for middle-income countries improved at a faster pace.

Country Policies

There has been significant progress in reducing poverty in those countries that have both implemented efficient policies to stimulate growth and provided basic social services to the poor. Countries that have achieved sustained growth, such as Indonesia and Malaysia, have experienced large declines in poverty. The converse is also true. In many countries in Latin America and the Caribbean, in Sub-Saharan Africa, and in the Middle East and North Africa, per capita income declined during the 1980s, reflecting external shocks and the legacy of inappropriate macroeconomic and structural policies. This resulted in an increase in the incidence of poverty in many countries in these regions.

The *pattern* of growth is also an important factor in determining the extent to which the income of the poor grows. For example, equitable participation in rural-based growth in China from 1978 to 1985 and in Indonesia throughout the 1970s and 1980s brought about impressive reductions in poverty.

Some structural policy reforms that encourage growth are likely to reduce poverty faster than others, including, for example, removing distortions against agricultural products (since many of the poor are producers in rural areas), relaxing regulatory constraints that limit labor demand, and investing in physical infrastructure and agricultural extension. The poor will be able to take advantage of earning opportunities if they have increased access to land and credit. However, the success of such programs hinges on resolving difficult design issues as well as on political acceptability.

Equally important are policies that improve the accessibility and quality of basic investments in human resources development. For example, Colombia's success in significantly reducing poverty in the 1980s was a result of its sustained growth and of earlier investments that it had made in human capital. Investments in human capital enhance the productivity of labor—the most important asset of the poor—and they are often very effective in transferring resources to the poor.

Prospects for Poverty Reduction

Looking ahead, projections made by World Bank staff for the year 2000 for low- and middle-income countries suggest that growth in the aggregate may be sufficient to enable them to reduce poverty at a more vigorous pace in the future. These growth forecasts, which are based on an assessment of likely country policies and the external environment, suggest that growth in Latin America and the Caribbean will recover to an extent that will be sufficient for poverty to decline again in the region. The projections also suggest that there is scope for rapid poverty reduction to continue in East Asia and the Pacific and for poverty reduction to be revitalized in South Asia. However, in Sub-Saharan Africa the forecast rate of income growth is lower than the rate that would be necessary to reduce the number of poor. This is at least partly due to the rapid projected rate of population growth. Thus, individual country exceptions notwithstanding, poverty is likely to increase in Sub-Saharan Africa during the remainder of this decade unless many countries in the region make significant changes in their policies. This underscores the need for policies that influence the pattern of growth in ways that cause the income of the poor to grow faster than average income in each country. It also confirms the

need to complement policies to stimulate growth with investments in family planning, health, and education. Countries and donors will need to intensify their efforts to prevent a serious worsening of human conditions.

The World Bank's Implementation Effort

The policy paper *Assistance Strategies to Reduce Poverty* showed how to apply the *WDR 1990* approach in the World Bank's operational context. It prescribed assessing the consistency of country policies, public expenditures, and institutions, with poverty reduction, as a basis for the design of the Bank's country assistance programs. The measure of the Bank's poverty reduction effort is the entire country assistance strategy in the context of country commitment and donor efforts. Country circumstances determine how Bank-supported operations should focus specifically on poverty reduction. In countries where poverty is narrowly concentrated and the implementation capacity is good, targeted interventions can be an important part of government programs to reduce poverty. Where poverty is more widespread and the capacity to implement programs is weak, adopting policies that promote broad-based growth while also supporting basic social services is probably the most cost-effective way to reduce poverty.

The Bank has increasingly been placing poverty reduction at the center of the policy dialogue and of its country assistance strategies. This is evident in the fact that lending and analytical work have become much more poverty oriented. Progress in incorporating poverty objectives explicitly into country assistance strategies is most apparent in those countries where poverty assessments have been completed; their findings have shaped the policy dialogue, lending, and the agenda for further country analytical work.

Bankwide Lending

Progress in implementing the poverty reduction strategy is clearly visible in the composition of Bank lending. While the volume of lending for agriculture has remained constant in nominal terms, lending for rural infrastructure (for example, roads, village infrastructure, and electrification) has expanded. Meanwhile, investment lending for human resources development has increased almost five-

fold since the early 1980s; it increased from 5 percent of total Bank lending in fiscal 1981-83 to 14 percent in fiscal 1990-92. In particular, lending is now concentrating on the development and extension of basic social services, such as primary health care and primary education, with special emphasis on maternal and child health and on improving educational opportunities for girls. Also, because high fertility rates and poverty form a vicious circle, the Bank continues to integrate its population and health activities.

Another measure of lending, the Program of Targeted Interventions (PTI), consists of investment operations that include a specific mechanism for reaching the poor and/or in which the participation of the poor significantly exceeds the proportion of the poor in the population as a whole. In fiscal 1992, the PTI included fifty-one projects in a wide range of sectors, the total value of which amounted to about 14 percent of new lending. The PTI contains a significant number of projects that explicitly target women, both in income-generating and in social sectors.

Meanwhile, an increasing number of adjustment loans are supporting the protection and reorientation of public spending on basic social services and are promoting safety nets or targeted transfers to specific poor groups. The share of adjustment lending that addresses social issues climbed from 5 percent in fiscal 1984-86 to 50 percent in fiscal 1990-92. In fiscal 1992, eighteen out of thirty-two adjustment loans included an explicit poverty focus, and fourteen of these adjustment loans had related tranche-release conditions.

Poverty Analysis

There has been a sharp increase in the amount of country-specific poverty analysis that has been carried out since the late 1980s. This has included country poverty assessments, poverty-related economic and sector reports—especially in the social sectors—research, and data development.

Since mid-fiscal 1992 when the operational directive on poverty reduction was issued, the pace at which poverty assessments are being prepared has been accelerating. As of November 30, 1992, twenty assessments had been completed for nineteen countries (including one update). By the end of fiscal 1995, sixty-eight additional poverty assessments are scheduled to have been completed for sixty-one

countries (including seven updates). This will bring the total coverage to eighty countries by the end of fiscal 1995. In several countries, notably in the Sub-Saharan Africa and Middle East and North Africa regions, preparatory data collection and analysis are already under way.

A great deal of poverty analysis exists other than that contained in the poverty assessments, and this has often either paralleled or served as a building block in the preparation of the assessments. This analysis (contained in economic and sector reports) can form the basis of a broader poverty assessment if its findings are integrated into countrywide analyses that identify cross-sectoral priorities. Some of this analysis is contained in Country Economic Memoranda and in Public Expenditure Reviews, but most is contained in sectoral reports covering mainly human resources development and food security, poverty profiles and poverty trends, and, to a lesser extent, population, environment, and women in development issues.

Bank-supported research on poverty has been increasing. Preliminary figures indicate that the proportion of resources (both from the Research Support Budget and from departmental and other funds) devoted to poverty reduction and human resources development has increased from 25 percent in fiscal 1990 to 30 percent in fiscal 1992. A major research project covering twenty-one developing countries and focusing on the relationship between economic growth and poverty during adjustment found a strong positive correlation between growth and poverty reduction. It also found that, unless carefully targeted, direct budgetary transfers intended for the poor were often captured by the middle class. Studies prepared for the Conference on Public Expenditures and the Poor (June 1992), which was sponsored by the Bank and the Government of the Netherlands, assessed alternative methods of targeting; for example, evidence indicates that providing basic social services is an effective approach for reaching the poor. Other research has shown that educating girls is a high-return investment.

Accurate data on the extent and depth of poverty and the main characteristics of the poor facilitate the process of designing policies and programs to reduce poverty. Although improvements have been made over the past five years, collecting new data is still extremely difficult in many data-poor countries because of weak institutions, lack of funds, and

adverse political conditions. Given these constraints, the Bank has been supporting attempts to improve the institutional capabilities of countries to conduct nationally representative household surveys. It is also supporting a number of interim measures, such as carrying out less ambitious, special-purpose surveys, and improving the collection and quality of country-specific priority indicators, which can help to track progress in reducing poverty in the absence of household-based surveys.

Future Directions

The preceding discussion has focused on the progress that countries have made in reducing poverty and that the World Bank has made in ensuring that its assistance strategies support and complement country efforts to reduce poverty. The key challenge for countries and the Bank is to both extend and deepen their efforts to implement the *WDR 1990* poverty reduction strategy throughout the developing world.

Extending and Deepening Implementation: Country Issues

Creating a climate for poverty reduction. For the most part, poverty increased during the 1980s in those countries where the policy framework was not conducive to growth. In many of these countries this outcome was associated with inappropriate domestic policies exacerbated by external shocks from rising interest rates in international markets, by the debt crisis, and by turmoil in world commodity markets. The combination of these factors triggered a vicious circle of low growth, fiscal deficits, inflation, declining incomes, and increasing poverty. The challenge for these countries is to restore the climate for sustainable growth and human resources development by putting in place and maintaining an appropriate macroeconomic framework and by restoring spending on basic social services. To minimize the potentially adverse impact that the introduction of stabilization policies may have on the poor in the short term, safety nets can be introduced within the context of the overall macroeconomic framework.

Reaching the remaining poor. In other countries, considerable success has been achieved in establishing a suitable climate for growth, human resources

development, and poverty reduction. The remaining challenge for these countries is to increase the effectiveness of their poverty reduction strategies by formulating and implementing policies and spending plans that promote an efficient and equitable pattern of growth as well as by implementing specific interventions to reach the remaining poor people. This means that public expenditures should focus specifically on efficient projects and programs that benefit the poor; that more in-depth analysis of the distributional implications of sectoral interventions should be done as a basis for policy design; and that more sophisticated institutional mechanisms should be developed for delivering social services and the safety net. Given the importance of reaching specific groups of poor people, it is essential to develop local capacity for identifying the poor and analyze how policies affect them.

*Extending and Deepening Implementation:
World Bank Issues*

Widening the coverage of poverty assessments. The completed assessments and other country economic and sector work provide the basis for the Bank's poverty-focused policy dialogue with a number of countries. By the end of fiscal 1995, eighty-eight poverty assessments in eighty countries are scheduled to have been completed. This will cover most active borrowers, excluding the Bank's most recent members. Compared to the previous timetable, more countries will have to be covered over a shorter period of time. Moreover, many of the scheduled assessments are for countries where data and supporting institutions are weak and where there are few existing studies on which to base the work. Experience suggests that in such circumstances assessments tend to take longer and to cost more. Staff training seminars need to be developed to illustrate ways to prepare assessments if the available data are limited.

In the Bank's new member countries from the former Soviet Union, poverty analysis is being included in Country Economic Memoranda and labor market and safety net studies. So far, the emphasis in these countries has been on making safety nets more effective in supporting economic restructuring. Recognizing the many urgent priorities that these countries face, it will nevertheless be important to move expeditiously to assess the poverty situation fully as the information base and available

resources permit. Thus, poverty assessments are being scheduled. Technical assistance is being provided—or is being considered—for the information-gathering stage of this process.

Informing the policy dialogue. In parallel with the efforts that countries will need to make to deepen their poverty reduction efforts, the World Bank should continue to generate analysis in poverty assessments and in country economic and sector work to support the design of country assistance strategies and the policy dialogue. This analysis should pay particular attention to several key topics that have not yet been systematically addressed. At the top of the agenda is the need to give greater attention to the incidence, composition, and management of public expenditures; such work should be done in conjunction with efforts to find the most efficient ways to mobilize public resources. It will also be important to strengthen the link between poverty profiles and the analysis and design of policies. For example, policy-induced distortions in the relative prices of commodities may adversely affect the interests of the poor as producers or consumers. Studying the potential impact on poverty of proposed reforms will enable governments to plan more effective reform programs and to identify where compensatory transfer programs are likely to be needed. To assist staff in sharpening their skills for this kind of analysis, the Bank is documenting the lessons of past work and is developing in-house training seminars to disseminate examples of good practice. The material from these seminars will be made available outside the Bank to borrowers and donors alike.

Conducting further research. On some topics there has been little systematic empirical investigation of the links between policies and poverty outcomes. These topics include the effect on poverty of labor market and social security reforms, the synergies between economic policies for reducing poverty and those for protecting the environment, and the design of cost-effective targeting mechanisms to reach the poor. The Bank has begun research initiatives in all of these areas. For this research to yield results that can be applied to country policies and programs, it will need to be based on better country data, particularly at the household level. The Bank is continuing to support initiatives in this area and is disseminating its experience with implementing

its principal household survey instruments in order to make them more accessible to operational staff, their country counterparts, and donors for use in policy analysis.

Evaluating on-the-ground impact. There are conceptual and practical difficulties in assessing the extent to which the Bank's own efforts contribute to poverty reduction outcomes in countries. Measuring the impact of specific policy and project interventions is conceptually easier, but in practice it is still quite difficult. Establishing the appropriate benchmark for making "with project" and "without project" comparisons is rarely straightforward; in addition, the impact of some initiatives may only become evident in the long term. Nevertheless, evaluating outcomes and ensuring the timely feedback of lessons learned so that they can be taken into account in the design of new interventions is a priority task for the Bank, for borrowers, and for donors. At the operational level, indicators for tracking the impact of poverty reduction interventions, particularly of human resources development projects, are being developed to provide a more systematic basis for evaluating a project's effectiveness and for fine-tuning its design throughout the project cycle. The indicators for monitoring the impact of adjustment operations on the poor are also to be given more emphasis in the design of adjustment operations as a basis for tracking the impact on poverty during the implementation stage and beyond.

Broadening participation. Experience suggests that the effective implementation and operation of most poverty reduction projects require the

active involvement of the beneficiaries. To this end, the Bank has been stressing the importance of being responsive to the needs and preferences of beneficiaries. Greater emphasis is being placed on participatory approaches, on involving NGOs, and on carrying out beneficiary assessments. These initiatives are part of a Bankwide effort to improve the way projects are designed and implemented, and they are particularly important for poverty-focused operations. Given that the Bank's role is not to *substitute* for borrowers but to work *with* them, the Bank's most important contribution in this area may be to help borrowers become more responsive to the people affected by policies and projects.

Strengthening partnerships. To make substantial headway in reducing poverty, especially in those countries where growth prospects are weak, strong development partnerships that support country efforts are essential. More collaboration with donors and other official agencies (both at the international level and at the country level) and, most important, with country counterparts is required. To this end, the Bank will routinely share the findings of poverty assessments with donors, for example, at Consultative Group meetings. In-country workshops for donors and country counterparts are also useful vehicles for reaching key audiences. Moreover, donors and country counterparts could participate in the preparation of assessments far more frequently than is the case now. For example, international expertise and financial assistance will continue to be necessary to help countries develop the capability to undertake sample surveys and to use the data more effectively in poverty analysis and in policy decisionmaking.

Introduction

The World Bank has reaffirmed its commitment to reducing poverty and has stressed that this is its fundamental objective. Its policy is to integrate the messages of the *World Development Report (WDR) 1990* on poverty into its operations. *WDR 1990* articulated a two-part strategy for reducing poverty. The first element involves encouraging the kind of growth that makes efficient use of the poor's most abundant asset—their labor. The subsidization of capital, distorted prices for labor-intensive products, and restrictions on labor mobility all act as constraints on the demand for labor and must be overcome, while the availability of basic infrastructure and inputs must be improved. The second element of the strategy involves ensuring widespread access to primary health care, family planning, nutritional services, and primary education to enable the poor to participate fully in the growth of the economy. *WDR 1990* also emphasized the need to provide safety nets to protect the most vulnerable members of society.

How this is to be done is spelled out in the policy paper *Assistance Strategies to Reduce Poverty*, in the *Poverty Reduction Handbook*, and in an operational directive.¹ The operational approach involves the

preparation of periodic poverty assessments for each country. The aim of the assessment is to identify the poor, the causes of their poverty, and the possible policy remedies for reducing poverty. The assessment is to serve as the basis for the design of the Bank's country assistance strategy (including the policy dialogue and the program of assistance). Helping countries to improve the quality of their community- and household-level data will strengthen the analysis and design of policies and is particularly important for tracking progress in reducing poverty over time.

This progress report summarizes trends in poverty and in country policies and reviews the World Bank's efforts to support countries in implementing the *WDR 1990* strategy. It looks at how the Bank's poverty-related analysis is influencing the design of country assistance strategies to reduce poverty. The report describes the evolution that has taken place in country assistance strategies and in the composition of lending, including operations designed specifically to address poverty. It sets out the remaining challenges that countries and the Bank face in reducing poverty in the developing world.

1. Trends in Poverty and Country Policies

This section summarizes recent trends in the state of poverty in developing countries. It concludes that although the incidence of poverty in the developing world has declined considerably over the past three decades, poverty remains a persistent problem. The section examines country experiences with respect to policies for growth, human resources development, and safety nets for vulnerable groups.

Global Poverty

Over the past three decades, developing countries have made substantial gains in living standards, as measured by income and social indicators.² Real increases in per capita consumption levels and decreases in the incidence of absolute poverty have occurred in parallel with continuous and steady improvements in social indicators. Over the past twenty-five years, average per capita consumption has increased by 70 percent in real terms, average life expectancy has increased from fifty-one to sixty-three years, and primary school enrollment has reached 89 percent.

During the 1980s the overall progress in improving living standards slowed down. There was also a marked divergence in progress among regions. The overall incidence of poverty is probably still falling, but not by enough to prevent an increase in the number of poor. Progress in improving social indicators also slowed down. This means that developing countries are going to have to redouble their efforts to reduce poverty and that donors will have to improve the effectiveness of their external assistance to enhance country efforts.

International comparisons of poverty data pose a number of conceptual and technical problems (see box 1). All estimates must, therefore, be treated with caution. Also, there are sharp regional variations in the coverage and quality of data that can be used to estimate the number of people who live in house-

holds where income falls below a poverty line (sometimes called *income poverty*). In particular, the proportion of the population of Sub-Saharan Africa covered by a representative and reliable household survey lags behind those in other regions.

Updating Poverty Trends in the 1980s

Current estimates suggest that in 1990, 1.1 billion people were living on less than \$1 a day (at 1985 prices) in developing countries.³ Table 1 summarizes the latest available estimates of the number of poor people and of the poor as a percentage of the population (the *headcount index*) in 1985 and 1990. The table shows that there was little progress in reducing poverty during the second half of the 1980s. The proportion of the developing world's population living in poverty has fallen slightly since 1985, but the absolute number is estimated to have risen.

These aggregates hide marked differences across regions. As shown in table 1, in South Asia and in East Asia and the Pacific the proportion of the population living on less than \$1 a day has declined. By contrast, this proportion has increased in the Middle East and North Africa and in Latin America and the Caribbean. Although there has been only a negligible change in the percentage of the population of Sub-Saharan Africa living on less than \$1 a day, the number of poor in the region has grown at roughly the same rate as the population, about 3 percent per year. This was the largest estimated increase in the number of poor in any region. The proportion of the population considered poor in Sub-Saharan Africa is now estimated to be almost equal to that in South Asia, which still has the highest poverty incidence among all the regions and where about half of the world's poor live. Although the percentage of the South Asian population estimated to be living in poverty fell, this was not enough to prevent the

Box 1. International Comparisons of Poverty Data

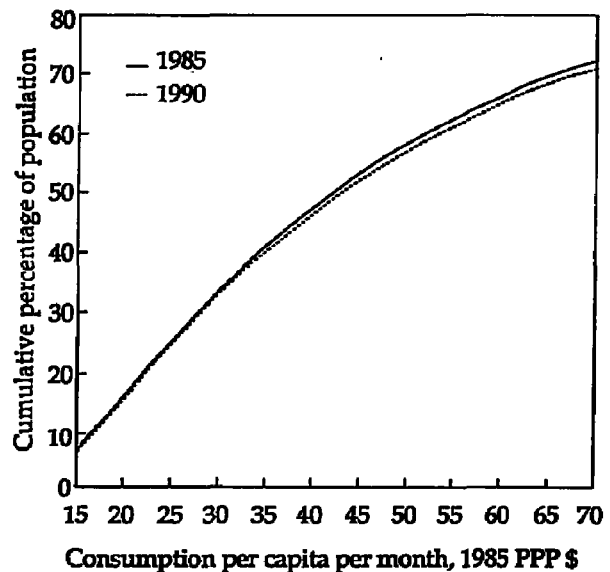
International comparisons of poverty statistics pose a number of problems. One is that there are differences among the household surveys used by the various countries (although survey methodologies are getting not only better but also more standardized). The estimates quoted here are based on nationally representative household surveys of consumption expenditures on all goods and services (in most cases) or incomes (when consumption is not available). In more than half these cases, more than one observation was made over the period.

A second problem is that poverty lines differ among countries, and this creates difficulties in comparing standard estimates of, for example, the percentage of people deemed to be "poor." Should one estimate the number of poor in the United States to be greater than in Indonesia (the official estimates of the percentage of poor are now about the same for these two countries) when the poverty line of the former is much more generous—in terms of the goods and services that it includes—than the latter? The answer depends on the purpose of measurement; for the present purposes, all poverty measures have been re-estimated to accord with the same real poverty line across countries.

Which poverty line should be chosen? Poverty lines that are appropriate for the poorest countries are used here. *WDR 1990* argued the case for basing international comparisons on a poverty line of \$31 per month or \$1 per day at 1985 U.S. purchasing power parity (PPP). Although the consumption bundle used is oriented more toward middle-income groups than the poor, the PPP rates derived from the United Nation's International Comparisons Programme appear to be the best available method for making poverty lines internationally comparable. They have been widely used for this purpose, and this is the practice followed here.

Quantifications of poverty are sensitive to where the poverty line is set. The box graph gives the estimated percentages of the population of the developing world consuming less than various amounts in 1985 and in 1990 (as indicated by the poverty incidence curves). It shows that about one in four people in both years was consuming less than \$25 per month, while as many as one in two consumed less than \$45 per month. An extra \$0.70 per day added to the poverty line implies a doubling of the number of people counted as being poor.

Box Figure 1. Aggregate Poverty Incidence Curves, 1985-90



Note: For information on the data sources used and further analysis of the robustness of the results, see Chen, Datt, and Ravallion (1993).

not enough to prevent the estimated number of poor people from rising. During the same period, the number of poor people in the Middle East and North Africa was estimated to have increased by more than the rate of population growth, as was also the case in Latin America and the Caribbean. East Asia and the Pacific is the only region where the number of people living in poverty and the proportion of the population in poverty are estimated to have decreased.

Table 1 also provides estimates of the *poverty gap index*. This index reflects the depth of poverty by

taking into account how far the average poor person's income is from the poverty line.⁴ The table shows that in some regions (Latin America and the Caribbean, the Middle East and North Africa, and Sub-Saharan Africa) the poor have become poorer. The poverty gap estimate is highest for Sub-Saharan Africa. Thus, while a slightly higher percentage of the population is living on less than \$1 a day in South Asia, the depth of their poverty is estimated to be less than in Sub-Saharan Africa.

Differences in the rate of growth of average household living standards have been an important

Table 1. Estimates of the Magnitude and Depth of Poverty in the Developing World, 1985–90

Region	Number of poor (millions)		Headcount index (percent)		Poverty gap index (percent)	
	1985	1990	1985	1990	1985	1990
Aggregate	1,051	1,133	30.5	29.7	9.9	9.5
East Asia and the Pacific	182	169	13.2	11.3	3.3	2.8
Eastern Europe	5	5	7.1	7.1	2.4	1.9
Latin America and the Caribbean	87	108	22.4	25.2	8.7	10.3
Middle East and North Africa	60	73	30.6	33.1	13.2	14.3
South Asia	532	562	51.8	49.0	16.2	13.7
Sub-Saharan Africa	184	216	47.6	47.8	18.1	19.1

Note: The poverty estimates are for eighty-six countries, representing about 90 percent of the population of developing countries. They have been updated from those used in *WDR 1990* and are based on national household sample surveys from thirty-one countries, representing roughly 80 percent of the population of developing countries, and on an econometric model to extrapolate poverty estimates to the remaining fifty-five countries. The estimates do not include the countries of Indochina or of the former Soviet Union. The poverty line is \$31.23 per person per month at 1985 prices. It is derived from an international survey of poverty lines and represents the typical consumption standard of a number of low-income countries. The poverty line in local currency is chosen to have constant purchasing power parity across countries based on 1985 purchasing power parity exchange rates. 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 for the nonpoor) expressed as a percentage of the poverty line. See details on the methodology in Ravallion, Datt, and van de Walle (1991). The updated estimates are documented in Ravallion, Datt, and Chen (1992).

percent increase in per capita consumption is on average associated with a 20 percent fall in the percentage of the population who are poor.⁵ This relationship varies from country to country. Figure 1 compares the percentage change in the proportion of the population living on less than \$1 per day with the percentage change in real consumption per capita across those countries (in all regions) for which reasonably comparable observations for two dates during the 1980s are possible.

Other factors affecting changes in poverty are the initial income distribution and how that distribution changes. Poverty reduction is swifter when a higher proportion of the gains from growth reach the poor. In Brazil average per capita income grew by 220 percent from 1960 to 1980 to achieve a 34 percent decline in the headcount index of poverty, whereas in Indonesia per capita income grew by 108 percent from 1971 to 1987 to bring about a 42 percent decline in poverty incidence. This difference in performance is because of the less equal initial distribution of income in Brazil and the broad-based growth achieved in Indonesia.

Table 2 presents estimates of the minimum rate of growth in aggregate consumption necessary to achieve a reduction in the number of poor. It reflects the estimated relationship between increases in per capita consumption and declines in the percentage of the population who are poor (see figure 1) with

the observed rates of population growth by region in the 1980s. The comparison between this critical minimum rate with actual rates of growth during the decade (the first two columns of table 2) shows that both East Asia and the Pacific and South Asia

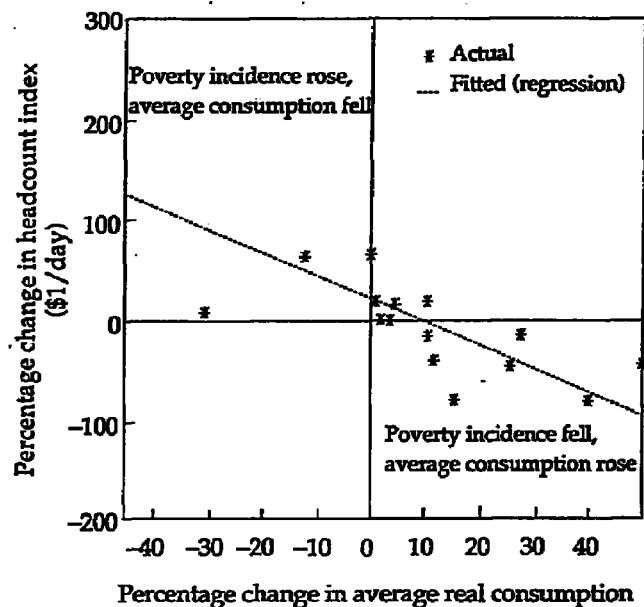
Figure 1. Change in Poverty against Change in Household Mean Consumption between Survey Dates in the 1980s

Table 2. Minimum Rates of Growth to Reduce the Number of the Poor
(percent per year)

<i>Region</i>	<i>Minimum rate of growth in aggregate consumption needed to achieve a reduction in the number of poor</i>	<i>Actual rate of growth in aggregate consumption 1980-90</i>	<i>Projected rate of growth in aggregate consumption 1993-2000</i>
East Asia and the Pacific	2.4	6.1	7.7
Latin America and the Caribbean	3.2	1.2	4.7
South Asia	3.3	5.1	4.9
Sub-Saharan Africa	4.7	0.8	3.3

Note: Based on the data for low- and middle-income countries in *WDR 1992*; the Middle East, North Africa, and Europe are excluded. The projections come from the World Bank's data files. The minimum rate of growth in aggregate consumption needed to achieve a reduction in the number of poor is based on the empirical relationship depicted in figure 1.

achieved rates of growth in consumption in the 1980s that were enough to bring down the number of poor (although the slowing of progress in South Asia during the latter half of the decade resulted in an increase in the number of poor, as indicated in table 1). In East Asia and the Pacific, the rate of growth in aggregate consumption is considerably more than the estimated minimum that would be needed to reduce the number of poor. The reverse is true for Sub-Saharan Africa and Latin America and the Caribbean; in both cases the rate of growth is well below the critical value, markedly so in the case of Sub-Saharan Africa.

Regional poverty trends. It is instructive to examine trends in two regions for which more detailed data exist.⁶ One is Latin America and the Caribbean, in which the living standards of the poor have declined over the decade. The other is East Asia and the Pacific, in which the poor have fared better in the 1980s than before.

Recent estimates of the size of the poor population in Latin America and the Caribbean, using a regional poverty line of \$2 per day (a higher poverty line than is typical of some other regions), show that the number of poor in this region increased by more than 40 million between 1980 and 1989. Across the region during the 1980s, per capita income fell by 11 percent, real wages declined, and unemployment increased sharply. In many countries in the region during the recession of the 1980s, the income of the poor declined more than average income. In almost every country in the region the rise in urban poverty was greater than that in rural poverty; the number of poor people was estimated to have increased by

more than 30 million in the urban centers compared to around 10 million in the rural areas. Of the overall increase in poverty, about 44 percent was accounted for by the increase in poverty in the cities of Brazil alone. Another 17 percent of the increase took place in Peru.⁷

For East Asia and the Pacific, nutrition-based poverty estimates show a dramatic decrease in the incidence of absolute poverty—from one-third of the population in 1970 to one-fifth in 1980 and down to one-tenth in 1990.⁸ Although much of the reduction in the number of poor in East Asia and the Pacific took place in rural areas, poverty in the region still remains mostly a rural problem.

There are, however, some differences in performance, as progress in reducing poverty has been slower in some countries in the region than in others. Of the estimated 180 million absolute poor in 1990 in East Asia and the Pacific, China accounted for 100 million. China achieved an average annual rate of growth of 8.5 percent over the 1980s—the highest economic growth rate recorded by any developing country during the decade. This contributed to spectacular declines in the incidence of poverty, from about one-third in 1980 to barely one-tenth in 1990, which was largely because of broad participation in strong rural economic growth. This progress now appears to be slowing down, however, and there were signs of a modest increase in rural income disparities in China during the late 1980s. In two rapidly industrializing countries (Republic of Korea and Malaysia) with GNP growth rates that averaged 6 to 8 percent during the 1980s, the incidence of absolute poverty was more than halved, to less than 5 percent. In contrast, in

Thailand the high economic growth rate during the 1980s had little impact on the incidence of poverty, since this growth was not sufficiently broad-based. Indonesia started the 1970s with more than half its people in poverty (some 70 million), but by 1990 the incidence had fallen to 15 percent and the number of poor to 27 million. Steady gains have been made by Indonesia over a sustained period as economic growth has coincided with increasing overall equality.

Social indicators. Trends in social indicators show that although there has been a substantial improvement over the past twenty-five years (see table 3), the rate of progress for most countries slowed during the 1980s.⁹ As is the case with income poverty, there is significant regional variation, and in a number of countries social indicators remain at very low levels. Many of these countries are in Sub-Saharan Africa and, to a lesser extent, in South Asia and the Middle East and North Africa. Although the rate of improvement in South Asia and in the Middle East and North Africa since the 1960s has been consistently high, improvement in Sub-Saharan Africa has been much slower, at about half the rate of South Asia. From the mid-1960s to the mid-1970s, the improvements in social indicators that were

achieved by low-income countries were greater than those achieved by middle-income countries, but this trend was reversed by the 1980s when indicators for middle-income countries improved at a faster pace. In general, countries with the lowest incomes tend to have the lowest social indicators, and they tended to have slower rates of improvement in their social indicators during the 1980s.

Prospects for Reducing Poverty in the 1990s

There was only a slight improvement in the aggregate incidence of poverty in the latter half of the 1980s in the developing world. The number of poor, therefore, increased at close to the rate of population growth. There was an increase of about 8 percent in the number of poor over this period, for a compound annual rate of about 1.5 percent. If this rate were to be maintained over the rest of the decade, about 1.3 billion people would be consuming less than \$1 per day (at 1985 prices) by the year 2000. Reversing this trend will require both appreciably higher economic growth rates during the rest of the decade and improved patterns of growth.

What do current growth projections imply about what will happen to the number of poor by region? The third column of table 2 shows World Bank staff

Table 3. Trends in Selected Social Indicators by Region, 1965-90

<i>Region</i>	1965	1970	1975	1980	1985	1990
	<i>Infant mortality rate</i>					
East Asia and the Pacific	95	76	56	49	41	34
Europe and Central Asia	76	66	53	42	33	28
Latin America and the Caribbean	94	84	73	62	53	47
Middle East and North Africa	150	137	123	110	93	80
South Asia	147	137	128	116	103	92
Sub-Saharan Africa	156	143	134	126	117	107
	<i>Gross primary school enrollment rate</i>					
East Asia and the Pacific	88	88	118	111	120	129
Europe and Central Asia	102	105	104	100	104	102
Latin America and the Caribbean	98	—	99	105	108	107
Middle East and North Africa	61	64	75	83	85	90
South Asia	68	68	75	78	88	90
Sub-Saharan Africa	42	46	56	80	71	69

— Not available.

Note: Infant mortality rate indicates the number of infants who die between birth and the age of one year per 1,000 live births in a given year. Gross primary school enrollment rate is the total number of children of all ages enrolled in primary school as a percentage of the total number of primary school-age children; the ratio may exceed 100 percent because some pupils are younger or older than the country's standard primary school age. The data come from the World Bank's main database. Some of these data are estimates. For more details, see World Bank (1992g).

projections of the likely rate of growth in aggregate consumption from now until the year 2000. South Asia and (particularly) East Asia and the Pacific are expected to achieve appreciably more growth than the estimated minimum needed for the number of poor to fall. This is also true of Latin America and the Caribbean.

Under current growth projections, however, Sub-Saharan African countries are expected to grow by only 3.3 percent, whereas the minimum growth rate that would be needed to reduce the number of poor is 4.7 percent. These figures assume a continuation of past trends that generally involved stable income distributions. Thus, under current conditions and expectations, the number of poor in Sub-Saharan Africa is likely to rise still further during the next decade. This underscores the need for policies that influence the pattern of growth in ways that cause the income of the poor to grow faster than average income. It also confirms the need to complement policies to stimulate growth with investments in family planning, health, and education. This would result in a greater decline in the incidence of poverty for a given rate of growth in average income and would prevent a serious worsening of human conditions.

Poverty and Country Policies

It is clear from the previous discussion that (i) developing countries have made substantial progress in reducing poverty over the past three decades and that (ii) there has been some loss of momentum in recent years. The key challenge is thus to resume the more rapid rate of poverty reduction of earlier years. To help countries that are pursuing this objective to benefit from the lessons of experience of other countries, the following discussion reviews recent developing-country experience. Drawing *inter alia* on the Bank's operational and analytical work, it reinforces the findings of *WDR 1990* and its poverty reduction strategy. There has been significant progress in reducing poverty in those countries that have both implemented efficient growth policies and provided basic social services to the poor.

Growth-oriented Policies

Rapid poverty reduction generally requires rapid growth. Countries that historically have enjoyed large increases in mean income have experienced

large declines in poverty incidence. At different times, Brazil, Indonesia, and Malaysia have all achieved sustained growth in mean income of more than 3 percent per year. Brazil achieved a reduction in poverty incidence from 56 to 22 percent between 1960 and 1980; Indonesia reduced poverty incidence from 64 to 22 percent between 1971 and 1987; and Malaysia reduced poverty incidence from 35 to 14 percent between 1973 and 1987. Evidence from Chile (1987-90), Costa Rica (1987-89), and Venezuela (1987-91) also illustrates the fact that poverty falls when income rises, even over short periods of time.

The converse is also true. Economies such as India, Morocco, and Sri Lanka that have experienced low long-term growth have experienced slow poverty reduction. Meanwhile, the poor have lost ground in countries in economic decline. In Latin America and the Caribbean, for example, external shocks and a legacy of macroeconomic and structural policies caused many economies to decline during the 1980s. Falls in income in Argentina and Peru brought substantial increases in poverty. Although the present recovery in Latin America and the Caribbean should reduce poverty substantially, poverty has increased in those countries that are still mired in recession and that need to adjust—they have failed to adjust or have only just begun to do so—including Brazil, Peru, and a group of smaller countries. These countries will account for the bulk of the region's poverty problem in the 1990s. In Sub-Saharan Africa the disappointing growth record of the 1980s was also associated with increased poverty; as per capita income declined, poverty rose.

Policy reforms. Given the strong correlation between growth and poverty reduction, structural policy reforms designed to achieve efficiency and growth objectives also promote poverty reduction.¹⁰ However, it may take some time before results begin to be achieved, in terms of growth or of poverty reduction. Nevertheless, some of the positive impact of policy reform on poverty reduction can be accelerated by concentrating, in the initial phase of reform, on correcting policy distortions that especially disadvantage the poor and by directing public expenditures toward basic physical infrastructure (such as rural roads) and basic social services. Meanwhile, in moving toward policies that stimulate growth, it is essential to adhere to a sustainable macroeconomic framework. To mini-

mize the potentially adverse impact that the introduction of stabilization policies may have on the poor in the short term, safety nets can be introduced within the context of the macroeconomic framework.

Efficient incentive policies that benefit the poor. Liberalizing critical prices early in the sequence of reforms can cause the income of the poor to increase faster. This was an important factor in reducing inequality in Indonesia and Costa Rica. Relative price changes led to gains in terms of trade for producers and wage earners alike. In African countries, where approximately 90 percent of the poor are located in rural areas, it may be possible to reap substantial gains from this type of policy (see box 2). In Ghana and Nigeria, for example, the rural sectors have gained considerably from adjustment-related changes in the real exchange rate. In other countries, such as Tanzania, improvements in relative prices for the rural poor occurred more slowly as a result of initially inadequate or slow reform, such as delays in unifying exchange rates or failures to reform marketing institutions. In such cases, deeper reform is needed.

In urban areas, poverty is influenced by policies that affect small or unregulated enterprises. Growth in these so-called informal activities is primarily dependent upon growth in the rest of the economy because most of what they produce is for consumption. It is also important for government to ensure that small-scale entrepreneurs are not unduly hampered by regulations that impede their ability to compete in the marketplace.¹¹ Removing regulatory biases toward larger firms, relaxing overly stringent regulations for all firms, and providing appropriate urban infrastructure are the best ways to facilitate growth that benefits the urban poor.

Efficient public expenditures that benefit the poor. Growth policies can be made more favorable to the poor by reinforcing them with investments in basic physical infrastructure and social services because these investments facilitate the accumulation of physical and human capital by the poor. Colombia's relative success in the 1980s in significantly reducing inequality can only partly be attributed to gains in terms of trade. It was also a consequence of earlier investments in human capital. Gains for the poor

would occur if Brazil strengthened its social sector policies, if Pakistan redressed its past neglect of social service provision, and if many African countries tackled the lack of coverage and breakdown in the provision of primary social services and basic infrastructure.

Safety nets. The poor's level of consumption can be protected during the reform process. Indonesia borrowed abroad to moderate the depth of the recession that accompanied the implementation of policy reforms. Participants in the Special Program of Assistance for Africa receive large net transfers (averaging 12 percent of GDP in 1989-91) that are helping to sustain consumption as these countries undertake reforms. Rather than providing generalized protection of consumption levels for all income groups, which will undermine stabilization efforts, it is important for countries to establish safety nets to protect the most vulnerable groups. For example, in countries in transition from socialism, large drops in output, widening income distributions, and constraints on inherited systems of social protection could lead to significant increases in poverty. The design of affordable safety nets—and possible tradeoffs with other expenditures—thus need to be explicitly addressed in the design of transition policies (see box 3).

External environment. Adverse country conditions can result from a combination of external developments and domestic policy. In some cases, the adverse effects of external factors such as trade restrictions may be mitigated by large international transfers. In many other developing countries, however, the success of their poverty reduction strategies is likely to be affected by external circumstances such as the progress of global negotiations in stemming protectionist tendencies.

Improving Human Resources Development

Policies designed to expand the availability of basic social services and to improve their quality are an equally important element of the WDR 1990 poverty reduction strategy. The evidence is clear that investments in the human resources of the poor (primarily through programs that expand the availability of basic education and health services) have substantial payoff. Preliminary findings of several on-

Box 2. Policy Reform and the Rural Poor in Africa

The vast majority of the poor in Sub-Saharan Africa live in rural areas. In Côte d'Ivoire 86 percent of the poor lived in rural areas in the mid-1980s, while in Ghana the figure was 80 percent. The primary source of livelihood for the rural poor is agriculture, supplemented by non-farm earnings and by remittances from the cities. Prior to adjustment, biases against agriculture were extreme, in the form of direct taxes and the effects of overvalued exchange rates and industrial protection. Well-intentioned efforts to provide farmers with services through public sector input supply and marketing institutions commonly went to waste because the institutions concerned were hopelessly inefficient. When low growth turned into full-scale crisis in the early 1980s, many governments responded by increasing the rationing of foreign exchange and domestic goods. This made things worse because it slowed growth and was "anti-poor." In Tanzania, for example, the bulk of what little foreign exchange was available was allocated to extraordinarily inefficient industries, while most basic consumer goods became unavailable in rural areas.

The aim of policy reform in Africa has been to redress these past biases. Both depreciating real exchange rates and liberalizing external and internal trade raise the prices of tradable agricultural goods. Cocoa farmers in Ghana and Nigeria experienced a doubling or more of the purchasing power of their crops because of exchange rate depreciation and rises in the share of the final price they received. Rural dwellers in Tanzania could get consumer goods again, and they responded by increasing agricultural supply. These gains have been complemented by renewed growth in countries undergoing reform. The core group of countries in the Special Program of Assistance (SPA) grew by an annual average of 3.2 percent between 1988 and 1991, compared with 1.4 percent for countries outside the SPA that have only received World Bank support from the International Development Association (IDA). A severe lack of data makes a firm assessment impossible, but the combination of a recovery in growth and the removal of some of the worst anti-rural biases certainly helped many of the poor.

Experience to date, however, also shows the difficulties entailed in tackling Africa's agricultural problems. In some countries, failure to implement policies that build the competitiveness of exports has contributed to a squeeze on tradables that has hurt agricultural producers. In other countries, producer prices for exports have stagnated or fallen, despite price reforms, reflecting trends in international commodity prices. In yet others, economywide reforms need to be complemented by a far-reaching reform of marketing. Although successes in Ghana and Nigeria were partly due to marketing reform, in Tanzania delays in implementing marketing reforms for some export crops caused delays in passing on benefits to producers. In Malawi until recently, restrictions were placed on the production of profitable export crops by small farmers. These restrictions have since been removed, and an increasing number of smallholders are being given licenses to take their products directly to the auction floor.

In the food crop sector the liberalization of prices and marketing has contributed to an increase in food production. Per capita food production has held steady in the latter half of the 1980s after a fall in the first half. This has helped to limit food imports in many countries; overall, cereal imports in the late 1980s were 8 percent lower than in the early 1980s. Food prices show no overall trend in real terms, and increased domestic food production may have contributed to income gains by net producers. Stable food prices help those among the poor who are net purchasers of food.

Adjustment is not enough to bring about significant changes that will benefit the rural poor. Investing in rural roads, developing research and extension services, and developing private services are equally important for broad-based rural development. This will take time and different kinds of government action. The first round of reforms has clearly brought benefits to some of the poor, but deeper policy reform, a revival of public and private investment, particularly in rural infrastructure and research and extension services, and continuing institutional reform will be required in the 1990s to achieve the growth that is a prerequisite for bringing about a major turnaround in poverty.

going studies indicate that there are large returns to improving the quality of social services. These returns often exceed the returns to increasing quantity. In Brazil, for example, results from World Bank

research projects focusing specifically on education suggest that expanding low-quality schooling may not be the optimal public investment. In particular, the quality of rural schools in northeast Brazil, the

Box 3. Addressing the Vulnerability of the Poor in Countries in Transition

In most of the countries of Eastern Europe and of the former Soviet Union poverty incidence used to be low because of their middle-income status, their employment guarantees, their well-developed social services, and the widespread transfers available to those outside the labor market. Now, however, poverty is almost certainly increasing rapidly. Cumulative falls in per capita income of 20 percent are the rule (and in some countries, including Albania, Bulgaria, Georgia, and Romania, they have been much larger). The previously high degree of equality meant in practice that much of the population of the region had income only moderately above any poverty line. As wage distributions are widening and more workers are ceasing to work (whether because of unemployment or because they have left the labor force), inequality is rising. Past social service provision and new and old safety nets (unemployment benefits being largely new) are also under threat as enterprises withdraw from the social sectors and as pressures on budgets rise.

Making policy choices in this context is not easy because the tradeoffs in the transition economies are much more acute than in most market-based economies, and there is not enough information to assess them fully. Two issues are important here. First, employment policy is critical to poverty outcomes. The fact that many more people are employed in old, inefficient rather than new, efficient activities points to highly adverse outcomes for employment in the short term. Thus, the tradeoff between the pace of reform through radical disprotection (for example, by liberalizing trade) and gains in efficiency should be explicitly assessed because this is central to the pace and sequencing of reform. Second, safety nets are particularly relevant given the social and political

vulnerability of the reforms to falls in income. However, inherited systems of transfers will need to be radically reformed to meet the needs of the unemployed and to ensure that the transfers are affordable and that the needy can be targeted.

There are three immediate issues facing these countries in transition. Formal safety nets, which most countries are pursuing, will cost more than those adopted by comparable countries with market-based economies because of the large number of people to be covered. Can these countries afford these safety nets? How far is it possible to reform safety net systems to improve targeting to the needy? What is the tradeoff between spending on transfers to hold up consumption and spending on health and education necessary to prevent declines in human capital? These issues are interconnected, since the contraction of the labor market will be linked to the pressures on the safety net system and on the fiscal situation.

Different countries will require different solutions. Hungary, for example, may be able to afford a reformed version of a formal transfer system of comprehensive social security and unemployment benefits. Kyrgyzstan and Albania probably cannot and will require more radical reforms. In all cases, there is an urgent need for an explicit assessment of the implications of the alternative reform paths for the poor. Sector reports in Belarus, Hungary, Kyrgyzstan, Poland, Romania, and the Russian Federation are addressing these issues. There is also an urgent need for data to be collected that will allow conditions during the transition to be monitored (data collection is already under way in the East European countries and in the Russian Federation).

country's poorest region, could be substantially improved at low cost by increasing the availability of books and by improving teaching skills.¹²

The evidence also shows that the poor tend to benefit disproportionately from investments in basic services, such as *primary* schools and *primary* health care centers. Since the better-off are typically already fully served by basic services, incremental services tend to benefit the poor more than proportionately to their share in the population. Furthermore, since the poor tend to have larger families, services that benefit children tend to benefit the poor more.

The poor tend to benefit less from tertiary services, such as university education and curative hospitals. In Indonesia, for example, where the Bank has recently completed a major analysis of the incidence of such expenditures, the poorest 20 percent of the population receive 24 percent of the government subsidy to health sub-centers and 22 percent of the subsidy for primary education, but they receive only 5 percent of subsidies to hospital inpatients and 3 percent of subsidies for senior secondary schooling.

Direct income gains from better health and education are only one way in which social services

improve the well-being of the poor. Better health and education outcomes also raise welfare directly by expanding the range of options that people have in their lives. Differences in the extent to which countries have reduced child mortality and raised life expectancy have been directly correlated with their success in increasing access to public health care, independently of differences in the incidence of poverty.¹³

Growth is not necessary for social indicators to improve, but failure to grow can diminish the potential for the impact of public action. Economic growth provides income to finance an expansion in access to key social services. For example, since independence, most governments in Sub-Saharan Africa have had the objective of providing universal primary schooling, yet progress toward this goal came to a halt in the 1980s. This was probably the result of the economic crises in the region and the associated decline in both the quantity and quality of public services.

The returns from investments in basic social services are affected by the climate for growth and the opportunities available to the poor. Countries such as Jamaica and Sri Lanka have excellent social indicators as a consequence of effective public action,

but the pace of improvement in the income of the poor has been slow because of slow growth. A comparison between Jamaica and Malaysia illustrates the point. In 1960, both countries had almost exactly the same per capita income, although Jamaica had better health and education conditions. By 1990, both countries had improved their social indicators, but Malaysia's have improved more dramatically, and its per capita income has risen to double that of Jamaica. Thus, the economic opportunities available to Malaysia's poor have increased more. Conversely in Pakistan, growth raised the income of the poor, but because social services received too little attention, the poor's conditions, as measured by the social indicators, did not improve at the same pace.

Investing in the human resources of the poor is an effective strategy for increasing their participation in economic growth. This is likely to be more feasible than efforts to increase their other assets by implementing redistributive policies such as land transfers. This is because land redistribution programs have succeeded only in circumstances where they have been politically acceptable and institutionally feasible. Where those circumstances exist, however, land transfer policies should be supported.

2. *The World Bank's Implementation Effort*

The World Bank has increasingly been placing poverty reduction at the center of the policy dialogue and its country assistance strategies. This is particularly evident in the ways in which the composition of the Bank's lending has changed. The Bank's analysis, research, and data collection activities have also increasingly addressed the causes of and solutions to poverty as a basis for formulating country assistance strategies.

Design of Country Assistance Strategies to Reduce Poverty

In keeping with the policy paper *Assistance Strategies to Reduce Poverty*, the design of the Bank's country assistance strategies has been changing in ways that support and complement country efforts to reduce poverty. This design is guided by two principles. First, because all public policies and programs affect the poor either directly or indirectly, the Bank's perspective on what is needed to reduce poverty in a country must be comprehensive. Second, because the depth and nature of poverty vary significantly among countries, the specific emphasis given to macro, sectoral, or targeted policies has to be determined by country-specific circumstances. The measure of the Bank's poverty reduction effort is the totality of the country assistance strategy in the context of country commitment and donor efforts. Within this broad framework, although every Bank-financed project should be consistent with the poverty reduction strategy, it need not necessarily have an explicit poverty-reducing component. Country circumstances determine how Bank-supported operations should focus specifically on poverty reduction. In countries where poverty is narrowly concentrated and implementation capacity is good, targeted programs can be an important part of government efforts to

reduce poverty. Where poverty is more widespread and implementation capacity weak, broad-based growth and support for basic social services may be the most effective ways to reduce poverty.

This section examines several aspects of the Bank's country assistance strategies. Individually, each aspect gives only a partial picture of the Bank's overall effort. These aspects include the policy dialogue and lending, the Program of Targeted Interventions (PTI), and the adjustment operations with poverty-focused components. These activities are supported by a wide range of analysis on poverty, including poverty assessments, economic and sector work, and research.

Policy Dialogue and Lending

Progress in explicitly incorporating poverty reduction objectives into country strategies is most evident in countries where a poverty assessment has been completed. In several cases, the findings of the assessment and of other Bank analyses have been helpful in designing assistance strategies that support country efforts to promote efficient growth, to expand access to social services, and to strengthen safety nets. In box 4, this process is demonstrated in the case of five developing countries.

Overall, the assessments have identified key actions to be taken that will enhance countries' poverty reduction efforts. These include removing distortions that inhibit labor demand, providing incentives to agricultural smallholders, and correcting imbalances in the composition of public expenditures. Some assessments have also identified ways to improve the cost-effectiveness of safety nets.

In countries where poverty assessments have not been completed, the Bank's other economic and sector reports have been used to provide the ana-

Box 4. Designing Country Assistance Strategies to Reduce Poverty

China

The poverty assessment found that broad participation in strong rural growth caused poverty to be significantly reduced during 1978-85. The poor are now concentrated in resource poor areas, mostly in upland sections of the interior provinces. Achieving further reductions in poverty will be more difficult than in the past, and the strategy now requires more selective interventions. Accordingly, the assessment recommends that the government eliminate constraints on labor mobility, increase its investment in human capital and physical infrastructure in resource-poor areas, and restructure its rural development programs to emphasize high-return projects in the areas of rural enterprise and agriculture. To complement this strategy, the assessment recommends that a poverty monitoring system be established. These findings have been incorporated into the Bank's assistance strategy.

India

The assessment concluded that further poverty reduction would require implementing far-reaching structural reforms to promote growth and efficient labor demand, improving the access by the poor to social sector programs, and improving the effectiveness of targeted programs and safety nets. The Bank's assistance strategy has responded to these findings and to those of other Bank analysis, and Bank resources have been increasingly used to help to restructure and stabilize the economy. The recent adjustment loan has focused on reducing trade barriers, reforming public enterprises, and improving the financial system. Another operation has been proposed to address the redeployment of employees in public enterprises, to improve the delivery of social services, to increase the effectiveness of safety nets, and to monitor the impact of adjustment on poverty. In addition, the share of social sector projects in the Bank's lending has risen from less than 1 percent in the early 1980s to about 20 percent in the early 1990s. In agriculture, lending is increasingly being directed toward resource-poor areas, particularly to projects that benefit poor farmers and that are located in neglected and drought-prone areas.

Malawi

The assessment found that poverty reduction has been limited by regulatory controls on business and agriculture and by financial and labor market imperfections and that public expenditures for the social sectors are inadequate. The Bank's overall assistance strategy to Malawi has changed to reflect these findings. The Agriculture Sector Adjustment Credit is addressing these problems

by enabling smallholders to gain access to a broad range of cash crops. Also, the Entrepreneurship and Capital Market Adjustment Program has been set up to expand access to investment opportunities and finance, to reform trade, tax, and labor policy, and to reorient public expenditures toward basic social services. About one-fourth of the Bank's lending during fiscal 1990-92 has supported the social sectors—with loans to education and population—and about one-third has been directed toward smallholder agriculture. Two future agricultural projects will provide financial and other services to smallholders, especially women, and projects to expand the rural water supply and to provide women with income-earning opportunities are being prepared.

Mexico

The assessment found that poverty is mainly rural and is associated with the imbalance in public expenditures between urban and rural areas. Consistent with this finding, lending to agriculture and rural development has increased as a share of the Bank's annual lending program from less than 20 percent in the late 1980s to about 40 percent since fiscal 1991. A recent agricultural sector adjustment loan supported the rationalization of public investment, the privatization of parastatals, and a nutrition/health pilot project for the poorest groups. General subsidies are being eliminated, and targeted subsidies are being improved. In addition, a series of recent Bank loans has directed resources to four of the poorest states. The loans support public expenditure reforms aimed at distributing per capita expenditures more evenly among states and giving local municipalities more control over their expenditures. They also finance the building and upgrading of physical infrastructure and improvements in the quality of basic education and of basic health services.

Venezuela

The findings of the poverty assessment were a key input into the design of the Bank's assistance strategy and of its first project in the social sectors in Venezuela, the Social Development Project. The goals of this project are to develop and expand preschool education in low-income and rural areas, to rehabilitate and expand the primary health care network, and to improve the government's overall capacity to design, plan, and implement social programs and to monitor their effects. The assessment was followed by a comprehensive review of the education and health sectors, which has helped to shape three forthcoming projects—the Basic Education Project, the Endemic Disease Control Project, and the Hospital Modernization Project.

lytic foundation for making poverty central to the design of assistance strategies. In Morocco, for example, where a poverty assessment is being prepared, the policy dialogue has included specific poverty issues, particularly those concerned with growth, such as trade and public investment policy. In addition, analysis of a household data set, collected with substantial Bank assistance through the Living Standards Measurement Study (LSMS), is expected to help evaluate the impact of the recent adjustment loan on poverty reduction and to provide the analytic foundation for future lending, particularly in the social sectors.

In the countries of the former Soviet Union, poverty issues are being addressed from the outset of the policy dialogue and lending process, in tandem with complementary analysis (see box 5). Poverty assessments for many of these countries are being scheduled for the next few years.

In many African countries for which poverty assessments have not been completed, country strategies nevertheless strongly focus on removing distortions and controls that discriminate against the rural sector where most of the poor live and on eliminating regulations that inhibit small-scale entrepreneurial activity. In addition, the share of social sector projects has gone up, from less than 12 percent of investment operations in fiscal 1989 to

nearly 17 percent in fiscal 1992, and within these sectors the emphasis is on shifting expenditures to rural areas and to primary services.

If a country's policies, programs, and institutions promote effective poverty reduction, the case for substantial Bank assistance is strong, both from the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). In practice, however, it is often difficult to distinguish the impact of a country's efforts to reduce poverty from its efforts to promote efficient growth. Box 6 describes the process for allocating IDA resources among recipients and how the allocations attempt to be sensitive to the extent of a country's poverty focus. A country's poverty reduction efforts are also taken into account in determining IBRD lending. The substantial support that the Bank gives, for example, to El Salvador, Indonesia, Mexico, and Morocco reflects the fact that they are pursuing sound economic management and human resources development, which are the key ingredients for reducing poverty.

Sectoral composition of lending. Agriculture and rural development, water supply and sanitation, and human resources development are the sectors on which the Bank has concentrated its direct efforts to reduce poverty. During the 1970s, funding for

Box 5. An Integrated Approach to Reduce Poverty in the Countries of the Former Soviet Union

As the Bank's assistance strategies are being put into place in the countries of the former Soviet Union, poverty issues are being included in the policy dialogue, in lending, in analysis, and in efforts to improve data collection. Poverty reduction efforts concentrate on investments for social protection and human resources development, including projects that encourage labor markets to function effectively. This is being done by strengthening the capacity of national employment services to provide income support and to engage in more proactive programs. For instance, the Employment Services and Social Protection Project in the Russian Federation addresses the weakest link in the safety net—the ability to cope with extensive unemployment. Technical assistance to develop safety nets is a key component of recent rehabilitation loans (the Russian Federation and the Baltics), and stand-alone technical assistance loans are being prepared in a number of countries.

The analysis of poverty at present focuses on developing adequate safety nets and effective labor markets. Poverty issues are initially being addressed in country economic and sector work and country economic memoranda (CEMs) rather than in separate poverty assessments. Several CEMs (for example, for Lithuania and the Russian Federation) and sector reports (including Kyrgyzstan and Ukraine) specifically consider safety net and labor market reforms.

Initial evidence indicates that poverty exists and, during the economic transition, is increasing in some countries; therefore, a broader approach and additional resources will be needed in some cases. The Bank is beginning to help governments to improve their data collection. This effort is most advanced in the Russian Federation where the Bank is providing technical assistance for a longitudinal survey that measures the social impact of the economic crisis and of the transition from a command economy.

Box 6. Volume of IDA Lending Allocations

For the very poorest countries the World Bank extends resources from the International Development Association (IDA) on only the most concessional terms. The volume of lending for these countries is determined by a process guided by a rating system in which economic performance plays a central role. A major dimension of performance, in turn, is the government's commitment to reducing poverty. Also taken into account is the quality of the government's short- and long-term economic management. A country's antipoverty effort is assessed in terms of how well it is implementing the poverty reduction strategy presented in *WDR 1990*. Some important elements are whether policies succeed in generating the kind of growth that makes productive use of labor, in expanding the delivery of social services, and in strengthening the effectiveness of existing safety nets. These considerations also affect allocations in countries that receive loans from both IDA and IBRD. In addition, issues of creditworthiness and portfolio mix

are considered in determining the IBRD/IDA balance and overall levels.

During the ninth IDA replenishment (fiscal 1991-93), per capita allocations of IDA resources among countries have been more sharply differentiated than they used to be. Efforts to reduce poverty have been given greater weight. The result is that actual allocations among IDA borrowers in fiscal 1991-92 more strongly reflected the efforts made by countries to reduce poverty. Country performance in poverty reduction and in economic management tend to be highly correlated. Among countries that receive Bank support only from IDA, those in the top twenty-fifth percentile in terms of poverty effort have received per capita allocations that are about four times higher on average than the allocations to countries in the lowest twenty-fifth percentile. During the eighth IDA replenishment, the countries in the top twenty-fifth percentile received per capita allocations that were about three times higher than those in the lowest twenty-fifth percentile.

agriculture and rural development was the largest of the three sectors. By the late 1980s, however, the Bank had started to expand its role in human resources development, while the volume of lending to agriculture remained constant in nominal terms. This trend in lending for agriculture, however, has been accompanied by an expansion of lending to help develop rural infrastructure (roads, village infrastructure, and electrification), which now accounts for more than a quarter of total lending for the rural sector. Lending for water supply and sanitation has remained roughly constant at around 5 percent of Bank lending in the 1980s and early 1990s.

The Bank's growing focus on human resources development is reflected in the fact that its lending to the sector has increased sharply, having grown almost fivefold since the early 1980s. As table 4 indicates, between fiscal 1981-83 and fiscal 1990-92, lending for human resources development as a percentage of total Bank lending grew from about 5 percent to about 14 percent. During the past two decades, the bulk of lending for human resources development has been for education, which tripled between fiscal 1981-83 and fiscal 1990-92. Lending for population, health, and nutrition has been increasing sharply and is approaching the size of

education lending. Both are expected to increase further in the next few years.

Within the field of human resources development, the lending focus has broadened from concentrating on project-specific activities to include support for sectoral policy reforms, now seen as critical for economic growth and poverty reduction. Two good examples of this evolution in lending are in Indonesia and El Salvador. In Indonesia the emphasis has shifted from expanding basic social infrastructure and providing commodities to improving the quality and effectiveness of social services. Operations are concentrating increasingly on introducing sectorwide policy reforms, training personnel in health skills, and building institutional capacity. The Social Sector Rehabilitation Loan in El Salvador also supports wide-ranging sectoral reforms, including changing the composition of public expenditures. The government is increasing the total budget for recurrent expenditures on primary health care and primary and preprimary education and the share of the budget that is allocated to non-salary recurrent expenditures.

The Bank has also intensified its support for effective primary-level services where the impact on poverty reduction is estimated to be the greatest. Lending for primary education more than doubled

between fiscal 1987-89 and fiscal 1990-92, averaging about 30 percent of education lending in fiscal 1990-92. Primary education projects in recent years have focused broadly on enhancing learning achievement while focusing explicitly on improving the quality of instruction, providing learning opportunities for disadvantaged groups, and most recently promoting early childhood development. The Primary Education Improvement Program in Chile, for example, aims to increase the efficiency of primary education in poor urban and rural areas through curriculum improvement, teacher training, textbook provision, and feeding programs. Most education projects supported by the Bank emphasize educational opportunities for girls. For example, the Punjab Middle School Project creates incentives to improve female participation in all levels of education by providing scholarships to girls in rural areas of Pakistan. The Bank is also helping to rebuild primary education systems devastated by civil conflict (as in Uganda) and economic decline (as in Zambia).

Lending for population, health, and nutrition tripled between fiscal 1987-89 and fiscal 1990-92. During fiscal 1990-92, it accounted for a little more than one-third of human resources development lending, and since it is growing faster than education, it will soon increase to half. Lending for basic health, which is the largest component of population, health, and nutrition, also increased sharply; it accounted for about 4 percent of all Bank lending in fiscal 1990-92, up from about 1 percent in fiscal 1987-89. A fundamental objective of basic health projects has been to improve the quality, efficiency, and equity of basic services with an emphasis on the

poor, on women of childbearing age, and on children under the age of five.

In many countries, high fertility rates and poverty form a vicious circle that threatens the welfare of the population, especially women and children. Poor families tend to have a large number of children to guarantee the survival of a few in an environment rife with risks of malnutrition and disease. Also, high birth rates are known to be associated with higher infant and maternal death rates. For these reasons, the Bank supports an integrated approach to population activities, and most of the ten population projects supported in fiscal 1992 included health components, often related to nutrition or maternal and child health. The Mauritania Health and Population Project, for example, will benefit mostly women and children by improving the quality and accessibility of basic health and family planning services in poor rural areas.

Support for nutrition has increased markedly in recent years. Nutrition activities in Bank-supported projects can be characterized as being targeted to the poor in various ways. These include targeting programs geographically to reach those in greatest need, channeling support through health services that deal with the lowest income groups, and involving NGOs that already have links to the poor. The Bank has also been assisting governments to target existing programs more efficiently by introducing components such as growth monitoring accompanied by nutrition counseling, supplementary feeding, and vitamin and mineral supplementation.

Nutrition programs are increasingly being incorporated into operations in other sectors, such as agriculture, education, and emergency relief. For

Table 4. Average Annual Lending to Poverty-focused Sectors, Fiscal 1981-92

	<i>Fiscal 1981-83</i>	<i>Fiscal 1987-89</i>	<i>Fiscal 1990-92</i>
<i>Lending (\$ millions)</i>			
Human resources development	659	1,059	3,028
Education	603	756	1,874
Population, health, and nutrition	56	303	1,154
Agriculture and rural development	3,513	3,638	3,753
Water supply and sanitation	596	765	1,023
Total Bank lending	13,261	19,421	21,698
<i>As share of Bank lending (percent)</i>			
Human resources development	5	6	14

example, in response to the devastating drought that southern Africa suffered in 1992, several projects include nutrition components. The Zimbabwe Emergency Drought Recovery and Mitigation Project, for example, supports the delivery of food aid directly to the most vulnerable groups through a network of nutrition centers and provides a package of services including growth monitoring, nutrition education, deworming, and micronutrient supplementation.

Program of Targeted Interventions

Targeted interventions are one element of a country's efforts to reduce poverty. They complement broader macroeconomic and sectoral policies and public expenditures, which are important determinants of country poverty outcomes. Recognizing that the Bank's support for targeted interventions provides only a partial picture of its efforts to support and complement country efforts to reduce poverty, *Assistance Strategies to Reduce Poverty* proposed targeting as a measure of one aspect of the Bank's assistance strategies. In doing so, it defined the term Program of Targeted Interventions (PTI) and established criteria on the basis of which a project would be included in the PTI. The criteria are: (i) narrow targeting, consisting of projects that include a specific mechanism for identifying and reaching the poor, or (ii) broad targeting, consisting of projects in which the participation of the poor significantly exceeds the proportion of the poor in the population as a whole even if an explicit

targeting mechanism is not necessarily included. A system for monitoring the projects in the PTI has been established in all of the regions.¹⁴

In fiscal 1992, \$3 billion or about 14 percent of Bank lending was in the PTI, and fifty-one of the 190 Bank-approved investment projects were PTI operations (see table 5). About 20 percent of IDA lending in fiscal 1992 went to projects in the PTI. Annex A includes a brief description of the PTI's objectives and lists projects included in the PTI during fiscal 1992.

The majority of these PTI projects are broadly targeted; only eleven projects contain narrowly targeted interventions. The Bank's reliance on broad targeting reflects the importance placed on achieving universal provision of basic social services, such as primary education and health care. Usually, the expansion of these services benefits the poor disproportionately and is sustained by widespread social and political support. In the eleven projects that include narrowly targeted interventions, the Bank supports the targeting of individuals or households in cases involving credit, land titling, and population, health, and nutrition.

Projects in the PTI cover a wide variety of sectors, with the majority concentrated in agriculture and rural development, human resources development, and water supply and sanitation. PTI projects aim to benefit specific groups, such as unskilled workers, residents of less developed and low-income areas (both urban and rural), those lacking access to land, those belonging to a particular ethnic group or recent migrants, and those with certain demographic characteristics such as gender, age (children under five years of age), or health risks (diseases correlated with poverty, such as schistosomiasis) (see box 7). Projects in the PTI are designed to achieve one or more of the following objectives: raising productivity, developing human resources, improving living conditions, and providing safety nets.

The Bank has supported a relatively small but growing number of safety-net interventions (either as free-standing operations or as components of projects) for the most vulnerable groups. In countries that receive IDA financing, these interventions increased from none in fiscal 1985 to fifteen in fiscal 1991-92. This increase is partly explained by efforts to protect the poor from the side effects of stabilization policies, especially in Sub-Saharan Africa and Latin America and the Caribbean, during the late 1980s and early 1990s (see box 8). More recently the

Table 5. Program of Targeted Interventions, Fiscal 1992

Total PTI lending (\$ millions)	2,994
As share of investment lending (percent)	19
As share of all Bank lending (percent)	14
Total number of PTI projects	51
IDA PTI lending (\$ millions)	1,277
As share of all PTI lending (percent)	43
As share of IDA investment lending (percent)	28
As share of all IDA lending (percent)	20
Number of IDA PTI projects	31

Note: These figures are based on the following criteria for including a project in the program of targeted interventions: projects with a specific targeting mechanism and/or projects for which the proportion of poor among project beneficiaries is significantly larger than their proportion in the total population.

Box 7. Targeted Projects Designed to Reach Women

A significant number of projects in the Program of Targeted Interventions explicitly target women, both in income-generating and social sectors. In agriculture the emphasis is on providing extension and credit to women farmers and on involving them in natural resource management. Urban development projects, for example, provide employment for women, and water sector projects promote the formation of women's associations to retail water. In the education sector specific efforts have been made to improve the access of girls to basic education, for example by making the curriculum more relevant to their needs and by increasing the recruitment of female teachers. Projects in population, health, and nutrition provide a range of maternal and child health services, including special care for women at risk of giving birth to low-weight babies.

emphasis on safety nets has increased in Eastern European countries to help cushion their transition to a market system.

In response to the increasing awareness of the many direct and indirect links between poverty and the environment, the Bank has begun to address resource management and environmental issues in PPI projects. In Benin, for instance, a program designed to rehabilitate infrastructure and environmental sanitation uses public works to raise the employment and income levels of the urban poor. In Brazil, the Rondonia Natural Resources Management Project has supported changes in policies, regulations, and investments, including instituting land reform and establishing basic support services such as credit, agricultural extension, and marketing infrastructure.

Adjustment Programs

Structural and sector adjustment operations are designed to support macroeconomic and sectoral policy reforms consistent with efficient resource allocation and rapid and sustainable growth. These are essential components of an effective poverty reduction strategy. Country circumstances determine when adjustment operations should concen-

trate specifically on poverty reduction. The principal policy instruments that have been used for this purpose are the reorientation of public expenditures toward infrastructure and social services for the poor and the elimination of distortions and regulations that especially disadvantage the poor. In several cases, poverty-focused adjustment operations also support the provision of safety nets or targeted transfers to specific poor groups.

A review of the Bank's adjustment lending shows that it has broadly supported the kind of reforms that over the medium term are likely to restore growth and reduce poverty.¹⁵ Countries in which adjustment lending has been successful, such as Indonesia, have also been relatively successful in terms of reducing poverty. Since the late 1980s the share of adjustment loans that generally consider social issues to one degree or another has increased sharply from less than 5 percent of all adjustment loans during fiscal 1984-86 to more than 50 percent during fiscal 1990-92.¹⁶

According to the Bank's operational directive on poverty reduction, structural adjustment loans and sectoral adjustment loans (SALS/SECALS) that support the elimination of distortions affecting the poor and/or the reform of public expenditures for the purpose of reducing poverty are considered to be poverty-focused. This definition also includes operations that support targeted interventions or poverty monitoring.¹⁷ In fiscal 1992, eighteen of thirty-two adjustment loans included an explicit poverty focus (see table 6 and annex B, which contains a description of the poverty focus of each operation). Over half the poverty-focused adjustment operations in fiscal 1992 were funded by IDA, and eleven were in the Sub-Saharan Africa region. Most have more than one specific poverty reduction goal.

In general, poverty-focused SALS support widening access to basic social services and physical infrastructure, reforming financial markets, improving agricultural marketing, and to a lesser extent reforming labor markets. Eleven of them support targeted programs or safety nets (mainly food subsidies), food assistance programs, and programs that retrain dismissed public sector employees.

Adjustment lending has become more poverty-focused in three areas. First, many adjustment loans have given more attention to safety nets and to restructuring public spending. The most common

Box 8. Transfers and Safety Nets

The most common safety net interventions have been labor-intensive public works, nutrition programs, targeted food subsidies, and the provision of family benefits and pensions. Public works projects supported by the Bank have typically aimed at generating quick employment for those whose incomes decline as a result of job losses or higher food prices.

In fiscal 1990-92, four free-standing public works projects were supported in Africa (Burkina Faso, Mali, Niger, and Senegal). These projects emphasized the involvement of beneficiaries in the design of the projects by funding proposals from local groups. As in the case of other targeted programs, public works projects must be assessed in terms of their accuracy in targeting the poor, their administrative costs, their political sustainability, and the behavioral responses of their beneficiaries and others. Experience shows that programs that use self-selection mechanisms (such as providing jobs that pay low wages so that only the poor have an incentive to take them) rather than those that rely on means testing are often cost-effective because the former have lower administrative costs.

The Bank has also supported labor-intensive works during natural disasters such as earthquakes, droughts, or floods. The aim has been to support the rehabilitation of damaged schools and health centers and the restoration of flood protection and irrigation

structures using labor-intensive techniques that generate emergency employment in the construction sector for low-income families. The Bank-financed safety net interventions have also aimed at helping low income families to reconstruct their dwellings and have provided critical agricultural inputs and vehicles to transport food to affected areas. Examples include the Sudan Emergency Drought Rehabilitation Project and the North China Earthquake Reconstruction Project.

These interventions emphasize the need for better targeting of food subsidies in countries with costly subsidy schemes that mainly benefit the nonpoor. In practice, food-based targeting is difficult to implement, and the potential is greater in urban areas than in rural areas. Targeting can be achieved by choosing the commodities to be subsidized carefully or by locating distribution outlets in poor neighborhoods. In Tunisia, the Economic and Financial Reforms Support Loan has used quality differentiation, in that it has narrowed the subsidy to cover only milk with cheaper packaging and is directing the sales of subsidized bulk oil toward rural areas and poorer neighborhoods. In Venezuela's Structural Adjustment Credit and in Jamaica's Social Development Project sharp reductions in general subsidies were accompanied by targeted interventions to protect the poor.

safety nets have been nutrition programs, labor-intensive public works, and targeted food subsidies. The restructuring of public expenditures has taken the form of maintaining or increasing the share of expenditures on social services, particularly basic social services. In some cases the focus has also been on improving the composition of social expenditures. In Ghana, for example, in the context of the structural adjustment credits, the government has been restructuring recurrent expenditures in favor of non-salary expenditures. In Gambia, budget allocations for recurrent expenditures have been increased.

Second, some loans are based on an overall assessment of how reforms will affect the poor both in the transition and in the long term. In fiscal 1992, three operations, including the Morocco SAL (see box 9), supported the gathering of poverty data and the monitoring of the impact of adjustment on the poor.

Third, an increasing number of adjustment loans include conditions for the release of tranches that relate to a country's efforts to reduce poverty. The share of loans that include social sector conditionality increased from less than 5 percent of all adjustment loans in fiscal 1984-86 to almost 30 percent during fiscal 1990-92.¹⁸ In fiscal 1992, eleven of the thirteen SALs and three of the five SECALS contained tranche release conditions dependent on poverty reduction measures. Most of these conditions have been related to increasing or maintaining public expenditures on social services (Bangladesh, Burundi, Côte d'Ivoire, Malawi, Morocco, Mozambique, Sierra Leone, and Uganda). Other conditions have included a progress report on land distribution and the transfer of land rights to smallholders and private enterprises (Mozambique) and a report on improvements in the targeting of consumer subsidies (Tunisia). In Sierra Leone, tranche release

was conditional on providing a special allocation in the 1992-93 budget for socially oriented programs.

Social funds and social action programs¹⁹ were originally established to protect those adversely affected by adjustment, but they can also operate as intermediaries to finance interventions that target the poor. They are often able to play a role in increasing political support for reform and in mobilizing external resources. The Bank has supported nineteen of these interventions in seventeen countries, including eleven in Sub-Saharan Africa. Usually these programs channel resources to small, demand-driven subprojects proposed by a local group (usually an NGO) or a local government agency.

Typically the programs involve local governments, private sector groups, and NGOs in the design and implementation of these projects. These programs are not, however, an adequate substitute for a far-reaching restructuring of social sector (and other) expenditures in favor of poverty reduction and growth. In fact, there is a risk that they divert attention away from strengthening the institutions and basic programs in sectoral ministries and thus cause essential sector or policy reform to be postponed. Another risk is that some social funds may not be fiscally sustainable.

Evidence on how effective social funds and social action programs have been in targeting the poor is

Table 6. Objectives of Poverty-focused Components in Adjustment Operations, Fiscal 1992

	<i>Reforming public expenditures^a</i>	<i>Addressing distortions^b</i>	<i>Targeted programs^c</i>	<i>Monitoring poverty^d</i>	<i>Developing poverty policy^e</i>	<i>Tranche release conditions^f</i>
SALs						
Bangladesh*	x					x
Bolivia*	x					
Burundi*	x	x				x
Malawi*	x	x	x			x
Morocco	x		x	x	x	x
Mozambique*	x	x	x		x	x
Panama		x	x			x
Peru			x		x	
Romania			x			x
Sierra Leone*	x					x
Tunisia	x		x			x
Uganda*	x		x			x
Zimbabwe*	x	x	x	x		x
SECALs						
Côte d'Ivoire						
Regulatory reform*		x				
Human resources*	x					x
Ghana* (Agriculture)	x		x	x		
Kenya*	x					x
Zambia*	x		x			x
Total measures	14	6	11	3	3	14

* Financed only by IDA, except those in Côte d'Ivoire and Zimbabwe, which are jointly IDA and IBRD funded.

Note: Poverty-focused adjustment operations include those that (a) focus specifically on eliminating distortions affecting the poor and/or (b) support a public expenditures program focused on reducing poverty. For more information on each of these operations, see annex B.

- Supports a reorientation of public expenditures toward physical infrastructure and basic social services for the poor.
- Focuses specifically on eliminating distortions that especially disadvantage the poor.
- Supports programs that provide safety nets or that target specific groups.
- Supports the gathering of poverty data and the monitoring of the impact of adjustment on the poor.
- Includes the development of poverty reduction strategies and improvement of policy formulation and coordination for reducing poverty.
- Contains tranche release conditions related to poverty reduction measures.

Box 9. Developing an Information Base to Strengthen Poverty Analysis: The Morocco SAL

The recent Morocco structural adjustment loan supports the development of an information base to help strengthen poverty analysis, to design future programs, and to track progress in reducing poverty. This involves preparing a poverty profile (which describes the income and social aspects of poverty by activity, location, and other characteristics), the basic information for which is being taken from the recently completed Living Standards Measurement Survey (LSMS). It also involves developing a set of indicators that can be monitored, including indicators of actions that the government has taken (inputs) and specific income and social indicators (outcomes). A system for gathering these indicators (some of which will require new data to be collected) is being devised. As a condition of releasing the second tranche of funds for the project, the process of collecting and monitoring the indicators will be reviewed, and the system will be refined as necessary. The government will also prepare a poverty reduction strategy before the second tranche is released.

limited and mostly anecdotal. Preliminary experience with the programs in a few countries (Bolivia, Guinea-Bissau, Honduras, and São Tome and Príncipe) indicates that in these instances they have successfully met some of their objectives. Some lessons are emerging, particularly regarding design and implementation.

First, it can be important to have a variety of agencies implementing specific subprojects according to their comparative advantages. For example, in the case of the Honduras Social Fund, it was found that municipalities and local community groups were usually more effective for carrying out infrastructure projects and that NGOs were more effective for community banking, microenterprise support, and training activities. Second, poor communities often require some technical assistance to develop initiatives and to prepare quality proposals since they are often not able to do so on their own, whereas groups in less poor communities usually can. Third, in some cases the fund is not in existence long enough to carry out some activities, such as

mobilizing a community to organize itself. Finally, some social funds have been less effective than they might have been because of weak management or political conflict.

Participatory Approaches

The Bank has been stressing the need to tailor operations to the needs and preferences of beneficiaries. Thus, government and project agencies are being encouraged to place greater emphasis on participation, on involving NGOs, and on carrying out beneficiary assessments. These initiatives are particularly important because they give the poor a voice in poverty-focused operations.

Strengthening participation. Programs and projects are more likely to be successful when the intended beneficiaries participate in designing and implementing them. A growing number of Bank-supported projects involve beneficiaries at various stages in the project cycle, especially in agriculture, urban development, rural water supply, and population, health, and nutrition. In agriculture, projects are increasingly making explicit provision for farmers to participate in project decisions. A large number of urban projects have invited and received input from local people, while many successful projects to improve rural water supply have involved active community participation from the start. Some nutrition projects rely specifically on local women's groups for their outreach efforts. The Bank has also made a major effort to explore the possibilities for beneficiary participation in environmental projects, in the Bank's economic and sector work, and in forthcoming poverty assessments, particularly in the Sub-Saharan Africa region.

In 1990 the Bank—with support from the Swedish International Development Agency—formed a learning group to study key issues such as how participation improves the effectiveness of interventions and what tools are available to assist Bank task managers to encourage participation.²⁰ In February 1992 the group held a workshop that brought together Bank staff, academics, NGOs, governments, and other donors to pool their experiences. The group has produced an interim report and is also preparing a handbook of good practices, tools for task managers, and a training program for Bank staff.

Several preliminary findings are emerging from discussions within the group, from interviews with task managers of participatory projects, and from a review of the Bank's overall experience with participation. The commitment of task managers to beneficiary participation has resulted in a considerable amount of such participation in some Bank-supported operations. It is also clear that different types of Bank-financed operations require different degrees of participation. In most operations it is required that there be information sharing or periodic consultation with those people who will be affected by that operation, and in an increasing number of projects local people are involved in deciding how to implement them. In the forestry sector in particular, it is now widely accepted that in order to contain deforestation and to conserve forests, indigenous people and those living on the fringe of the forest must be involved in its management.

Involving NGOs. NGOs have been active in promoting the participation of beneficiaries in Bank-financed projects. They have also helped to improve the targeting of benefits because their grass-roots involvement and experience enable them to identify and reach specific groups as well as to spread information about the availability of specific services, in particular family planning and preventive health services. The Bank draws on their knowledge of local conditions when appraising socially sensitive resettlement and rehabilitation schemes for those displaced by development projects. NGOs are often able to help promote local ownership by mobilizing communities to contribute in cash, in kind, or in labor for projects from which they are likely to benefit.

In fiscal 1992, sixty-eight Bank-financed projects involved NGOs. The largest number was in Africa (thirty-two), followed by Asia (seventeen) and Latin America and the Caribbean (twelve). Most were in agriculture and rural development and in population, health, and nutrition. In recent years, the Bank has begun to commission independent studies to assess the lessons learned in specific projects and regions, and it is currently developing a system for monitoring and evaluating Bank/NGO-assisted projects.

Beneficiary assessments. As part of the effort to improve the effectiveness of its projects and to develop methodologies that will be widely applicable to public investment projects, the Bank is support-

ing a growing number of beneficiary assessments. These evaluate the sociocultural conditions of the beneficiary population on the basis of interviews with beneficiaries. The aim is to ensure that benefits are reaching the intended groups and that the projects are providing the right kind of infrastructure and services for their needs. The results of beneficiary assessments can also lead to changes in sectoral policy, as has happened, for example, in the education sector in Mali, in the energy sector in Malawi, and in the health sector in Lesotho.

Twenty beneficiary assessments have been completed or are planned in fiscal 1992-93 covering a wide variety of topics, including population, health, education, and food security. In Lesotho, for example, the Bank supported the government's efforts to provide village health workers with simple curative remedies because a beneficiary assessment had indicated that villagers preferred traditional healers who provided curative mixtures for immediate use (although village health workers had been focusing on preventive health measures, the impact of which would be felt only in the long term). The experience with beneficiary assessments that have been completed so far shows that they have helped to improve the design of projects and of sectoral policies and that they should be used in this way more often in the future.

Aid Coordination

Poverty assessments can provide the basis for discussions with other major aid donors. Some poverty assessments have generated consensus among the major aid donors, although more progress is needed. For example, at the 1989 Consultative Group (CG) meeting, there was considerable discussion on how best to handle the problems of Mozambique. A decision was made to commission a paper that, when completed, had all the features of a full-scale poverty assessment. As a result of this exercise, at the 1990 CG meeting, a consensus was reached among the donors and the government.

The Bolivian poverty assessment was discussed at the CG meeting in 1990, and the government has since articulated its strategy for social policy at the CG meetings in 1991 and 1992. It was emphasized that there is a need for a coordinated approach by donors to poverty reduction. It was agreed that the education sector would be a pilot area. The Bank has been requested to take the lead role in formulating

the details of the policy and investment framework for the pilot program.

Making the reports available is a useful first step in improving coordination, which can be supplemented by inviting donors to dissemination workshops in the countries, as happened recently in the case of the China poverty assessment. Discussions about specific poverty assessments, however, have been relatively infrequent at consultative meetings or at similar gatherings. A concerted effort to share the findings of the poverty assessments with other donors is needed. This should help to improve coordination and stimulate both donor and country efforts to reduce poverty.

A further step would be to increase collaboration on the reports and on designing strategy, as has been considered with a number of multilateral agencies as well as with several interested bilateral agencies. Collaboration with donors is under way on several forthcoming assessments. In Ghana, donors are currently helping the Bank's team to prepare the forthcoming assessment using participatory methods of analysis. In some cases donors are planning to use the Bank's poverty assessments as a building block for looking more intensively at special issues, such as the role of the informal sector or self-help groups.

Another aspect of donor coordination is to organize periodic discussions of progress in implementing country assistance strategies to reduce poverty, as was done during a session sponsored by the Inter-American Development Bank during the World Bank's Annual Meetings (in September 1992).

Analysis of Country Policies to Reduce Poverty

Since the late 1980s there has been a sharp increase in the amount of country-specific policy analysis on poverty. This has included country poverty assessments, poverty-related economic and sector work, and research and policy work. There have also been considerable efforts across the Bank to improve the coverage and quality of poverty data, including household databases and priority poverty indicators, and to increase their relevance to policy. The following sections cover each of these areas in turn.

Poverty Assessments

A poverty assessment provides the basis for collaboration between country officials and the World

Bank on the best way to reduce poverty. Its objectives are to identify the economy-wide policy, public expenditure, and institutional issues that constrain effective poverty reduction and to recommend agenda for reform. The assessment should analyze the extent to which the government's short- and long-term economic management is succeeding in generating the kind of growth that will create efficient demand for labor, in developing human capital, and in improving safety nets.

The scope and focus of poverty assessments vary across countries, depending on country circumstances, government commitment to reducing poverty, and the nature and extent of available data. In countries where the commitment to reducing poverty is limited, particular attention should be paid in the assessments to establishing the causes and implications of poverty as a basis for the dialogue. To this end, quantitative analysis—if data are available—can provide a sense of the costs and benefits of alternative policies. In countries where data are not available, the analysis in the poverty assessments will necessarily be more qualitative, with proxy variables used to identify which groups are the most vulnerable.

Coverage. Twenty poverty assessments have been completed for nineteen countries. (This includes one country with an updated assessment—see table 7. Annex C contains a timetable for completed and scheduled assessments, and annex D contains poverty assessment summaries.) Most of these assessments were prepared in response to country needs and were completed or initiated before the operational directive on poverty reduction and the *Poverty Reduction Handbook* were issued in final form. Indeed, the standards that were set in these two documents reflected the examples of good practice from previously completed poverty assessments, which are now serving as models for poverty assessments that are currently being prepared.

The countries for which assessments have been completed account for about two-thirds of the population of the developing world and contain most of the world's poor. This is because assessments have been completed for several large countries in Asia, such as China and India. However, assessments have been completed for only about one-third of the countries in Latin America and the Caribbean; in the other three regions (Sub-Saharan Africa, the Middle East and North Africa, and

Table 7. Poverty Assessments: Completed and Scheduled, Fiscal 1989-95

<i>Region</i>	<i>Share of poor in developing world^a</i>	<i>Completed</i>	<i>Scheduled^b</i>	<i>Total</i>
East Asia and the Pacific	15	5	5	10
Europe and Central Asia	—	0	5	5
Latin America and the Caribbean	10	8	17	25
Middle East and North Africa	6	1	5	6
South Asia	50	4	2	6
Sub-Saharan Africa	19	2	34	36
Total	100	20^c	68^d	88^e

— Not available.

a. World Bank estimates of poverty incidence (in percentage) for 1990 from Table 1.

b. As of February 26, 1993.

c. Includes nineteen first-round and one updated poverty assessments that were completed before November 30, 1992.

d. Includes sixty-one first-round and seven updated poverty assessments scheduled to be completed between December 1, 1992 and the end of fiscal 1995.

e. Includes eighty countries that have a first assessment completed or scheduled and eight that have an updated assessment completed or scheduled to be completed by the end of fiscal 1995.

Eastern Europe and Central Asia), even fewer countries have been covered. In some cases, progress has been constrained by lack of data, by weak institutions, and, at times, by political sensitivities.

Some of the completed assessments are more comprehensive than others in terms of the nature and scope of the policy solutions that they recommend. Some reports contain an assessment of the extent of poverty and analyze the broad policy framework, the role of the social sectors, and the effectiveness of specific targeted interventions.²¹ The Indonesia report, for example, analyzes the successful reform of a broad range of policies that had previously been major obstacles to reducing poverty. The China and Nepal studies concentrate on a few key policy and institutional issues. Another seven reports focus on the role of public expenditures, primarily in the social sectors, in reducing poverty.²² Of these, only three present detailed poverty profiles.

The pace of preparing assessments is accelerating. According to the current timetable, eighty-eight poverty assessments in eighty countries are scheduled to be completed by the end of fiscal 1995. This includes eight updates of completed assessments. The process is taking somewhat longer than was originally expected, when it was intended that a first round of poverty assessments would be completed for all countries by the end of fiscal 1994. This is not surprising since many of the assessments that remain to be done are for small, low-income countries, mainly in Sub-Saharan Africa, as well as most

of the new member countries; data are limited, and political sensitivities may cause progress to be slow. Moreover, in some cases the initial assessment is likely to provide only a rough indication of the extent of poverty and of the priorities for policy reform and public investments, and subsequent analysis is likely to be needed.

In several countries, notably in the Sub-Saharan Africa and in the Middle East and North Africa regions, preparatory data collection and analysis are already laying the foundations for the planned assessments. In Morocco, for example, the forthcoming assessment will analyze the results of the LSMS survey. In Ghana and Côte d'Ivoire, where surveys have been conducted at two points in time, the assessments will document changes in the incidence and characteristics of poverty. In other countries in Sub-Saharan Africa there are considerable constraints on data collection. Nevertheless, a large amount of high-quality poverty assessment work is being done using existing data. For example, in Ethiopia the forthcoming poverty assessment proposes targeted interventions for both urban and rural areas based on analysis that skillfully extracts considerable information from a poor database. In Uganda, the forthcoming poverty assessment uses the analysis contained in previous reports on agriculture and on the social sectors while extending the original analysis of labor markets and of the impact of macroeconomic policy reforms on the poor. The preliminary findings of the assessment indicate that the government is on the right track in

liberalizing the exchange rate and trade regime, eliminating agricultural marketing monopolies, and containing the fiscal deficit (among other reforms) and that the main remaining challenge is to improve the implementation of the reforms. In other cases, such as the Central African Republic, a preliminary assessment is being done by updating an existing study, and further data collection and analysis will be required to complete a more thorough review. Meanwhile, the Social Dimensions of Adjustment (SDA) program has been supporting data collection components in more than twenty Sub-Saharan African programs that aim to identify the poor and to measure the impact of adjustment on them. The poverty assessments for Albania, Poland, and Romania will build on the initiatives for improving household data; these are initiatives financed by the Bank.

In addition, the analysis in a number of forthcoming poverty assessments is benefiting from participatory approaches that have been included in an attempt to gain a deeper understanding of the social and cultural dimensions of poverty. These include the assessments for Burkina Faso, the Central African Republic, Ghana, Madagascar, and Zambia.

There are also plans to update several completed assessments. In some cases, such as the Philippines, additional data have become available, and some issues, mainly in the social sectors, have been analyzed in depth. The updated assessment for Pakistan will analyze newly available household survey data. In those cases in which the completed assessments focus on public social sector expenditures, the assessments will be supplemented with analysis covering a broader range of issues. For instance, the analysis contained in the assessments for Bolivia, Ecuador, Paraguay, and Venezuela will be extended by forthcoming CEMS in which the relationship between macro and sectoral policies and poverty reduction will be examined, as will the role of public sector programs and the role of safety nets in protecting the most vulnerable groups.

In some cases, additional analysis has been undertaken to refine existing strategies (see examples in box 10). In Egypt, as part of an effort to put recommendations from the assessment into practice in operations, a social welfare study is under way to identify ways to improve the safety net.

Lessons. Important lessons can be learned from the experience so far. First, the choice of topics for

analysis is necessarily country-specific. The goal of the analysis in the assessment is not to be comprehensive *per se* but to develop a strategy that is likely to reduce poverty significantly. The poverty profile should be the basis to determine the topics to be analyzed, as this will help to judge the likely impact on poverty of the sector-specific recommendations. The aim is to consider which policies may constrain poverty reduction and to decide the extent to which the analysis should cover macro or sectoral policy issues. Accordingly, countries that have completed poverty assessments tend to fall into one of two categories, depending on the nature of poverty in the country and the scope of the analysis. One category consists of countries where poverty is widespread and the proposed strategy is appropriately broad, covering a wide range of policy and institutional elements (for example, Bangladesh, India, Indonesia, Malawi, Mexico, Nepal, Pakistan, and the Philippines). Another category consists of countries where poverty is no longer widespread so policy changes on a limited number of key issues constitute an appropriate country strategy (for example, China and Malaysia).

Second, those assessments that contain more detailed poverty profiles and policy analysis that identify the characteristics and determinants of poverty form the basis for more specific recommendations that can help to sharpen the policy dialogue and influence the composition of lending. Assessments that combine an analysis of macroeconomic and sectoral policy with the poverty profile have been able to identify the general impact of policy on the poor and to define what programs for the poor are necessary within the broad macroeconomic framework. The Indonesia report documents the relationship between structural adjustment and an improvement in the condition of the poor (the only report to do so in depth), and the report for Malaysia analyzes the incidence of expenditures on the social sectors. The reports for Egypt, Mozambique, and Venezuela identify the impact that reform has had on the poor in the short term.

Third, accurate and reliable data play an important part in producing the analysis. For the most part, poverty assessments have been completed in countries for which fairly good data exist, and a number of reports have made good use of existing statistical systems for poverty monitoring, analysis, and designing strategies (for example, India and

Box 10. Refining Country Assistance Strategies to Reduce Poverty

Indonesia

The first Indonesia poverty assessment concluded that poverty is decreasing and that as it becomes more localized the potential gains from targeting are increasing. The forthcoming update of the assessment continues to investigate the issues of targeting and the pricing of public goods: First, it demonstrates how regional targeting of development resources can reduce poverty with the help of regional poverty profiles. Second, it evaluates the incidence of public subsidies for education, health, and petroleum products and assesses the scope for shifting public spending toward the poor. Third, it analyzes how prices have influenced the distribution of benefits from publicly provided education and health services and examines how price discrimination might result in better targeting of the poor. Fourth, it makes extensive use of the household-level data sets collected by the government and looks at ways to improve the database on poverty to increase the accuracy and efficiency of targeting.

The country strategy aims to reduce any remaining trade and domestic distortions and focuses on promoting growth and expanding access to basic services in the outer islands.

Philippines

The update of the Philippines assessment concludes that policies for broad-based growth, including macroeconomic stability, internationally competitive prices, market exchange rates, and public expenditure reforms, have helped to reduce poverty.

The updated assessment suggests that further steps should be taken, including reforming taxes, restructuring public employment, and reforming energy prices and institutions. It also recommends introducing specific targeted projects in the areas of nutrition, maternal and child health, and the urban environment to ensure a supply of clean water and to improve the health of the urban poor.

Indonesia). Although in some cases data shortcomings limited the depth of analysis (as in Bangladesh, Bolivia, and Nepal), a few exemplary reports have been produced for data-poor countries (such as Malawi), where rough indicators and a mix of agricultural and small sample surveys were used.

In the future more effort could be given to analyzing the characteristics of the poor (including the most vulnerable groups) and analyzing poverty trends and poverty correlates. In countries where household surveys are available, estimating the poverty gap and estimating social indicators separately for the poor and the non-poor would be especially useful for estimating the extent and depth of poverty. It would also be helpful if the assessment reports were to give more attention to identifying shortcomings in the existing data and recommending improvements, particularly to enable the tracking of changes in poverty over time.

Fourth, the cost of preparing poverty assessments has been high and is related to the depth or breadth of the analysis. Overall, the more comprehensive reports used more staff weeks than the less comprehensive reports, and the cost of preparing those assessments that include a thorough measure-

ment of poverty (a proxy for a more extensive poverty profile) was also higher than for the others. However, these differences are not statistically significant, reflecting large variations in staff-week costs associated with differences in the topics covered and in the depth of the analysis and the fact that some reports relied more than others on studies that were already available either inside or outside the Bank. Costs can be reduced by using the results of available country economic and sector work.

Country Economic and Sector Work

A great deal of poverty analysis exists other than that contained in the poverty assessments, and this has often either complemented or served as a building block in the preparation of the assessments. This analysis can form the basis of a broader poverty assessment if its findings are integrated into countrywide analyses that identify cross-sectoral priorities. This link could be improved if future country economic and sector work were to include more analysis of the links between macro reform and poverty in countries undergoing major reforms, of the composition and incidence of public expendi-

tures, and of employment and wage issues. Some poverty analysis is contained in country reports (which have sometimes been classified as poverty assessments) and in public expenditure reviews, but most is contained in sectoral reports covering mainly human resources development, food security, poverty profiles, and poverty trends, and to a lesser extent population, environment, and women in development issues. (See annex E for a list and a description of selected poverty-oriented analyses.)

Poverty trends and profiles. In the East Asia and Pacific and Latin America and the Caribbean regions, fairly detailed studies of the trends in poverty and social indicators in most countries up to the end of the 1980s have been prepared. In the Africa region, poverty profiles have been prepared for six countries for which household data are available; poverty-related information has also been included in about sixteen country studies that will provide a basis for future poverty assessments and, in a few cases, will help analyze the impact of policy reform on the poor. Many studies assess the specific conditions faced by women in poverty, while several others examine discrimination against women in labor markets, in the distribution of assets, and in access to health and education.

Sectoral studies. Poverty-related issues have been addressed in a large number of sectoral studies, mostly in human resources development, food security, agriculture, and environment. During fiscal 1992, about fifty studies covering education, health, population, and nutrition were completed. Overall they examine the provision of basic services, which gives them an implicit focus on poverty although they are rarely based on household and community data.

Some sector reports base their analysis on a poverty profile that classifies the poor by gender, region, and nutritional status, among other categories. Themes common to most of the reports include changing the composition of expenditures and improving the access to and the quality of services. Food security studies have been prepared covering twenty countries in Sub-Saharan Africa. These studies are particularly useful in that they provide important measures of poverty incidence, as African households below the poverty line are usually food insecure, and each study

provides rough estimates of the percentage of the population with insufficient income to meet its food needs.

Several reports discuss transfers and safety nets, including targeting and food subsidies. In many studies of Eastern Europe and of the countries of the former Soviet Union, the need to move from universal social support toward creating targeted safety nets that protect the most vulnerable groups is addressed. Recent sector work on food subsidies in Algeria and Tunisia found that general food price subsidies were favoring the non-poor, which led the Algerian and Tunisian governments to reduce general subsidies in favor of more targeted interventions. A study in Latin America and the Caribbean reviewed food distribution programs in the region and concluded that the Bank should support targeted programs aimed at those most at risk of malnutrition and should work for the elimination of poorly targeted food subsidies. A recent food policy review in Bangladesh recommended strengthening food trade in the private sector, reforming methods of stabilizing the price of rice, and expanding self-targeted programs.

Macroeconomic and labor market analysis. Experience has shown that it is useful to study the impact on poverty of ongoing or proposed policy reforms (such as those addressing distortions in the relative prices of commodities that affect the poor as producers or consumers). This kind of analysis would indicate which reforms have the highest potential for reducing poverty, thereby making it possible for governments to plan more effective reform programs and to identify transfer programs where needed. It would also indicate where more reforms would be needed in order to remove market distortions that prevent the income of the poor from growing. Few reports, however, study the impact of reform on poverty (see box 11). These issues should be analyzed regularly in countries that are undertaking reform.

The links between poverty and the sectoral composition of employment and between poverty and the structure of the labor market are also important. Recent reports include an analysis of rural and urban employment in Malawi, food security studies in Mozambique and Nigeria, a recent study of labor legislation in Rwanda, and an analysis of the informal sector and the role of women in Zimbabwe.

Box 11. Selected Studies of the Impact of Reform on Poverty

India

The most recent Country Economic Memorandum (CEM) evaluated the impact of the adjustment program on the living standards of the poor. It concluded that rapidly reducing macroeconomic imbalances and implementing policies to promote growth and encourage efficient labor demand (such as reducing the tariffs on capital goods and reforming the licensing of industrial investment) were the most important ways to bring about a sustained improvement in the incomes of the poor. The CEM also concluded that these measures should be accompanied by reforms to improve the access of the poor to basic education and basic health care. In addition, it recommended improving the cost-effectiveness of existing targeted programs while expanding programs with self-targeting features and improving the quality of the assets that these programs help to create.

Madagascar

A study used data on per capita rice consumption and expenditure to show the distributional effects of phasing out an inefficient food subsidy program on the country's main production and consumption crop (rice). The study found that although consumption went down for all income groups in urban areas, the consumption by the poor was the most adversely affected, dropping more than 30 percent.

Tanzania

The 1991 CEM concluded that although trade liberalization caused agricultural output to rise, the living standards of peasants to rise, the benefits of past exchange rate devaluations have largely been taxed away by an inefficient export crop marketing system. Accelerating the pace of marketing reforms would achieve more agricultural growth and would increase the benefits that accrue to the rural poor.

Uganda

The forthcoming combined poverty assessment and CEM analyzes the effects of adjustment on the poor and concludes that the majority of the poor in Uganda have not been adversely affected. The CEM also finds that the improvement in the overall economic and political environment has provided the basis for sustained poverty reduction, partly due to the government's reform program, which provided a better incentive framework (by liberalizing the exchange and trade regimes and reforming agricultural pricing), and partly as a result of the end of the long-standing civil conflict. Both of these factors have contributed to a decrease in inflation and an increase in the production of food crops, which are the main sources of sustenance for the rural poor.

Public expenditure reviews. Public expenditure reviews are an important part of the Bank's country economic analysis. They can help to assess the effectiveness of existing expenditures in reducing poverty and in redirecting resources in ways that will enhance the economic opportunities of the poor and their capacity to take advantage of such expenditures.

A review of public expenditure reviews completed during the past three years has concluded that for the most part their treatment of poverty is limited. They typically analyze social expenditure allocations, and many recommend increasing the coverage and quality of certain social services by taking such measures as reallocating resources from higher education and curative health care to primary education and preventive health care. For example, a study on Bangladesh examines the inci-

dence of social sector expenditures and targeted government programs such as credit and food-for-work programs, and a report on Indonesia analyzes the role of public expenditures in reducing poverty. However, most public expenditure reviews do not explicitly examine the incidence of public expenditures (or who pays for or benefits from them) or analyze how other types of public expenditures (such as public physical infrastructure investments, consumer and producer subsidies, and other targeted programs) can contribute to reducing poverty. Nevertheless, Social Sector Expenditure Reviews cover the impact of social expenditures on poverty more frequently, and it would be helpful if their findings could be routinely integrated into public expenditure reviews.

The results of public expenditure reviews must be considered in the context of how those expen-

Box 12. Selected World Bank Poverty-focused Research Projects Approved in 1985–92

- Determinants of Nutritional and Health Outcomes in Indonesia and Implications for Health Policy Reforms
- Education, Growth, and Inequality in Brazil
- Evaluation of Social Sector Investments
- Household Investment in Human Capital and Utilization and Benefits from Social Services
- Improving School Effectiveness in Developing Countries
- Poverty Alleviation and Adjustment in Malaysia
- Poverty and the Social Dimensions of Structural Adjustment in Côte d'Ivoire
- Poverty in India, 1950–90: A Dynamic Analysis of the Determinants of Household Consumption
- The Policy Analysis of Poverty: Applicable Methods and Case Studies
- Comparative Study on the Political Economy of Poverty, Equity, and Growth
- Assessing the Quality and Socioeconomic Impact of Education in Sub-Saharan Africa

ditures are financed. In some cases, reallocating among spending categories may not free up resources sufficient to undertake needed expansion of public services critical for poverty reduction, such as basic education and health. In such cases, additional resources must be mobilized. A recently issued World Bank policy paper, *Lessons of Tax Reform*, summarizes practical ways to restructure general taxes so as to raise revenues while minimizing inevitable economic and administrative costs. There are also possibilities to generate resources within sectors, through user charges, community levies, and the earmarking of taxes for specific services. For example, beneficiaries can, and are often willing to, contribute for improvements or expansion of certain services. In many sectors, cost recovery is suggested only for services the poor do not use, thus freeing up budgetary resources for services that primarily benefit the poor.

Research and Policy Work

The World Bank's research and policy work on poverty has an important role to play in supporting country-specific work. The range of topics being covered broadly conforms to the analytical approach articulated in *WDR 1990*. Indeed, preliminary results from some of the analysis have been used to develop and support the arguments made in major policy documents such as *Assistance Strategies to Reduce Poverty* and the *Poverty Reduction Handbook*. The re-

search findings and examples of good practice from operational experience are also being used to develop staff training programs within the Bank and to design seminars for policymakers from developing countries to enlarge institutional capacity in the countries themselves.

Over the past two fiscal years the amount of research on poverty being done by the Bank has been increasing (see box 12). Preliminary figures from the Research Advisory Staff indicate that the proportion of resources (both from the Research Support Budget and from departmental and other funds) devoted to the categories of poverty reduction and human resources development has increased from roughly 25 percent in fiscal 1990 to approximately 30 percent in fiscal 1992.

Poverty and broad-based policies. A number of studies have analyzed the relationship between economic growth and poverty during adjustment. A major research project comparing the experience of twenty-one developing countries was completed in fiscal 1991. It found a strong positive correlation between growth and poverty reduction. It warned, however, that direct budgetary transfers to the poor often did not work for reasons of political economy unless they were carefully targeted; for example, the benefits from tax-transfer mechanisms were often captured by the middle class. Empirical work in Indonesia and Malaysia found that favorable initial conditions (such as a mobile labor force), a timely adjustment program, and public spending that benefits the poor—particularly high-return

spending on primary education—allowed these countries to maintain their progress in reducing poverty during the difficult macroeconomic adjustment of the 1980s.

Research has also documented a marked contrast in the case of Peru, where poverty has increased considerably (see box 13). Similarly, recently completed research on Côte d'Ivoire used four years of data (1985-88) from the LSMS survey to document the drop in welfare during periods of macroeconomic decline and destabilization, thus highlighting the need to protect the very poor during economic declines.

Future work in this area will concentrate on the relationship between specific labor market interventions and changes in economic policies, growth, and distribution. New research is also planned or is ongoing on: how adjustment affects the poor in Africa; ways of analyzing the effects of exchange rate and trade reforms on the poor; the dynamic effects of macroeconomic variables on the distribution of household consumption; the ability of low-income urban households to respond to macroeconomic and policy changes; and ways in which public policies and the behavior of households can protect the consumption of the poor from economic shock. A new research project in India is examining the link between macroeconomic and sectoral variables and poverty over a forty-year period.

Poverty and human resources. There has been a steady growth in the amount of research that is

being done in the World Bank on human resources development issues. Major policy papers and statements have recently been issued on primary education and on girls' education. Lack of education for women, especially poor women, in countries such as Pakistan contributes to low investment in daughters, little power for women within the home, and a large preferred family size. Getting more girls into school by expanding provision and improving modes of delivery (for example, by employing more women teachers) may have a higher payoff than any alternative investment.²³

Several research projects are focusing on the determinants of outcome measures, such as school achievement and nutritional and health status, rather than on inputs, such as student-teacher ratios, drug expenditures, or the availability of health personnel.²⁴ Much of the research is ongoing and will continue to contribute to improving human resources development policy, particularly regarding the relative merits of investments in the quantity and quality of human resources. Future work will pay special attention to the constraints that hamper the advancement of women.

Another area where work is just starting is the issue of the consequences of population growth on economic growth and poverty. An area on which more work needs to be done is how best to make a rigorous evaluation of specific Bank-financed project interventions, particularly the impact that they have on the income-earning opportunities and the welfare of the poor.²⁵

Box 13. Household Data Show the Costs of Avoiding Structural Adjustment in Peru

As part of the Bank's Living Standards Measurement Study (LSMS), a multipurpose household survey designed for policy analysis has been developed. It was used in Peru for the first time in 1985-86. This date coincided with the arrival of a new government that disputed the effectiveness of the Bank-supported structural adjustment programs. Instead, it undertook an "unorthodox" adjustment program, which had the objective of protecting the poor from the adverse consequences of adjustment. Although the unorthodox program seemed to work well in the first year or two, by 1988 the Peruvian economy was deteriorating rapidly.

The government lost the 1990 elections, primarily because standards of living were dropping precipitously.

A second LSMS survey was conducted in Peru in 1990 in the Lima area only. It showed that consumption levels had declined by one-half from their 1985 levels and that the poorest groups had suffered the largest declines. In their current discussions with the new government in Peru, Bank staff are using the results of these surveys, as well as another survey conducted in 1991, to develop policies that will encourage economic growth while safeguarding the interests of the poor.

Targeting. The principal focus of the Bank's analysis of this topic has been on the effectiveness of targeting. The aim of research has been to learn more about both the costs and the benefits of targeted interventions. This has typically involved in-depth case studies of specific policies, such as a study that was done on the impact on poverty of employment guarantees in India as well as a study of unemployment insurance in the Philippines.

A recent study of targeted programs in Latin America and the Caribbean found that narrowly targeted programs (that distinguish among individuals) can be effective, but targeting errors, administrative costs, and undesirable behavior responses should all be considered.²⁶ Other work has been done on the incidence of the benefits of public spending, such as subsidies to health and education, and on cash-benefit schemes, particularly in Eastern Europe.²⁷ These studies are among the few that have compiled empirical evidence on the issue of targeting, and it is critical for more analysis to be done so that the robustness of the earlier findings can be evaluated. A recent conference, jointly sponsored by the Bank and the Government of the Netherlands, on Public Expenditures and the Poor brought together those and other research results on a wide range of interventions and drew some conclusions for future research and policy.²⁸

Poverty and the environment. A number of studies have focused on the links between poverty, environmental protection, and demographic factors. *World Development Report 1992: Development and the Environment* identified a number of these links across a wide range of issues, including agriculture, forestry, water supply, sanitation, energy, industry, and biodiversity. Also, a comprehensive study of the links between population, agriculture, and the environment in Sub-Saharan Africa has incorporated poverty considerations in its analysis and subsequent recommendations. An ongoing research project is examining the impact of urban environmental degradation on poor slum dwellers and squatters.

Methodology. There has also been an emphasis on improving and disseminating methods for analyzing poverty issues. A recent monograph, *Poverty Comparisons*,²⁹ provides a guide to both theory and practice and is a hands-on, technical companion to the *Poverty Reduction Handbook*. A software package for basic poverty analysis in situations where data

are available has been developed to accompany that monograph. Work is currently being done that investigates the robustness of common practices in poverty analysis to measurement assumptions, including research on the extent to which policy conclusions are sensitive to the assumptions made in interpreting poverty data. A theme of this body of work is that research at the World Bank has two distinct roles. First, it leads to a greater understanding of specific policies than is possible under the constraints of Bank operational work. Second, research on methodology can yield valuable lessons about how to improve routine analytic activities in Bank operations.

Lessons to Be Learned

Some specific aspects of the relationship between poverty and policies that influence the pattern of growth are still not fully understood. It is important to identify and bridge these gaps in order to form more precise policy lessons for the future.

One gap is in terms of country coverage. The discussion in this report has drawn on various country experiences to support some key points regarding investment in physical and human infrastructure and sequencing of price reforms. Although these examples provide good insights, they are relatively few and, consequently, only illustrative. Systematically analyzing more countries with a wider variety of experiences would be even more useful for showing how specific growth-oriented policies (including those associated with short-term adjustment measures) can explain the variance in poverty outcomes among countries.

Another gap is in terms of the topics covered. For example, more empirical analysis is needed of the relationship between labor markets and the poor, including the influence of labor policies on the demand for labor. The precise impact of government interventions—such as minimum wages, labor regulations, and payroll taxes to finance social security programs—on the wages and the employment of the poor is an important issue for countries with large formal sectors.

There is widespread agreement that the objectives of poverty reduction, environmental protection, and limiting population pressures are related, but some fundamental questions remain. More analytic work would contribute some insight into the

current debate regarding the consequences of population growth on economic growth and poverty. There may be lessons to be learned from a systematic review of actual country experiences with the specific policies that would lead to a "win-win" outcome, as described in *WDR 1992*, with respect to both poverty reduction and environmental protection.

Another important issue is identifying the most efficient mechanism for directing the benefits of government spending to the poor. Targeting broadly by spending on public services that tend to benefit the poor disproportionately, such as education and health, is often an effective way to deliver certain services to the poor. For other interventions (such as cash transfers), narrowly targeted programs (which try to distinguish among individuals) may be more effective. As is recognized in *WDR 1990*, however, these mechanisms must be carefully evaluated since the gains must be balanced with an assessment of the administrative costs, leakages to the non-poor, and behavioral responses in determining their effectiveness. As mentioned earlier, this evidence is only now starting to be compiled, and more of this kind of work is needed to refine lessons about the effectiveness of specific targeting mechanisms.

Improving Household Databases and Priority Poverty Indicators

Helping countries to improve the quality and reliability of their data on poverty is an important component of World Bank country assistance strategies. Accurate data on the extent and depth of poverty and the main characteristics of the poor—such as their sources of income, the characteristics of the goods they produce and consume, their access to publicly provided goods, their geographical distribution, and their assets (both physical and human capital)—facilitate the process of designing policies and programs to reduce poverty (see box 12). Data can also show how policy reform can be designed to favor the poor. For example, in Jamaica, a comparative analysis of food subsidies and food stamps, using household survey data, demonstrated that the food stamp program was much more successful at reaching the poor. Partly as a result of this, the government decided to withdraw food subsidies and to double the size of the food stamp program.

Many countries already collect household survey data that can be used for poverty analysis, and these are often made available to Bank staff. As background for this report, a census of household-level data that would be useful for poverty analysis was conducted among the Bank's country teams, and responses were obtained for seventy-seven countries. Distributional data (for 1980 or later) are available for seventy-one countries, and data from a key survey instrument—a national income and budget survey—are available for fifty countries.³⁰ Hence, it ought to be feasible to prepare a basic poverty profile for more than half of the developing countries, although the information that is available must be carefully assessed to ensure its quality.

The quality, detail, and timeliness of the data vary considerably depending upon the indicator and the region. About half the countries for which data are available have carried out and analyzed more than one survey since 1980. Because these surveys are not always comparable in terms of their methodology, in only about a quarter of developing countries can trends be satisfactorily examined. There are also marked regional variations. It seems likely that comparisons over time are feasible in fewer than one-third of the Sub-Saharan Africa countries.

Initiatives to improve household-level data. The Bank has provided financial support and technical assistance to improve household data through two programs—the centrally sponsored Living Standards Measurement Study (LSMS) and the Social Dimensions of Adjustment (SDA) program in the Africa region. These activities can be tailored to fit the circumstances prevailing in any particular country. As of December 1992, results are available from LSMS multipurpose surveys in nine countries, and five more should yield data within the next year. Data from SDA Priority Surveys are now available for seven countries, and the results from an additional six countries should be available in 1993.

Surveys are becoming easier to carry out. Advances in information technologies have led to more rapid data entry and management and, consequently, a faster turnaround between the completion of fieldwork and the production of results—from two years to as little as two months. In the Africa region, the focus has switched from SDA Integrated Surveys, which are designed to study the determinants of poverty, to SDA Priority Surveys, which are designed to monitor poverty.

Despite the improvements made over the past five years, collection of new data has been extremely difficult and has taken longer than expected in many data-poor countries. Weak institutions and adverse political conditions have sometimes been key constraints, particularly in Sub-Saharan Africa. In many instances, raising funds to finance data collection and analysis has been difficult. Domestic institutions are overstretched and need external support but they may not be willing to use nonconcessional resources to finance data collection.

In many countries poverty monitoring has suffered from being one of the many competing demands that are being made on the limited and already overstretched resources of national statistical services. Poor coordination among donors has not helped the situation. In the long term the development of sustainable poverty monitoring systems has to be set in the context of strengthening the overall capacity of national statistical services to gather timely, reliable, and relevant data.

In the Africa region, the Bank is undertaking a regional study of good practices to help countries decide what are their most pressing statistical needs and to formulate coherent long-term statistical strategies that donors will be asked to support. Several assessments of national statistical services have already been initiated (in Chad, Côte d'Ivoire, Kenya, and Mali), and others are expected in 1993.

Compilation of priority poverty indicators. The policy paper, *Assistance Strategies to Reduce Poverty*, suggested that certain country-specific poverty indicators should be collected that taken together would give an overview of the state of poverty in any given country.³¹ It was expected that they would be relatively easy to collect and would help to track changes in poverty over time. Subsequently, it was recommended that these priority poverty indicators (PPIs) should be an integral part of the poverty assessment reports.

The PPIs are being used to update the Bank's publication *Social Indicators of Development*. Country-specific information has been assembled in the Bank's main database. For countries with completed poverty assessments, the PPIs have been drawn mainly from the assessment. For those countries for which a poverty assessment has yet to be completed, information from the Bank's main

database and from the country departments has been used. In terms of coverage, demographic indicators and most social indicators are universally available, and new information on economic and social indicators for fifty-two countries (up from the original ten) has been assembled.

The initial tabulation of the PPIs shows that data on poverty lines, on some social indicators (particularly child malnutrition and maternal mortality rates), on public expenditures, on basic social services, and on income indicators are scarce even for some countries with completed poverty assessments. However, over the next few years, coverage of these indicators is expected to increase to at least half of the developing countries as existing household and national income and budget surveys are analyzed. The next step is to continue collecting information to ensure that these gaps are filled. Indicators of health outcomes that are being collected for *WDR 1993* will help to improve the quality and coverage of PPIs. In addition it is necessary to assess the quality of the data that have been assembled. This has begun in the case of the demographic indicators, where the sources of the information have been documented.

Setting priorities. If accurate data are available, a better understanding can be reached of the characteristics of poverty in specific countries and of the effectiveness of country policies in reducing poverty. However, improving the coverage and quality of data collection efforts will require both time and resources. The comprehensive and nationally representative household sample survey is likely to remain the most important survey instrument, and international expertise and financial assistance will be necessary to help countries to develop the capability to carry it out and to use the data for policy analysis.

There are a number of interim measures that could be taken while the long-term task of improving country data collection is being tackled. In particular, more could be done to gain access to and to analyze existing data, even in cases where they are deficient in some respects. Also, more use should be made of complementary techniques such as beneficiary assessments and less ambitious, special-purpose household surveys.

In addition, efforts need to be made to improve the collection and the quality of country-specific priority indicators. These indicators can help to track pro-

gress in reducing poverty in countries where household-based surveys are not available. In countries where surveys are conducted, they can be used to track progress during periods between surveys.

Particular attention needs to be given to collecting and improving the priority income indicators and to improving the quality of social indicators, including disaggregating them by income group.

3. Future Directions

The preceding sections discussed the progress that countries have made in reducing poverty and that the Bank has made in ensuring that its assistance strategies support and complement country efforts to reduce poverty. The key challenges are to extend and deepen country and Bank efforts.

Country Issues

Section 1 concluded that developing countries have made substantial progress in reducing poverty over the past three decades, although there has recently been some loss of momentum. The key task is, therefore, to resume the rapid rate of poverty reduction of earlier years. In countries where there has been little progress in reducing poverty, this will entail adopting policies designed to promote rapid and efficient growth as well as pursuing human resources development. In countries where there has already been considerable success in reducing poverty, the focus should be on refining public expenditure programs to promote equitable access to social services and infrastructure and on eliminating policy distortions that prejudice the poor's interests.

Extending Implementation of the Strategy

For the most part, poverty increased during the 1980s in countries where the policy framework was not conducive to growth. In many of these countries, the increase was associated with inappropriate domestic policies exacerbated by external shocks from rising interest rates in international markets, the debt crisis, and turmoil in world commodity markets. This combination of shocks and inappropriate policies triggered a vicious circle of low growth, fiscal deficits, inflation, declining incomes, and increasing poverty. The challenge for

these countries is to restore the climate for sustainable growth and human resources development by putting in place and maintaining a sustainable macroeconomic framework and restoring spending on basic social services. To minimize the potentially adverse impact that the introduction of stabilization policies may have on the poor in the short term, safety nets can be introduced within the context of the overall macroeconomic framework.

Deepening Implementation of the Strategy

In other countries, considerable success has been achieved in establishing a suitable climate for growth, human resources development, and poverty reduction. The challenge for these countries is to formulate and implement policies and spending plans that promote an efficient and equitable pattern of growth and to devise specific interventions to reach the remaining poor people. This will entail greater focusing of public expenditures on efficient projects and programs that benefit the poor, more in-depth analysis of the distributional implications of sectoral interventions as a basis for policy design, and more sophisticated institutional delivery mechanisms for social services and the safety net. Given the importance of reaching specific groups of poor people, developing local capacity for identifying the poor and analyzing how policies affect them will be essential.

World Bank Issues

Meanwhile, the Bank—as shown in Section 2—has made wide-ranging efforts to reflect the *WDR 1990* approach in the design and implementation of its country assistance strategies. The key challenge for the Bank is to extend and deepen that effort. This will entail completing many poverty assessments

over the next two and a half years and incorporating the results of these assessments into country assistance strategies. It will also involve a concerted effort to intensify analytical and country work on several key issues, including the distributional impact of public expenditures and the effects of labor market and other policies. It will be necessary to ensure that lessons learned from the evaluation of ongoing and completed programs and projects are systematically incorporated into the design of new policies, programs, and projects. In addition, participatory approaches to poverty reduction (within countries, with country counterparts, with donors and other official agencies, and with NGOs) will have to be pursued to ensure ownership of and commitment to the poverty reduction strategy among all relevant development partners.

Extending Implementation of the Strategy

The completed assessments and other reports provide the basis for the Bank's poverty-focused policy dialogue with a number of countries. The pace at which assessments are being prepared is accelerating, and by the end of fiscal 1995, eighty-eight poverty assessments are scheduled to be completed in eighty countries. This covers most active borrowers, excluding the Bank's new members. The remaining workload over the next two or three fiscal years is demanding. Compared to the situation in the past, more countries need to be covered over a shorter time period; moreover, many of the forthcoming assessments need to be done in countries where data and supporting institutions are weak and where there are few existing studies on which to base the work.

The schedule for preparing poverty assessments does not include the Bank's new member countries. Recognizing the many urgent priorities that these countries face, it will nevertheless be important to move expeditiously to assess the poverty situation once the information base and available resources permit. Thus, assessments are being scheduled for these countries. Technical assistance is also being provided—or is being considered—for the information-gathering stage of this process.

Deepening Implementation of the Strategy

Informing the policy dialogue. In parallel with the efforts that countries will need to make to deepen

their poverty reduction efforts, the World Bank should continue to generate analysis in poverty assessments and in country economic and sector work to support the policy dialogue. This analysis should pay particular attention to several key topics that have not yet been fully addressed. At the top of the agenda is the need to give greater attention to the incidence, composition, and management of public expenditures.

Sectoral policies also warrant more in-depth and systematic analysis. For example, policy-induced distortions in the relative prices of commodities may prejudice the interests of the poor as producers or consumers. These issues should be analyzed regularly in sector work, with a view to formulating policy recommendations to be included in the policy dialogue. Studying the potential impact on poverty of proposed reforms *before* they are implemented will indicate which reforms have the highest potential for reducing poverty, thereby making it possible for governments to plan more effective reform programs and to identify transfer programs where needed. This approach will also indicate where more reforms would be needed in order to remove market distortions that prevent the income of the poor from growing.

Qualitatively, the challenge will be to use the lessons from the past assessments and related work to strengthen the link between poverty profiles and the design of policies and to help to shape the policy dialogue and the program of assistance.

Finding cost-effective approaches. Improving the quality of the analysis is costly, but the cost need not be prohibitive. A cost-effective way to do this is, when possible, to design and schedule poverty assessments in a way that allows the findings of sector reports to be incorporated into the analysis. Also, although detailed and accurate data facilitate more sophisticated analysis, they are often not a binding constraint for the analysis of the most important issues. Sometimes data already exist but are underutilized. With careful analysis, staff have been able to produce good but general reports with limited data (as in Ethiopia, Malawi, and Uganda).

Disseminating lessons learned. The Bank is documenting the lessons of past work and orienting its in-house training seminars to disseminate examples of good practice in these areas. The material from

these seminars will be disseminated outside the Bank to the countries themselves in the form of courses and published documents.

Researching new topics. On some topics there has been little empirical investigation of the links between poverty outcomes and policy. These topics include how poverty is affected by labor market and social security reforms, the synergies between economic policies for reducing poverty and those for protecting the environment, and the design of alternative targeting mechanisms to reach the poor. The Bank has begun research initiatives in all of these areas.

Improving data. For this research to bear fruit for country policies and programs it will need better country data. The importance of this analytic work underlines the need to improve data collection. The Bank is continuing to support initiatives to improve data collection at the household level and is disseminating the implementation experience of its principal household survey instruments to make them more accessible to operational staff and their country counterparts for use in policy analysis.

At the country level, collecting data on the priority poverty indicators (PPIs) that were presented in the World Bank operational directive on poverty reduction makes it possible to track trends in poverty, and the Bank country teams have begun to gather them. It is already apparent that to collect even this limited set of data systematically will be time consuming and costly, as is clear from the large number of gaps that remain in the preliminary tables that have been prepared. In addition, the quality of the data will need to be assessed systematically because the poor quality of some of the indicators is evident.

Lack of data is only part of the problem; in many instances there is a lack of knowledge about how to use them and how to assess the quality of existing sources. Because this is considered to be a priority activity, the collection efforts will be bolstered by training seminars aimed at Bank staff and their country counterparts.

Evaluating on-the-ground impact. As discussed in the operational directive on poverty reduction and the *Poverty Reduction Handbook*, there are conceptual and practical difficulties associated with trying to ascertain the extent to which the Bank's own efforts

contribute to country outcomes. Measuring the impact of specific policy and project interventions is conceptually easier, but in practice it is still quite difficult. Establishing an appropriate benchmark in order to make *with project* and *without project* comparisons is rarely straightforward; in addition, the impact of some initiatives may only become evident in the long term. Nevertheless, evaluating outcomes and providing for the timely feedback of lessons learned into the design of new interventions are priority tasks for the Bank, for borrowers, and for donors.

At the operational level, indicators for tracking the impact of poverty reduction interventions, particularly of human resources development projects, are being developed to provide a more systematic basis for evaluating a project's effectiveness and for fine tuning its design throughout the project cycle. These evaluations are particularly important in the case of the new instruments that are increasingly being used to direct support quickly to the poor, such as social funds. These funds are becoming more popular, and preliminary assessments of their performance suggest that it is prudent to weigh their benefits and costs carefully.

The indicators for monitoring the impact of adjustment operations on the poor, as called for in the operational directive on poverty reduction, are also to be given more emphasis in the design of adjustment operations as a basis for tracking the impact on poverty during implementation and beyond.

Broadening participation. Although a growing number of World Bank projects involve beneficiaries at some stage of the project cycle, the extent, quality, and effectiveness of this participation will need to be given greater attention in future operations. To this end, the Bank has been stressing the importance of being responsive to the needs and preferences of beneficiaries. This will require continuing efforts to prepare a handbook of good practices and to train Bank staff, particularly project task managers.

Increasing collaboration and dissemination. More of the findings of the poverty assessments and of the experience of the country assistance strategies need to be shared with other donors because this will improve the effectiveness both of the Bank's operations and of other external assistance. Making the reports available is a useful first step, which can be

supplemented by inviting donors to dissemination workshops in the respective countries. A further step would be to collaborate on preparing the reports and on the resulting strategy design, as has been considered with a number of multilateral

agencies, as well as with several interested bilateral agencies. Another aspect of donor coordination is to organize periodic discussions with multilateral and bilateral agencies about progress in implementing country assistance strategies to reduce poverty.

Endnotes

1. World Bank (1992c).
2. There are two equally important aspects of living standards: income and social. In practice, consumption data are a good proxy for the living standards derived from income. To capture other aspects of well-being, supplementary information on social outcomes and access to social services are used.
3. The database used was the same one that was used for *WDR 1992*, which was updated from the database used for *WDR 1990*. These estimates are based on national household sample surveys from thirty-one countries (representing roughly 80 percent of the population in developing countries) and extrapolations using an econometric model for fifty-six additional countries.
The proportion of the region's population covered by a household sample survey is, on average, more than 95 percent in Asia and Eastern Europe and more than 80 percent in Latin America and the Caribbean. Estimates are less precise for the Middle East, Northern Africa, and Sub-Saharan Africa, where sample surveys have been carried out in countries whose population is only 11 percent of the aggregate population of these regions. The surveys cover a period spanning the 1980s (although they tend to be concentrated in the second half of the decade).
4. Specifically, the poverty gap index is the average distance below the poverty line (zero for the non-poor) in a population, expressed as a percentage of the poverty line. This measure can be interpreted as the ratio of the minimum cost of eliminating poverty (if perfect targeting were possible such that each person below the poverty line received an amount exactly equal to the difference between the poverty line and the person's income) relative to the maximum cost, which would consist of making a blanket payment to everyone equal to the amount of the poverty line.
5. In other words, an elasticity of the headcount index with respect to mean consumption of -2 means that when mean consumption increases by one increment, the headcount index decreases by two increments. This elasticity is an average that varies from country to country. Elasticities have been found in the range of -1 to -4 for individual countries.
6. Different regions use different real poverty lines. Attempts have been made, however, to ensure a degree of comparability among countries within regions.
7. Psacharopoulos and others (1992).
8. Johansen (1992).
9. This is based on analysis by Kakwani (1992). It is typically easier to improve a social indicator when starting from a low level rather than from a high level. The statements made here allow for that fact by a suitable non-linear transformation of the social indicator. "Improvement" is measured by the percentage reduction in the shortfall from the best indicator value. For example, taking eighty years to be the best life expectancy that a country could reasonably hope for, an increase from fifty to sixty years in life expectancy is deemed to be a 33 percent reduction in shortfall. An increase from sixty to seventy years would be a 50 percent reduction in shortfall.
10. *WDR 1991* identifies five types of policies for achieving broad-based growth: (i) investing in people; (ii) establishing a competitive environment for enterprise; (iii) opening markets to the rest of the world; (iv) ensuring macroeconomic stability; and (v) building effective state and market institutions. Countries that have implemented a combination of these policies have reaped handsome rewards in generating growth and reducing poverty.
11. For example, in Peru, it took an entrepreneur 289 working days to deal with regulations before being able to set up a small garment factory. These conditions are difficult for all, but particularly for small-scale entrepreneurs with small profit margins.
12. Harbison and Hanushek (1992), which is an output of the World Bank research project, "Education, Growth and Inequality in Brazil."
13. Anand and Ravallion (1992).
14. Until recently, the Bank monitored its targeted poverty lending using an information system that tracks the project's Primary Objective Category. This system gives a rough indication of the magnitude of poverty-related lending in the Bank. According to this, during fiscal 1989-91, the share of Bank lending directly related to poverty increased from 5.9 percent to 8.3 percent. However, this approach underestimates poverty-related lending because it excludes projects that have another primary objective (for example, human resources development or women in development) but that are also poverty-related. Because of changes in definition, the estimates of the PFI are not directly comparable to the group of projects classified according to their primary objective.
15. World Bank (1992a).
16. These loans were selected from the World Bank's Adjustment Lending Conditionality and Implementation Database (ALCID) on the basis that they contained one or more aspects pertaining to the social sectors (which, for this purpose, were broadly defined).
17. This definition is not strictly comparable with the definition used in the World Bank's ALCID.
18. This is based on information from the ALCID.
19. This section draws on analysis by Marc and others (forthcoming), and on unpublished material.
20. The learning group defines participation as "a process by which people, especially the disadvantaged, influence policy formulation and control design alternatives, investment choices, management and monitoring of development interventions in their communities." A distinction is made between direct participation by the very poor, women, and indigenous groups and indirect participation by various stakeholders (local governments, NGOs, and the private sector). The learning group is developing and documenting the participatory components in twenty Bank projects from thirteen subsectors.
21. Bolivia, China, Egypt, India, Indonesia, Malawi, Malaysia, Mexico, Mozambique, Nepal, Pakistan, and the Philippines.
22. Bangladesh, Chile, Costa Rica, Ecuador, Paraguay, Peru, and Venezuela.
23. Summers (1992).
24. Harbison and Hanushek (1992).
25. A research project, "Evaluation of Social Sector Investments," is under way to evaluate the welfare effects of four Bank-financed social sector investment projects in Latin America and the Caribbean.
26. Grosh (1992).
27. Milanovic (1992).
28. Papers presented at this conference will be published in Van de Walle and Nead (forthcoming).
29. Ravallion (1992).
30. There appears to be little problem with access to data. Among the country teams that responded, only one had no access to existing data. The most common form of access is the use of published tabulations, although special tabulations have been commissioned for twenty-three countries, and unit record data (tapes or diskettes) are available for about forty countries.

Household-level data are available for about three-quarters of the countries.

31. In addition to the upper and lower poverty lines and respective headcounts of poverty, income indicators and social indicators should be collected. The priority income indicators are: unskilled wage rates (urban and rural), rural terms of trade,

and the lower-income consumer price index. The priority social indicators are: net primary enrollment, under-five mortality, immunization, child malnutrition, and public expenditures on basic social services. Also included as social indicators are the demographic indicators: female/male life expectancy, total fertility rate, and maternal mortality.

Annex A. Program of Targeted Interventions, Fiscal 1992

In fiscal 1992, \$3 billion or about 14 percent of World Bank lending was categorized under the Program of Targeted Interventions (PTI), and fifty-one of the 190 Bank-approved investment projects were PTI operations. Table A-1 shows the regional variation in Bank funding for PTI projects. Table A-2 briefly describes the program of targeted interventions for fiscal 1992.

Objectives of Projects in the PTI, Fiscal 1992

The bulk of PTI lending is in four sectors: agriculture and rural development; education; water supply and sewerage; and population, health, and nutrition. Targeted projects are intended to reach specific groups, including the poor in less developed and low-income rural and urban regions, those lacking access to land, those who have recently migrated, unskilled workers, certain ethnic groups, and those

with certain demographic characteristics such as gender, age (children under five years of age), or health risks (diseases correlated with poverty, such as schistosomiasis). During fiscal 1992, projects in the PTI have at least one of the following objectives:

Raising productivity. Twenty-two PTI projects had as their main objective raising agricultural productivity by, for example, developing irrigation, extension services, credit, and basic infrastructure, by promoting appropriate technologies, and by increasing the poor's access to land. For example, the Daguangba-Hainan project in China provides power, irrigation, and an improved water supply to the economically underdeveloped southwest region of Hainan Island. In addition, the FELCRA III project in Malaysia is designed to raise the production of low-yielding small farms by constructing access roads and infrastructure, promoting im-

Table A-1. PTI Lending by Region, Fiscal 1992
(millions of U.S. dollars)

	<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>
Total PTI lending	758	108	1,149	161	258	560	2,994
Share of investment lending	14	8	29	17	13	26	19
Share all Bank lending	14	5	20	11	10	14	14
Total number of PTI projects	10	2	13	3	4	19	51
IDA PTI Lending	412	0	43	27	258	537	1,277
Share of all PTI lending	54	0	4	17	100	96	43
Share of IDA investment lending	40	0	21	17	21	29	28
Share of all IDA lending	39	0	11	17	16	17	20
Number of IDA PTI projects	5	0	3	1	4	18	31

proved agriculture technology, and supporting small farmer entrepreneurship.

Developing human resources. Seventeen PTI operations aim to develop human resources by increasing access to or improving the quality of basic health care, primary education, and non-formal vocational education or basic skills. In Indonesia, the Non-formal Education III project provides illiterates and primary-school dropouts with basic literacy training. The Costa Rica Basic Education Project extends educational services to poorer communities through decentralizing service provision and encouraging community participation.

Improving living conditions. Seven projects, mainly in the urban development and water supply and sewerage sectors, are helping to improve living conditions by upgrading slums, improving urban housing, and expanding the rural and urban water supply and sanitation. The Venezuela Low-income Barrios Improvement Project aims to provide water, sanitation, and electricity to poor settlements.

Safety nets. The five operations that support safety nets address the adverse impact of recession and adjustment on the poor and have provided support in cases of natural disasters or emergencies. For example, in Guyana the social costs of adjustment will be cushioned by the Health, Nutrition, and

Sanitation Project, which provides women of child-bearing age and children under the age of five with basic health services and food-supplement programs. The Honduras Social Investment Fund complements the adjustment program by transferring resources to poor urban and rural communities for small-scale, labor-intensive subprojects in the economic and social sectors and by supporting training activities, microenterprise development, and other social services. In the case of Rwanda, the project provides locally purchased food aid to vulnerable families and emergency food aid to regions threatened by severe food insecurity.

Natural resources management. Seven projects also have explicit environmental objectives. Five of the projects (totaling around \$551 million) are in rural areas and are mainly concerned with increasing farmer productivity while improving natural resource management. For example, the China Tarim Basin Irrigation project supports upgrading oasis irrigation and reclaiming and irrigating desert wasteland as a way of increasing agricultural output through more efficient use of land and water resources. Two of these operations are in urban areas (approximately \$100 million) and aim to improve health and the environment by providing better access to and a higher quality of water supply as well as low-cost sanitation and sewerage.

Table A-2. Program of Targeted Interventions, Fiscal 1992

<i>Project name</i>	<i>Criteria for inclusion^a</i>
China	
Daguangba-Hainan	This is a multi-purpose project to provide power, irrigation, and an improved water supply to the underdeveloped southwest area of Hainan Island. (b)
Education in Poor Provinces	This project seeks to improve the efficiency and quality of primary and secondary schools. It will finance investments in small towns and in rural areas, concentrating particularly on the very poor and on disadvantaged villages; it will also provide free textbooks to very poor children. (a,b)
Rural Water Supply and Sanitation	This project involves constructing water supply and sanitation facilities and developing health and education components in six provinces. The project will also implement training programs at national, provincial, prefecture, county, and village levels. (b)
Tarim Basin Irrigation	This project supports the systematic upgrading of 120,000 hectares of oasis irrigation in the Tarim Basin of Xinjiang and the reclamation and irrigation of 80,000 hectares of desert wasteland to produce cotton, wheat, fodder, fruit, vegetables, oilseeds, and timber. (b)
Indonesia	
Non-formal Education III	This project will improve the income-generating skills of the poor. The services provided by the program are concentrated in poor areas that have been selected according to basic education indicators. (a,b)
Primary Education Quality Improvement	This project aims to improve the quality of primary education and ultimately to improve student achievement and completion rates. This will be accomplished by: (i) improving teaching-learning processes; (ii) providing a more equitable resource base for underserved schools; and (iii) enhancing the capacity to manage quality improvement. A poverty component provides special financial resources to schools in low-income villages. (a,b)
Treecrops Smallholder	This project supports the government's efforts to increase the production of coconuts and rubber by smallholders. It has a poverty component in that coconuts and rubber tend to be grown by poorer farmers. (b)
Malaysia	
FELCRA III	This is a follow-up project to the fiscal 1988 FELCRA. The FELCRA program includes rehabilitating low-yielding small farms by introducing tree crops in schemes under group-farming arrangements, constructing access roads and infrastructure, upgrading agricultural technology, strengthening institutions, and promoting small farmer entrepreneurship. (b)
Maldives	
Fisheries III	This project benefits fishermen on a poor island in the south who are among the poorest members of the population. (b)
Papua New Guinea	
Oro Smallholder Oil Palm Development	This project will develop about 6,500 hectares of land in two areas of Oro province (Popondetta and Kokoda) into smallholder oil palm plantations. (b)

(Table continues on the following page.)

Table A-2. (continued)

<i>Project name</i>	<i>Criteria for inclusion^a</i>
Europe and Central Asia	
<i>Romania</i>	
Health Services Rehabilitation	Maternal and child health care is a major focus of this project. (b)
<i>Turkey</i>	
Agricultural Research	This project brings technological improvements to small farmers and raises farm productivity. (b)
Latin America and the Caribbean	
<i>Bolivia</i>	
Agro-export Development	This project creates the Bolivia Export Foundation to develop financially sound, agro-based subsidiaries and joint ventures with small- and medium-scale entrepreneurs and investors. The project supports market research and feasibility studies for exporting the agricultural products of the highlands such as llama and alpaca wool and quinoa. Llamas and alpacas are raised in the southern part of the highlands by small farmers who are among the poorest in Bolivia. (b)
<i>Brazil</i>	
Mato Grosso Natural Resources	This project supports environmental objectives such as environmental conservation, management, and protection; land tenure regularization; and agroforestry development. It also supports the provision of social and economic infrastructure and services that will benefit low-income small farmers and the indigenous population in areas with above average incidence of poverty. (b)
Metropolitan Transport Decentralization	This project aims to improve access to urban transportation services and to lower the cost of commuting for low-income workers who live in the outskirts of the metropolitan area. (b)
Rondonia Natural Resources	This project supports environmental conservation, management, and protection; land tenure regularization; and agroforestry development. It also supports the provision of social and economic infrastructure and services that will benefit low-income small farmers and the endogenous population in an area with above average incidence of poverty. (b)
<i>Chile</i>	
Small Farmer Services	This project will raise the welfare, income, and technological level of about 84,000 smallest farmers, rural women, and rural youth, using agricultural extension credit and land titling for the smaller and poorer farmers. (a)
Technical Assistance and Rehabilitation	This project supports hospital rehabilitation in poor areas. (b)
<i>Costa Rica</i>	
Basic Education	This project rationalizes the use of resources among different levels and programs in the sector. It also decentralizes and extends services to poorer communities, by promoting community participation. (b)

Table A-2. (continued)

<i>Project name</i>	<i>Criteria for inclusion^a</i>
<i>Ecuador</i>	
Social Development I: Education and Training	This project aims to improve the quality of primary education in poor urban areas. (b)
Rural Development	This project is part of a long-term effort to reduce poverty and to promote socioeconomic development in twelve selected rural areas. The areas were selected according to the number of small farmers they contain and their relative level of poverty. The areas' potential for benefiting from the project and for sustaining economically viable productive activities was also taken into account. (b)
<i>Guyana</i>	
Health, Nutrition, and Sanitation	Target groups in both rural and urban poverty areas consist primarily of women of childbearing age and children under five years of age. The subprojects will provide primary health care and basic sanitation. Eligibility criteria were developed during project preparation and define the nature and scope of the subprojects, which are targeted mainly to those most at risk. (a,b)
<i>Honduras</i>	
Social Investment Fund	This project funds small-scale subprojects in economic and social sectors in poor urban and rural communities on the basis of sponsorship by municipalities, community organizations, and NGOs. (a,b)
<i>Mexico</i>	
Primary Education	This project aims to improve the quality of primary education and the efficiency of the educational system in the three Mexican States with the poorest education indicators. (b)
<i>Venezuela</i>	
Low-income Barrios Improvement	Investments in basic infrastructure services, such as water supply, sanitation, and electricity are targeted exclusively at barrios that contain more than 50 percent of the poorest population. (b)
Middle East and North Africa	
<i>Egypt</i>	
Schistosomiasis Control	This project will strengthen existing schistosomiasis control efforts as well as extend coverage to areas not previously served by the country's control program. The disease strikes primarily those who live in rural or semirural areas and who come into contact with affected bodies of water. These are mostly poor rural farmers and workers' families. (b)
<i>Iran</i>	
Sistan River Flood Works Rehabilitation	The area covered by this project is inhabited mostly by two minority groups who are living below the poverty threshold. The project will safeguard the lives and property of these people and will complement other economic activities to improve their income level. (b)
Tehran Drainage	This project will reduce flood-related losses in the low-lying areas of the city and its vicinity, inhabited primarily by low-income families, and will improve health conditions in these areas by reducing waterlogging and sewerage overflow. (b)

(Table continues on the following page.)

Table A-2. (continued)

<i>Project name</i>	<i>Criteria for inclusion^a</i>
South Asia	
<i>India</i>	
Population VIII	This project will improve and expand family welfare services to the poorest areas in selected cities. (a)
West Bengal Forestry	This project supports the state's forestry development program, which uses a forestry protection system to prevent the continuing degradation of forest lands. This should benefit the state's population, nearly half of whom live below the poverty line and about 30 percent of whom are members of scheduled castes and tribes. (b)
<i>Nepal</i>	
Basic and Primary Education	This project aims to improve the efficiency of the delivery system to provide higher quality instruction in basic education at the primary level and to increase the opportunities available to girls, the poor, and those in remote areas. (b)
<i>Pakistan</i>	
Middle Schooling	This project will improve the quality of middle schooling in rural and urban slums, especially for girls, through better planning and the provision of more and improved teaching materials. (b)
Sub-Saharan Africa	
<i>Benin</i>	
Urban Rehabilitation and Management	This project focuses on labor-based infrastructure rehabilitation and improvement, road and drain maintenance, and an environmental sanitation component aimed in large measure at women and children in a low-income neighborhood of Cotonou. (b)
<i>Cameroon</i>	
Food Security	This project contains a specific mechanism for targeting the poor. It funds groups of poor farmers to encourage income-generating activities and food self-sufficiency. (a)
<i>Ghana</i>	
Adult Literacy Skills	The main objective of this project is to reduce adult illiteracy by about 20 percent (1.1 million adults) and to develop, revise, and distribute functional basic- and post-literacy materials. (b)
National Feeder Roads Rehabilitation and Maintenance	This project's purpose is to create rural employment (including employment for women) through labor-intensive roadworks to extend the road network to some of the most marginalized areas, and to increase rural mobility through the promotion of nonmotorized vehicles. (b)
<i>Kenya</i>	
Mombasa Water	At present, the poorest people have to buy water from vendors at exorbitant prices and thus are hit hardest by the water shortage in Mombasa. This project will help the lowest income group by reducing the water shortage. It will also increase the number of water-selling kiosks at strategic locations and will encourage the formation of women's associations as water retailers. (b)

Table A-2. (continued)

<i>Project name</i>	<i>Criteria for inclusion^a</i>
<i>Lesotho</i>	
Educational Sector Development	This project aims to re-orient public expenditures, to construct and furnish additional classrooms (first in the underserved highlands and later in Maseru and other lowland areas), to rationalize the curriculum, and to increase the availability of instructional materials. (b)
<i>Mali</i>	
Natural Resource Management	This project's goal is to increase the capacity of local communities to manage their own natural resources to halt and then reverse the process of degradation (which is the greatest threat to agricultural development). Women are the main target group of the project's activities. (b)
Public Works and Capacity Building	The objectives of this project are to promote popular participation and to create employment opportunities for unskilled workers. (b)
<i>Mauritania</i>	
Population and Health	This project will improve the delivery of health services in poor rural areas. Cost-recovery schemes have been built in through a mechanism to identify and exempt poorer sections of the population. (b)
Water Supply	This project will supply more water standpipes in the poor peripheries of Nauakchott. (b)
<i>Mozambique</i>	
Agricultural Services Rehabilitation and Development	This project has three objectives: to develop integrated agricultural services; to assist some 130,000 small-scale family farmers who produce food crops and cotton in Nampula and Cabo Delgado provinces; and to extend rural water supply facilities. (b)
<i>Niger</i>	
Agricultural Services	This project will provide agricultural extension and functional literacy programs in rural areas. (b)
Population	This project will strengthen the delivery of maternal health and family planning services through its women-in-development component. It also aims to expand microenterprises, increase functional literacy, and develop nutrition surveillance programs. (b)
<i>Nigeria</i>	
First Multi-state Water Supply	Improving the health standards of the lowest-income households and the living conditions of women and improving the quantity and reliability of the water supply, particularly in crowded urban areas of two states, are the two key goals of this project. (b)
<i>Rwanda</i>	
Food Security and Social Action	This project establishes up a labor-based work program in the poorest districts of the country, targets food aid toward vulnerable population groups, and institutes a poverty monitoring system through household surveys. (b)

(Table continues on the following page.)

Table A-2. (continued)

<i>Project name</i>	<i>Criteria for inclusion^a</i>
<i>São Tome and Principe</i>	
Agricultural Privatization and Smallholder Development	This project will promote smallholder development, encourage crop diversification, and distribute and lease publicly owned agricultural estates to smallholders. (a)
Health and Education	This project includes a comprehensive malaria control program, an integrated family health care program, the provision of essential drugs, and the provision of more textbooks. (b)
<i>Sudan</i>	
Emergency Drought Rehabilitation	This project is designed to alleviate the impact of drought on the poor, vulnerable, and displaced in the worst affected areas and to improve water and sanitation facilities for people in refugee camps. It will also increase the availability of drugs for the sick, maintain minimum health standards among people affected by drought, supply agricultural inputs (seeds, hand tools) to farmers in traditional sectors, and introduce a labor-intensive special public works program. (a)
<i>Uganda</i>	
Northern Reconstruction	This project concentrates on rebuilding the poorest region of the country, which has been torn by civil strife. The various project components aim to improve the living conditions of the poor, develop their human capital, and increase their productivity by improving their physical assets. The project components include investment in infrastructures, health, education, and water supply and sanitation. (a,b)

a. There are two criteria for inclusion of projects in the Programs of Targeted Interventions. Criterion (a) refers to projects with a specific targeting mechanism, and/or criterion (b) refers to projects for which the proportion of the poor among project beneficiaries is significantly larger than their proportion in the total population. The criteria for each project are indicated in parentheses.

Annex B. Poverty-focused SAL/SECALS, Fiscal 1992

Eighteen of the thirty-two Bank-approved adjustment operations included specific poverty reduction components. Thirteen of these are structural adjustment loans (SALS), and five are sector adjustment loans (SECALS). Table B-1 shows the volume and number of SAL/SECALS in fiscal 1992. Table B-2 briefly describes the poverty-focused SAL/SECALS for fiscal 1992.

Objectives of Poverty-focused SAL/SECALS

The following five areas represent the main poverty objectives addressed by the poverty-focused SAL/SECALS (see table B-2).

Public expenditure reforms. Fourteen of the eighteen operations supported public expenditure programs mainly to maintain or increase expenditures on education, health, family planning, and, to a lesser extent, water supply, infrastructure, and agricultural services. The Bangladesh SAL is typical of these programs and supports real increases in funding for priority programs in primary health and education and family planning. The Uganda

SAL goes further and supports reallocating public expenditures to protect high-priority programs in primary health and education, water supply, road maintenance, and agriculture research and extension. A few loans, such as the SECAL in Kenya, support reforms to increase the efficiency and quality of education expenditures at all levels and reduce drop-out rates at the primary and secondary levels, especially for children from disadvantaged areas.

Distortions that especially affect the poor. Six operations address distortions that especially affect the poor and support financial and labor market reforms. In Malawi, the adjustment operation supports reforms to facilitate investment, to expand the access of small-scale entrepreneurs to finance, and to improve the way rural labor markets function, including a minimum wage policy. Operations in Côte d'Ivoire and Zimbabwe focus on reforming labor regulations and wage controls. Labor market reforms like these are usually expected to increase employment and to benefit the poor.

Targeted programs. Eleven of these operations support targeted programs or safety nets. The most common are targeted food subsidies, food assistance programs, and redeployment programs for retrenched workers. Examples include shifting subsidies to less expensive packaging (Tunisia), subsidizing more nutritional but less preferred commodities—for example, maize (Mozambique)—and a nutrition program for children and lactating mothers in very poor regions (Panama). Redeployment programs include the introduction of severance pay, retraining, and funding for small-scale, labor-intensive public works in Zambia, Zimbabwe, and Uganda. In Romania the country's pension and

**Table B-1. Poverty-focused SAL/SECALS,
Fiscal 1992**

	Total	IDA	IBRD
SAL lending (US\$ millions)	2,068	598	1,470
Number of SALS	13	8	5
SECAL lending (US\$ millions)	580	380	200
Number of SECALS	5	5	0
Total SAL/SECALS (US\$ millions)	2,648	978	1,670
Total number of SAL/SECALS	18	13	5

family benefits systems will be reviewed and modified with the aim of targeting the family benefits system more effectively.

Developing poverty reduction policies. Three operations support the development of poverty reduction strategies and institutional coordination. The Mozambique SAL supports the creation of an institutional focal point for policy analysis on poverty and of a coordinating body for sectoral activities and policy formulation. The Morocco SAL supports a strategy to improve the participation of low-income groups in the development process. Under the Peru SAL the government will develop a poverty

reduction strategy that will define policies and target groups and draw upon an implementation schedule.

Poverty monitoring. Three operations support the gathering of poverty data and the monitoring of the impact of adjustment on the poor. The Morocco SAL introduces a monitoring system to track the income and living standards of low-income households and is supporting a study of the impact of the SAL on low-income households. A study on the profile and incidence of rural poverty and on the impact of agricultural policies on poverty will be conducted as part of the Ghana Agricultural SECAL.

Table B-2. Poverty-focused SALS and SECALS, Fiscal 1992^a

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
Africa	
<i>Burundi</i>	
Third Structural Adjustment Program	Key conditions were met for this program prior to its approval by the Executive Board of the World Bank, including agreement on a revised 1992 budget and 1992-94 PEP satisfactory to IDA. Before the second tranche can be released, a 1993 budget must be adopted that includes a safety net covering priority expenditures for education and health. The financing strategy for education and health (which includes elements of cost recovery and which sets roles for the borrower, NGOs, the private sector, and users) that was developed prior to approval must be implemented.
<i>Côte d'Ivoire</i>	
Competitive and Regulatory Reform Adjustment Program	This program includes labor market reforms because the high cost of labor is a major factor in the lack of competitiveness in the economy. Average formal sector wages are ten times per capita GNP, in part influenced by public sector wages that are the highest in Sub-Saharan Africa. Deregulation will help to create jobs for young entrants into the labor force as well as for the poorest segments of society.
Human Resources Development Program	The release of the loan tranches for this program will depend on the satisfactory execution of the 1991 and 1992 budgets for health, population, education, and technical and vocational training and on progress in implementing the Human Resources Development Program strategy. The program will put in place a system of cost recovery at public health care establishments and a regulatory framework that will govern the private pharmaceutical market.
<i>Ghana</i>	
Agricultural Sector Adjustment	The government is to implement a system to monitor the use of public expenditures on poverty-reducing programs in the 1992 budget and to ensure priority funding for similar programs in the 1993 budget. The actions to be monitored include: (i) the completion of a study on the profile and incidence of poverty in the rural sector and on the impact of agricultural policies on poverty, and (ii) the preparation of an action program. There are no specific second or third tranche conditions that relate to poverty reduction.
<i>Kenya</i>	
Education Sector Adjustment	This program aims to expand access to education and to increase retention at the primary and secondary levels, especially for children from disadvantaged areas. It also aims to improve the quality and relevance of education at all levels and to reintroduce public financing of textbooks to primary schools (which is a tranche-release condition). Studies on primary and secondary curriculum revisions and access to and retention of children in primary schools should also be finalized by the time the second tranche is due to be released.
<i>Malawi</i>	
Entrepreneurship Development through Recovery	The objective of this program is to facilitate entrepreneurial investment to promote access to financial capital, to improve human resources development, and to expand employment opportunities. Tranche release conditions include reorienting public expenditures in favor of human capital (especially health, education, and agricultural services to smallholders) and measures to improve the function of labor markets.

(Table continues on the following page.)

Table B-2. (continued)

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
<i>Mozambique</i>	
Economic Recovery Program	This program is designed to reorient primary health and primary and secondary education budgetary expenditures toward high-priority activities in key social sectors such as primary and smallholder agriculture. A key second tranche condition is that the rate of increase in these expenditures in the 1992 budget be maintained during 1993. The program aims to reform agricultural marketing, improve the access of the private sector (including smallholders) to credit, support the implementation of direct income transfers to poor households, prepare a progress report on land distribution and the transfer of land rights to smallholders and private enterprises (second tranche condition), and support the establishment of a central coordinating body for the policy analysis of poverty and food security issues.
<i>Sierra Leone</i>	
Reconstruction Import Credit	Conditions for the release of the second tranche of this credit include agreeing with the Bank, in the context of the PER, on the size and composition of the allocation for the social sectors in the 1992-93 budget and providing a special allocation in the 1992-93 budget for the socially oriented programs. Progress will be reviewed at the time the third tranche is due to be released.
<i>Uganda</i>	
First Structural Adjustment Credit	A condition for releasing the tranches of this credit is that all budgeted allocations for programs in primary health, primary and secondary education, water supply, road maintenance, and agriculture research and extension must be released. The government must also remove the remaining constraints on the private sector so that private initiative can flourish.
<i>Zambia</i>	
Privatization and Industrial Reform Adjustment Credit and Separate Technical Assistance Credit	The satisfactory implementation of a safety net component will be part of the second and third tranche release conditions. The safety net includes a transitional subsidy on yellow maize, increased funding of the workfare components of the Social Action Program, and increased spending on social services; specific interim targets have been set for these. Particular attention will be paid to rural infrastructure. The government plans to heighten public awareness of the Social Action Program to ensure that the needy benefit.
<i>Zimbabwe</i>	
Structural Adjustment Loan	Prior to Board approval, measures were included to strengthen primary education and health care and other services, to ensure access to basic foodstuffs and social services, and to provide retraining. Modifying the Labor Act to provide employees with authority to retrench workers if explicit compensation provisions are met is a second tranche release condition.
Europe and Central Asia	
<i>Romania</i>	
Structural Adjustment Program	One of the components of this loan is to provide an affordable and effective safety net. This includes more narrowly targeted public expenditures; reforms to support the unemployed; and provision of social assistance, family benefits, a pension system, and sick leave.

Table B-2. (continued)

Loan or credit	Poverty-related objectives
Latin America and the Caribbean	
<i>Bolivia</i>	
Structural Adjustment Program	The letter of Development Policy commits the government to: (i) an increase in the share of expenditures devoted to the health sector to 3.8 percent by 1993; (ii) an increase in the share of health expenditures devoted to primary health care in the major cities to 40 percent by 1993; (iii) an increase in the share of personnel allocated to primary health care in major cities to 40 percent by 1993; and (iv) an increase in expenditures on texts and teaching materials to 5 percent of expenditures on primary education by 1992.
<i>Panama</i>	
Economic Recovery Loan	This operation will address the nutritional needs of lactating mothers, children up to the age of five, and school-age children in the poorest region. The government will agree with the Bank on the objectives, actions, targets, and timetable for the pilot phase of a nutrition program as a condition of second tranche release. It will also evaluate the results of the pilot program and agree upon a national program as a condition of third tranche release.
<i>Peru</i>	
Structural Adjustment Loan	As part of this loan, the government agreed to develop a poverty reduction strategy and a schedule for implementing it. Both must be acceptable to the Bank. The strategy will outline policies and identify target groups. The government will identify and prepare profiles for health and education projects to be targeted to the poor and will evaluate existing food assistance programs and initiate the first stage of the necessary reforms.
Middle East and North Africa	
<i>Morocco</i>	
Structural Adjustment Loan II	This program increases public expenditures for primary education, health care, and rainfed agriculture. It also introduces a monitoring system to track the income and living standards of low-income households and undertakes studies of the impact of structural adjustment on low-income households. Satisfactory treatment of these issues is a condition of second tranche release. Based on the results of these studies and the analysis of relevant data, a strategy to improve living conditions of low-income households will be developed.
<i>Tunisia</i>	
Economic and Financial Reforms Support Loan	Improved targeting of consumption subsidies is a condition of tranche release for this loan.
South Asia	
<i>Bangladesh</i>	
Public Resources Management Adjustment Credit	Second and third tranche release of this credit depends on the government increasing funding for priority programs in primary education, primary health, and family planning programs. Actual expenditures during fiscal 1993 are to be monitored as part of third tranche conditionality.

a. Includes SAL/SECALS that (a) focus specifically on eliminating distortions affecting the poor and/or (b) support a public expenditures program focused on poverty reduction.

Annex C. Poverty Assessments, Completed and Scheduled, Fiscal 1989–95

	<i>Completed</i>	<i>Scheduled</i>			<i>Total</i>
		<i>Fiscal 1993</i>	<i>Fiscal 1994</i>	<i>Fiscal 1995</i>	
East Asia and the Pacific	5	2	2	1	10
Europe and Central Asia	0	0	1	4	5
Latin America and the Caribbean	8	2	14	1	25
Middle East and North Africa	1	1	4	0	6
South Asia	4	0	2	0	6
Sub-Saharan Africa	2	6	18	10	36
Total	20^a	11^b	41^c	16^c	88^d

Note: This schedule was finalized February 26, 1993 and excludes inactive countries.

- a. Includes nineteen first and one updated poverty assessments that were completed before November 30, 1992.
- b. Includes both first and updated poverty assessments scheduled to be completed between December 1, 1992 and the end of fiscal 1993.
- c. Includes both first and updated assessments.
- d. Includes eighty countries that have a first assessment scheduled and eight that also have an updated assessment scheduled to be completed by the end of fiscal 1995.

Annex D. Summaries of Completed Poverty Assessments

Bangladesh	58
Bolivia	60
Chile	61
China	63
Costa Rica	66
Ecuador	68
Egypt	70
India	72
Indonesia	73
Malawi	75
Malaysia	77
Mexico	79
Mozambique	81
Nepal	83
Pakistan	84
Paraguay	86
Peru	88
Philippines	90
Venezuela	92

These assessment summaries were prepared by World Bank country teams. They are based on completed poverty assessment reports. A few of them also draw on other country economic and sector work.

Bangladesh: Poverty Assessment Summary

Poverty profile. The report found that in 1986 about 51 percent of the rural population and 56 percent of the urban population were below the poverty line; in other words, they had an intake of fewer than 2,122 calories per person per day. More recent estimates for 1988-89 show a slight decline to 48 percent of the rural population and 44 percent of the urban population. However, the number of poor, particularly in urban areas, increased between 1986 and 1989 because of a slowing down of GDP growth and because of the loss of seasonal employment in rural areas; this was the result of two major floods in 1987 and 1989 as well as a cyclone in April 1991. The rural landless essentially form the core of the poor.

The key vulnerable groups that have been identified include the landless, the disabled and the destitute with no access to economic activity, and migrants from rural areas seeking urban employment. Increases in landlessness and in the migration of rural males have also resulted in the emergence of landless households headed by women, an estimated 7 percent of rural households in 1983-84. Agricultural wages constitute a significant proportion of the income of the poor, although some of the poor are engaged in small-scale rural industries or are employed as unskilled workers in the jute industry. The report noted that despite data limitations, some regional variations in the incidence of poverty could be discerned.

Incentive and regulatory framework. The report explained that the government's past efforts to reduce poverty consisted of improving incentives to increase agricultural productivity and establishing rural-based employment programs. These programs, however, were not very successful in generating adequate employment or self-employment in farm and nonfarm activities. The government also supported transfer and safety net programs and programs to expand employment opportunities (through, for example, the Food-for-Work Program and by promoting small and cottage industries and other self-employment schemes).

Public expenditures. The report found that the composition of government expenditures was broadly consistent with the government's poverty reduction objectives. The government's poverty-focused programs, however, were not effective in

reaching the poor. The size of the budget limited the magnitude of the government's efforts. The composition of public expenditures exhibits a broad concern for poverty reduction with respectable shares of current expenditures being allocated to the social sectors; this trend has continued through the recent 1992-93 budget. Analyzing the beneficiaries of the government's programs, however, shows substantial underuse of public services on the part of the poor. For example, the government's rural development and agricultural incentive program predominantly favored large farmers, and the benefits of its expenditures on human resources development tended to favor those who were not particularly poor. This was also true in the case of expenditures involving direct and indirect transfers of income to the poor because the expenditure benefits accruing to the poor through relief were more than offset by the benefits received by the less poor through subsidies on agriculture and water development.

Safety net. The government's safety net program includes income transfer programs targeted to the lowest income groups in the form of Public Food Distribution (PFD), relief, and Vulnerable Group Development (VGD) programs. The report noted that although the benefits of the nonmonetary elements of the PFD generally did reach the poor, the monetary elements of the PFD generally benefited the less poor. The report recommended: (i) improving the targeting of the PFD for the benefit of the poor; (ii) mobilizing resources outside the public sector for organizing self-employment and employment opportunities in nonfarm activities; (iii) broadening the institutional base for poverty reduction by increasing local participation and by expanding the role of NGOs and informal organizations; and finally, (iv) intensifying efforts to reduce rapid population growth. With the redirection in food aid in the current year, it is unlikely that the targeted PFD operations—Food-for-Work and VGD programs—can be maintained at the levels recorded in recent years.

Poverty strategy. In addition to raising the overall productivity of the economy, the strategy should continue to support policies to increase agricultural productivity, which would help create farm and nonfarm employment in rural areas. While continuing the PFD, the government needs to contain its costs and improve its targeting. The government

also needs to examine closely its rural credit programs, which have not benefited the poor. The results of the public expenditure prioritization exercise need to be fully implemented to increase the effectiveness of the government's programs. Also, the measures to increase funding to the social sectors should be accompanied by improvements in the expenditure patterns within these sectors so as to improve efficiency. The government's efforts to provide institutional support to NGOs should continue.

Statistical system. Periodic Household Expenditure Surveys (HES) and Labor Force Surveys have been done in Bangladesh. During the 1980s, four

HES surveys were carried out, and the most recent one was done in 1990-91. Sample size limitations in the HES do not permit an analysis of how poverty varies by region, although urban-rural differences can be ascertained. Comparing the 1981-82 and 1983-84 HES surveys, a huge disparity in the percentage of the population below the poverty line can be observed. The explanation for this discrepancy is most likely to be the substantial change in the methodology used after the 1981-82 survey. Nevertheless, estimates of poverty derived from HES should be interpreted with caution, especially when constructing detailed poverty profiles, as these are subject to a wide margin of error.

Bolivia: Poverty Assessment Summary

Poverty profile. The Bolivian poverty assessment found that the poorest of the poor live in rural areas and tend to consist of smallholder farmers, agricultural workers of Indian origin, and women. Crop production and prices have both fallen since 1976, which has made poor rural areas even poorer.

Incentive and regulatory framework. The study evaluated how public policies affect the participation of the poor in the economy. It addressed the effects of stabilization policies on the poor, the sectoral allocation of public resources, the incidence of public expenditures, and the efficiency of resource allocation. The study found that although the macroeconomic policy framework is generally conducive to labor-intensive growth, macroeconomic policies are too blunt an instrument to be effective in further reducing poverty, given that the poor have limited employment opportunities and virtually no access to credit.

Public expenditures. The study also found that the very poor have benefited little from public expenditures, in that they have little or no access to physical infrastructure or basic social services such as health care, education, and training. This reflects the fact that public services and infrastructure tend to be concentrated in urban areas.

Safety net. Bolivia's economic crisis in the early 1980s severely affected the living standards of the poor. Social expenditures, which were already low, became almost negligible. In 1986 the Bolivian government created the Emergency Social Fund (ESF), a pioneering institution for dispersing money quickly and efficiently to projects aimed at mitigating adverse effects of the adjustment process on the poor. The ESF, as a

funding agency independent of the existing government bureaucracy, supported social and employment generation programs with the participation of NGOs and community organizations. Before the ESF began, many remote areas of the country had never experienced central or regional government intervention in clinics, schools, or social programs. In 1990 the ESF was terminated, and the World Bank has been supporting its successor, the Social Investment Fund, as well as helping to strengthen the capacity of existing social sector ministries.

Poverty strategy. The study proposed that macroeconomic policies should remain conducive to private sector development. In the field of human resources development, efficiency and equity improvements should be made a priority. Efforts to increase the assets held by the poor should include improving land titling and rural credit schemes. It should be possible for public expenditures on infrastructure and other services to be reallocated to serve the poor more effectively without sacrificing efficiency. Public services should continue to be demand driven, building on the successful example of the ESF. Ethnic and gender discrimination must be addressed; at the very least, legal and regulatory codes should be revised to remove institutionalized discrimination.

Statistical system. Existing data on poverty in Bolivia remain weak although a national census was recently completed (June 1992). The study focused on examining the characteristics of "target groups" by location, occupation, gender, and race rather than on calculating a poverty line and estimating the absolute number of the poor. Based on surveys conducted in recent years, the study concluded that the characteristics of the poor have not changed in the last decade. The Bank is assisting the National Institute of Statistics to implement a Living Standards Measurement Study.

Chile: Poverty Assessment Summary

Poverty profile. The precise number of people living in extreme poverty in Chile is the subject of considerable debate. The report presented estimates ranging from 12 percent of the population, according to an assessment of overall living (particularly housing) standards, to as high as 45 percent, according to alternative-income and caloric-intake measures and distinct poverty lines. Overall, Chile's poorest families, defined as those whose per capita income falls in the bottom 20 percent of the income for all Chileans, are not exceptionally large by international standards—their average family size is 5.01 persons (compared to a national average of 4.25), with no significant rural/urban differentials. Poor households are relatively young, with almost half their members being under 15 years of age. More than half contain a child under five years of age, and a third contain at least three young children. The typical head of household is relatively young. Nuclear families predominate among the poor. In most families, both spouses live on the premises. Female-headed households are at a higher risk of poverty, however, particularly in urban areas.

The overall living standards of the poorest families in Chile are substantially better than in many other developing countries, and the coverage of basic services is generally good. The survey data (from CASEN II) revealed that notable accomplishments have been made in reducing inequalities in access to major social services, including health care, nutrition, and education. Nevertheless, the survey also documented some important inequalities that persist in access to key services such as health care, particularly among adults.

In recent decades Chile has experienced profound demographic changes. The total population of the country was estimated to be 13 million in 1989, of which more than 85 percent lived in urban areas, particularly in metropolitan Santiago. Rapid falls in the total fertility rate in conjunction with an increase in life expectancy have resulted in a rapid growth in the proportion of elderly in the total population. The health of the Chilean population has improved substantially, as indicated by an increase in life expectancy at birth and declines in the death rate and in the infant mortality rate. Rapid urbanization and industrialization, as well as significant improvements in health and changes in the

profile of mortality and disease, have changed the profile from one typical of a developing country to one typical of a developed country.

The nutritional status of the Chilean population is generally satisfactory. Chile has significantly reduced malnutrition among children under six years old. Quantitative educational indicators compare favorably with those of higher-income economies; the average number of years of schooling now attained by Chilean students is among the highest in Latin America, and adult illiteracy is among the lowest in the region. Problems of access to primary education are now largely resolved, but the sector has not fully translated educational policy reforms into higher levels of quality, efficiency, and equity, especially among low-income urban and rural groups.

Social development. Chile's social development over the last three decades has been impressive. Although Chile's GNP per capita of US\$2,130 in 1990 places it among lower middle-income countries, its social indicators—including average life expectancy at birth, infant mortality rate, the prevalence of moderate and severe malnutrition, educational attainment, and overall adult literacy rate—closely resemble the profile observed in developed countries. This is because successive governments of widely disparate political philosophies have all had a strong political commitment to social welfare. Sustained public investments in maternal and child health care, food supplementation programs, basic education, and potable water have played a major role in improving health.

In the 1980s the government aspired to redefine the role of the state, to decentralize primary health care responsibilities to the municipalities, to devise new health financing mechanisms, to promote private sector participation in delivering and financing health services, and to target public health and nutrition expenditures to low-income groups. Serious imbalances and inefficient use of resources continue to constrain the productivity and quality of health and education services.

Public expenditures. The government's strong commitment to social welfare has been evident in its relatively high social public expenditures. The percentage of GDP spent on health care, for example, has increased significantly over the last few decades, and it is as high as that in several upper

middle-income developing countries (5.3 percent) but below that of lower-income OECD countries (7.2 percent). Total public expenditures in health are 2.2 percent of GDP or 42 percent of total health expenditures, while private health expenditures account for about 3.9 percent of GDP. Overall, central government contributions to health represent about 7 percent of government expenditures.

On the other hand, public spending on education in Chile has declined during the last decade. The education budget's share of GNP fell to 2.5 percent in 1990, declining from almost 13 percent of total public spending in 1981 to 8.1 percent in 1990. The decentralization of education funds to private subsidized schools through subvention payments now accounts for approximately 60 percent of the education budget. There has been a dramatic decline in the amount of total public spending going to higher education.

Safety net. Chile has safety net programs targeted at low-income groups in rural and urban areas where there is considerable unemployment, malnutrition, and inequalities in access to quality education. The Emergency Employment Programs, financed by the government, provided work to a significant number of people at the time of the CASEN II survey in December 1987. Since then, with the

decline in unemployment, these programs have been eliminated. The National Supplementary Feeding Program has significantly reduced malnutrition among low-income children under six years of age.

Poverty strategy. The promotion of social justice with macroeconomic stability and growth is the central policy of the Chilean government. The government has maintained economic policies consistent with an open market economy, promoting the private sector as the main engine of growth. Within the constraints of a balanced budget, the government has begun to improve the quality and efficiency of key social programs as a means to ensure that the poor have access to basic services, particularly health care and education. One of the government's major actions in 1990 was to adopt a tax reform to help finance improvements in health and education.

Statistical system. Chile lacks data of sufficient quality to be able to calculate the precise number of people living in extreme poverty. Furthermore, it lacks reliable data sets that can be compared over time. This has precluded any assessment of the precise gains in access to basic social services that may have resulted from the reforms of the past decade.

China: Poverty Assessment Summary

Poverty profile. Broad participation in strong rural economic growth brought about a tremendous reduction in absolute poverty in China during 1978-85. The number of absolute poor are estimated to have declined from roughly 270 million in 1978 to 100 million in 1985, or from about one-third to less than one-tenth of the total population. However, no further reductions in poverty were achieved during the second half of the 1980s—the proportion of the total population living in absolute poverty remained roughly constant at about 9 percent. The stagnation of poverty during 1985-90, which contrasts with the strong overall economic growth of those years, is consistent with the modest observed increase of rural income disparity. The poverty gap also increased slightly during the second half of the 1980s—indicating a modest deepening of poverty—but remained extremely low by developing-country standards.

The government has effectively limited urban poverty through a system of full employment coupled with heavy subsidization and price controls on basic foodstuffs and housing and near universal access to education and health care. The incidence of urban poverty is estimated to have declined to less than 1 percent of the registered urban population by 1984 and to have remained at about that level thereafter. This optimistic portrayal, however, fails to reflect the status of the unregistered urban population. Those people, who number at least 10 million, formally hold rural residence but work in urban areas without the job, food, health, and other rights normally accorded urban people. Most earn a decent living, but many do not, and all are extremely vulnerable if struck by illness, accident, or other calamity.

Rural poverty is estimated to have declined from about one-third of the rural population in 1978 to roughly one-tenth by 1985. Since virtually all of China's rural population received land-use rights during the early-1980s, there are few if any landless laborers. Instead, the majority of the rural poor are now concentrated in resource-deficient areas and comprise entire communities, located mostly in upland sections of the interior provinces of northern, northwestern, and southwestern China. Although these poor have land-use rights, in most cases the land itself is of such low quality that it is not possible to achieve subsistence levels of crop production.

Minorities are known to represent a highly disproportionate share of the rural poor. The available evidence does not suggest that women are over-represented among the poor, although poverty certainly exacerbates society-wide problems of lower rates of female participation in education, higher relative female infant mortality rates, and higher rates of maternal mortality.

Incentive and regulatory framework. Widespread participation in reform-driven growth in the agricultural sector played the key role in the tremendous two-thirds reduction in absolute poverty that was achieved during 1978-84. Rural per capita income grew at an average annual rate of 15 percent in real terms during this period and increased a total of more than 130 percent. The failure to achieve further reductions in poverty during the second half of the 1980s, despite modest agricultural growth and very strong industrial growth, is more difficult to explain although a few factors can be identified. Sharply increased prices for grain and other subsistence goods adversely affected the real income of the majority of the rural poor. The working-age population grew so rapidly that it exceeded the expansion of employment opportunities, contributing to a worsening of rural underemployment. Also, economic growth was greater in the higher-income coastal provinces than in the lower-income inland northwestern and southwestern provinces.

The key determinant of the stagnation of poverty during 1985-90, however, was the absence of significant levels of agricultural growth and rural enterprise development in the upland areas. In the 1970s the poor were mostly located in flat, accessible areas where increased application of fertilizer, better seed, and other modern inputs in the early 1980s brought about rapid productivity gains, and they were able to participate in the rapid agricultural growth of 1978-84. However, these quick reductions of poverty through agricultural growth were largely exhausted by the end of 1984. Most of the remaining poor have remained trapped in more remote upland areas where agricultural productivity gains have not so far proven to be possible. Measured on a per capita basis, output of grain and subsistence foods in such areas failed to sustain any significant increase during the 1980s. The fact that poverty is now concentrated in pockets in these areas is shown by the available social indicators. For

example, at least 50 percent of the boys and almost 100 percent of the girls in many of China's poorest towns do not attend school and will not achieve literacy. Also, infant and maternal mortality rates in very poor counties are 50 to 100 percent higher than the national average, and the incidence of infectious diseases is also concentrated in these areas.

Rural enterprises are an important source of employment in the rural economy as a whole, but they have developed very slowly in poor areas. In the early 1980s employment from this source actually decreased in poor areas as the commune system was dismantled and workers could no longer be paid in work points instead of cash. Employment rose again only after the government took a policy initiative supporting the establishment of small, family firms. It is small-scale private enterprises such as these that appear to be best suited to operate in the underdeveloped markets of the poor areas. The government has assisted rural enterprises to make an impact on poverty in several ways, including making appropriate technologies available in poor areas, subcontracting simple manufacturing and production activities to poor households and villages, and providing subsidized credit to enterprises that agree to employ a specified number of the poor. Nevertheless, by 1990 only 4 percent of the rural labor force in China's 120 poorest counties had found employment in rural enterprises, in contrast to the 22.1 percent who had found such employment in the nation as a whole.

Public expenditures. The poverty assessment concluded that meeting the challenge of poverty reduction in the 1990s will require the government to make significant investments in human capital, including greater central government funding for education, health, and relief services in the poorest areas. Annualized incremental funding requirements for programs to improve education and health services and indicators in the poor areas are estimated to be about \$2 billion. With this amount of funding, it should be possible to make six-year primary education open to 15 million poor children and to reduce currently excessive levels of infant, child, and maternal morbidity and mortality in poor areas by at least a third.

The report also urged the government to revise its poor-area development assistance programs, which are coordinated by the Leading Group for the Economic Development of Poor Areas (LGEDPA),

so that they include only those projects that generate reasonable market-determined returns on investment.

Safety net. The Ministry of Civil Affairs provides disaster relief and income maintenance support and coordinates the distribution of relief grain with the Ministry of Commerce Grain Bureau. The State Education Commission and the Ministry of Public Health administer some special programs to improve the education and health status of the poor. The Agricultural Bank of China and several other banks offer subsidized loans for "poor-area development" programs through a variety of funds administered by provincial bank branches and their networks of country and lower-level banks. The Regional Office of the State Planning Commission administers a Food-for-Work Program that assists with the construction of roads, drinking water systems, irrigation works, and other capital construction in poor areas. In addition, each of twenty-seven central ministries and agencies has its own special poor-area project, and every province has its own specially funded programs.

Poverty strategy. The emphasis on economic development programs in poor areas was the main feature of the poverty alleviation strategy adopted during the Seventh Five Year Plan (1986-90). Subsequently the Eighth Five Year Plan (1991-95) takes the strategy a step farther by increasing the assistance given to the very poor who live in the worst physical environments. It also aims to integrate disparate programs in such areas as education, health, family planning, and transport into comprehensive local intervention packages.

Achieving further reductions in the number of people living in absolute poverty will be a more difficult task than it was in the early 1980s. However, because the poor in China are no longer spread out across the country but are found in pockets of remote, resource-deficient areas, it is now easier, in both practical and fiscal terms, to target them. The task will also be aided by a reduction in rural underemployment during the 1990s. The LGEDPA was established in 1986 in part to provide more coherence to the many poverty reduction initiatives and to expedite economic development in the poor areas. It has emerged as the principal advocate of China's rural poor. To maximize the potential beneficial effect of this development on poverty, how-

ever, it is essential that migration of surplus labor from poor areas to more prosperous areas be facilitated. In addition, the government will be strengthening the LGEDPA, the institution responsible for implementing explicit poverty alleviation programs.

Although they are not easy to find, real opportunities do exist for improving agricultural productivity in upland areas and, thus, the incomes of those that live there. Thus, one of the immediate challenges facing the government is to restructure its rural development programs in these areas to include only those agricultural, rural enterprise, road, and transport infrastructure projects that gen-

erate returns to investment as determined by the free market. Nevertheless, the government must recognize that there is a limit to what can be achieved through these programs.

Statistical system. In the next phase of the poverty reduction strategy, the government will be concentrating on establishing an independent and objective monitoring system to ensure that the data on the location of the poor and the incidence of poverty are accurate and up to date. Fortunately, the State Statistical Bureau has both the necessary data and skills to undertake this task.

Costa Rica: Poverty Assessment Summary

Poverty profile. According to the report, Costa Rica has reached a relatively advanced stage of social development, having achieved significant increases in real income and a substantial reduction in poverty. All indicators—literacy rates, infant and child mortality rates, life expectancy, health care coverage, the nutritional status of children, and sanitation conditions—are ahead of those of most Latin American and Caribbean countries. Nevertheless, the probability of being poor is approximately twice as high in rural than in urban areas, and the number of poor is also greater in rural areas. The total number of poor (“critical” and “extreme”) amounts to roughly half a million people (or about 100,000 families). The distribution of “extreme” versus “critical” poverty in rural and urban areas is fairly similar, each representing about 50 percent of all poor. As a percentage of the overall population, the critically poor represent 8.6 percent and the extreme poor 10.9 percent.

The main causes of poverty are lack of education, lack of work, and large family size. Sixty percent of the members of poor households (who are older than age ten) have less than a complete primary education, compared to only 33 percent of nonpoor household members. The illiteracy rate for the population aged over fifteen is about 7.5 percent. The percentage of poor households in which no family member is working is 25 percent, although in nonpoor households this figure is only about 6 percent. Last, half of poor households have more than six members compared to one-fourth of nonpoor households. An examination of other characteristics of living conditions, such as access to basic social services (for example, health and water and sanitation), shows no striking differences between the two groups.

Incentive and regulatory framework. This improvement in social welfare has been achieved after several decades of continuous economic progress, and the pace at which the social sectors have developed has followed closely the pace of economic growth. Costa Rica’s economy grew rapidly during the 1960s and early 1970s, with GDP growth rates averaging about 5.5 percent per year. This allowed significant improvements to be made in the social sectors, which in turn effectively reduced poverty. Infant mortality rates decreased by 70 percent and

crude death rates by 60 percent. Enrollment at pre-schools rose from 12 percent in 1960 to 98 percent in 1989. Primary education also increased significantly, and secondary enrollment more than doubled. In contrast, in the early 1980s progress in social welfare slackened, and the country faced the most severe recession in its history. For several years, GDP declined, and past expansionary policies resulted in high inflation, which increased fiscal deficits and balance of payments problems. Successive governments were forced to concentrate on stabilization and adjustment and were diverted from making social development efforts. Also during the 1980s there was an influx of refugees (some 40,000) from neighboring war-torn countries. This immigration further strained the economy since the refugees were typically poor, in bad health, and had little education or work experience.

Public expenditures. Costa Rica has one of the highest rates of social expenditures as a share of GDP in Latin America and the Caribbean. Including social security contributions, public expenditures in the social sectors rose steadily through the 1960s and 1970s, reaching about 20 percent of GDP and representing over 50 percent of total government expenditures. Moreover, per capita spending was even higher than these figures would indicate since GDP was growing rapidly. In terms of the distribution of these expenditures across sectors, there was a distinct bias toward the health and nutrition programs. Despite past accomplishments, the economic crisis of the 1980s led to a sharp reduction in overall public spending, with most cuts occurring in the social sectors and in public investment. Reestablishing and continuing social programs will depend on the government’s ability to deal with the limitations of the economy.

Safety net. Social programs in Costa Rica explicitly address equitable distribution and are geared toward serving broad target groups. Total benefits are fairly evenly distributed among income strata. Schemes targeting the most vulnerable among the poor are few, however, and are mostly confined to health and nutrition programs. The report pointed out that most programs in health are not cost-effective. Administrative inefficiencies and cost overruns impede their potential per capita benefits and are a financial burden. Nutrition schemes suffer from targeting errors, and the allocation of re-

sources within target groups is not optimal. The targets also tend to exclude the most needy. This is also the case in infant nutrition and lactating mothers' programs for which it is estimated that over 60 percent of those in need are not reached. At the same time, because of inaccurate targeting the programs benefit individuals who are not in need. For example, 38 percent of the benefits of one particular school-feeding program go to people who are in no danger of being malnourished. Thus, these programs generally have greater social benefits than the average program in the region, but there is room for improvement.

Poverty strategy. The study recommended that more emphasis should be given to increasing opportunities equitably. To achieve this, it recommended removing the differences in financial constraints between socioeconomic groups in order to widen access to primary education. At higher levels there is a need to encourage private sector participation. In the area of health the government should address institutional inefficiencies while ensuring that nutrition programs are targeting beneficiaries carefully and are reaching those in the population who are most at risk and who may have been overlooked in the past (such as children of preschool age). The study also suggested reforming various

aspects of the social security system, including increasing the retirement age and harmonizing the financing, eligibility conditions, and pension schemes. Similarly, it suggested that the salary structure of the public sector be reviewed and that greater efforts be made to address population growth and family planning services. Recently, the government has made some advances in these matters. For example, the social security system has been reformed to reduce the number of existing pension schemes and to increase the retirement age. A National Registry of Beneficiaries system is also being established that will permit the identification, selection, and prioritization of the poor.

Statistical system. The government's database is adequate in terms of availability but not in terms of quality. Household-level surveys are not conducted often, and their scope is not very broad; the last one was limited to questions on population and employment. Other figures have been extrapolated from the most recent census, which was carried out in 1984. To strengthen the distributive impact of social programs, the current government is developing two information systems aimed at providing accurate and up-to-date information and is also implementing a Living Standards Measurement Study.

Ecuador: Poverty Assessment Summary

Poverty profile. Historically, poverty has been widespread and income distribution highly skewed in Ecuador. According to recent estimates, 61 percent of the population live below the poverty line. The incidence of poverty is higher in rural areas (although not well measured). In urban areas, approximately 46 percent of households are classified as living below the poverty line (16 percent of whom fall into the category of the "absolute poor"). Low income groups include a high proportion of the Indian population and of female-headed households. Poverty is also higher among workers in the informal sector, which employs 36 percent of the economically active population. The poorest workers seem to be small farmers, street vendors, craftsmen, and domestic workers. During the oil boom of the 1970s Ecuador made important strides toward improving the performance of the social sectors and ameliorating the plight of the poor. Infant mortality was halved (dropping to a level of 55 per thousand by 1988), primary school enrollment reached 90 percent, life expectancy increased from forty-six years in 1970 to sixty-five in 1988, and the illiteracy rate fell by more than half to 10 percent of the population. Many of those gains, however, were partially lost during the 1980s, a period during which public finances suffered from the onset of the debt crisis, a decline in oil prices, a major earthquake, and a series of climatic shocks.

Incentive and regulatory framework. The inflationary pressures that emerged during the 1980s reduced the real minimum wage during the period by more than 30 percent. There was, however, an improvement in the rural sector in terms of trade because of the real devaluation of the currency, despite continued price controls for agricultural products. One component of the regulatory framework that has had an adverse effect on poverty has been Ecuador's restrictive labor code. These regulations, which reduce employment flexibility, have been partially liberalized in the past year.

Public expenditures. The resource constraints of the 1980s led to a decline in real expenditures per patient and per student, while coverage levels were essentially maintained. Central government social sector expenditures had stabilized at around 5 percent of GDP in the early 1980s but declined to 4.2

percent in 1990 because of budgetary constraints. One of the basic problems afflicting both the health and education sectors is a deterioration in quality. Also, approximately 20 percent of the population (mostly the rural poor) still do not have access to adequate medical services. The distribution of public expenditures in health is fairly even, with 50 percent of the expenditures being devoted to 40 percent of the beneficiaries, although less than 20 percent is for basic health care. Educational expenditures are distributed even more equitably, although there is a bias on a per pupil basis toward secondary and higher education. Educational coverage in Ecuador, especially in the primary sector, is high.

Besides direct social sector expenditures, the government also extends considerable subsidies to all income groups by maintaining low prices for publicly provided goods, especially in the energy sector. These subsidies, which were significantly reduced recently, amounted to more than 5 percent of GDP. They were often justified on the grounds that they protected and benefited lower income and vulnerable groups. Although a portion of the subsidies reach these groups, most of the subsidies benefited middle- and upper-income groups.

Safety net. Ecuador does not have a comprehensive safety net program. Instead, it has a series of small targeted programs, especially those run by the Ministry of Social Welfare. They include nutrition programs, an integrated rural development program, and child care services, but these programs are not well coordinated.

Poverty strategy. The government's strategy is to expand the coverage of its social programs in poor areas, particularly in rural and marginal urban areas, and to rely more on communities and nongovernment organizations for delivery of services. The government is also interested in establishing a social emergency fund to offset the impact of recent stabilization measures on the poor. This strategy is being supported by the Bank, especially in the areas of rural development and the health sector, with particular emphasis on improving basic health care in poor areas. However, greater efforts are needed to improve efficiency and to eliminate waste while strengthening public sector decisionmaking and management. Greater priority must be given to using social sector programs as

instruments for reducing poverty while ensuring that they are provided with sufficient funding to improve the quality of services provided. This could be partially accomplished by reforming (or increasing cost recovery for) programs that mainly benefit higher-income groups, such as curative hospital care and higher education. At the same time, targeted programs should be designed to shield lower-income groups from the effects of the recent elimination of energy subsidies.

Statistical system. As is the case in many other developing countries, Ecuador lacks a comprehens-

ive survey of living standards. The primary sources of information are the census and periodic household surveys, the latest of which covered 10,000 households. Although efforts have been made over the last few years to identify low-income regions for targeting purposes, the government should now consider establishing a better system for gathering data. Its goal should be to obtain information of a quality and reliability consistent with the Living Standards Measurement Studies—in other words, based on consumption levels that include in-kind and nonmarket transfers.

Egypt: Poverty Assessment Summary

Poverty profile. The report found that 20 to 25 percent of Egyptian households today are poor, despite a wide-ranging, long-term government commitment to social development and the eradication of poverty. The plight of the poor has been worsening in the face of a rapid population expansion, a deteriorating economy, and mounting pressures on public resources. Most of the poor—landless farmers and the self-employed—are located in Upper Egypt, where rural poverty is linked to agriculture. The bottom 10 percent of the rural population depend on transfer payments for 50 to 60 percent of their income. The urban poor are in industrial employment or services, particularly the lowest ranks of government. The poor include one-fourth to one-third of Egyptian youth and a large proportion of women, especially widows, the elderly, and female heads of household.

Although food security generally is adequate, as measured in per capita calorie intake, food distribution remains poor across and within households. Malnutrition has increased in the last twenty years, and heavy market distortions persist. Overall, illness and death rates have improved, but progress is uneven. Health services are strongly biased toward urban centers and curative services. Rural areas and lower-income groups lag behind. High infant mortality rates continue to reflect gender and income discrepancies. In education, despite increasing enrollments at all levels, educational expansion has not kept pace with population growth, and illiteracy is still widespread, especially in the case of women (62 percent compared with 38 percent for men) and the very poor.

Incentive and regulatory framework. The report pointed to growing unemployment as a symptom of distortions in the labor and financial markets. The public sector suffers from overstaffing. The guarantee of employment that the government gives to university graduates, plus an administered wage system, has resulted in the separation of earnings from productivity or real market conditions and have created significant barriers to labor mobility. Rural poverty and unemployment can be traced to a lack of access to productive assets, such as land, and to the paucity of alternative sources of steady income. The report's major recommendations hinge on improving the access of the poor to income-

generating opportunities. This would be aided by increasing the extent to which the economy is governed by the workings of the free market because at this time legal incentives for private investment and free capital market activity remain stifled. Breaking down the public sector monopoly on low-cost capital would facilitate private entrepreneurs' access to capital and would lead to further job creation. Flexible wages are needed to encourage labor mobility from low- to high-productivity jobs and to curtail "masked" unemployment in the civil service and the illegal but widespread provision of retraining, career counseling, and employment services. Aided by the extension of credit facilities, technical assistance, and management training, income-earning opportunities in small or medium-size enterprises should also increase.

Public expenditures. Egypt's second Five Year Plan (1987 through 1992) reiterates the government's "responsibility for meeting the basic needs of the population." It earmarks 28 percent of public expenditures for the social sectors, up from 22 percent in the first Five Year Plan. The report focused on the benefits that this spending will have on human resources development. The report also drew attention, however, to the pervasive problem of resource misallocation in health and nutrition expenditures and to the need to expand and improve spending on education. Moreover, the report pointed out that targeted groups—females and the very poor—are not being reached effectively. Because Egypt needs to upgrade its human resources base and to reorient the skills of its labor force toward a more market-based economy, priorities in education should be to strengthen universal primary education, to improve the quality of teachers and curriculum, to improve and decentralize planning and management, and to diversify sources of financial support.

Safety net. Egypt's extensive social welfare system (social security and other pension schemes) is aimed at the nonworking poor, but evidence suggests that despite an extended reach, there is a shortfall in coverage for the most vulnerable groups. The main problems in implementing programs are the inefficient targeting of beneficiaries and a sharp erosion of the real value of cash benefits. In addition, there are long-term concerns regarding the financial sustainability of the programs and the quality of their overall management. These pro-

grams are supplemented by a wide-ranging network of food, energy, and transport subsidies, which have a considerable impact on the poor. The report concluded that a sharper poverty focus is necessary, by limiting subsidies to only the most essential food items that have been determined to have direct nutritional effects.

Poverty strategy. Given the heterogeneity of the poor in Egypt, a diversified approach to reducing poverty is needed. The strategy should combine a welfare approach for the ultra-poor who depend on income transfers with an economic approach for the chronically poor who are engaged in economic activity but have insufficient earnings. Also, the strategy must emphasize human capital formation for those poor who will be hurt by the economic restructuring and for whom access to health care, education, and employment creation is crucial. The report stressed the need for long- and short-term

measures to achieve sustainable development. In sum, the government should aim to increase income-earning opportunities, to improve the equity and cost-effectiveness of public expenditures in health and education, and to target all secondary income transfers more equitably and efficiently.

Statistical system. There is a lack of household data in Egypt, and the last national census (1986) remains the main source of statistical information. More detailed profiles can be obtained from various sector surveys, such as household expenditure or national nutrition surveys, and from estimates produced by the Central Agency for Public Mobilization and Statistics. But it is still difficult to get data that include uniform measurement criteria and sufficiently comprehensive breakdowns by income group, region, or gender. A database is being compiled to facilitate targeting.

India: Poverty Assessment Summary

Poverty profile. The report found that the poorest of the rural poor are landless agricultural laborers and smallholders, concentrated in areas of low agricultural potential with limited irrigation. Non-farm activities also account for an important share of the income of the rural poor. The urban poor rely on small or informal businesses or on employment in manufacturing.

Incentive and regulatory framework. The study found that agricultural growth will be insufficient to absorb all potential new entrants into rural labor markets, and thus it identifies growth in industrial employment as a key priority for future poverty reduction. The study identified the macroeconomic policies most likely to promote employment growth (which are also consistent with other macroeconomic objectives) and examined the impediments to that growth at the sectoral level.

Public expenditures. The assessment reviewed social sector outlays, although the division of expenditures between the central government and states and across sectoral programs made this analysis very difficult. The available data suggested, however, that public resources devoted to health and education were not used effectively. Furthermore, the data suggested that it was the inefficient use, rather than the total amount, of resources allocated to the social sectors that was the main reason for the low health and educational status of much of India's population—compared to the populations of other developing countries that have raised life expectancy and literacy levels. The allocation of funds across states and among and within sectors has not been consistent with demonstrated needs of the poor. Social spending remains well below average in those states with the lowest health and education indicators. Moreover, general health and education expenditures have been losing ground to various specific welfare schemes, although not to services that have notably benefited the poor.

Safety net. Significant problems were identified in the major safety net programs—the public food distribution system and the national employment schemes. The public distribution system has high costs, weak targeting, and a strong urban bias. The national employment schemes have a small positive impact on the incomes of poor households but have

achieved only relatively low coverage in some very poor states. Many of the works that were financed were found to be incomplete or poorly maintained. It was concluded that some aspects of the safety net programs would have to be reformed in order to reach the poor more effectively, such as what wage level should be paid, whether work should be offered seasonally, in emergencies, or throughout the year, and whether work should be guaranteed.

Poverty strategy. For the groups considered to be “generally” poor (as opposed to “ultra” poor), the report presented a coordinated approach that spans different sectors and levels of the economy. The first priority is creating employment and improving the efficiency of labor markets by removing regulatory and protectionist biases in the industrial sector, by easing restrictive employment retrenchment codes, and by eliminating small business protection schemes that constrain growth. The report proposed using shifts in irrigation patterns, extension improvements, and research on crops with low water requirements to improve agricultural yields. Improving human capital by decentralizing the delivery of population, health, nutrition, and education services is an important complementary activity. Recognizing the special problems of the ultra-poor, the report emphasized the need for additional targeted measures, including employment guarantee schemes, nutritional programs, and increased provision of credit with which to buy productive assets.

Statistical system. India has a well-developed statistical system and is a pioneer in the measurement of poverty. Since 1973-74, India has used as a poverty line the expenditure level at which a minimum caloric intake and indispensable nonfood items can be purchased. The poverty line is updated and poverty levels are reestimated by urban or rural composition and by state in each census and sample survey. In reviewing these calculations, Bank staff noted that the results are very sensitive to the techniques used. Different methods of estimating the poverty line can result in quite different conclusions about poverty trends. The Planning Commission method shows a significant decline in the numbers of the poor and in the incidence of poverty, but other measures suggest that although the incidence of poverty has declined, the absolute number of poor is broadly unchanged.

Indonesia: Poverty Assessment Summary

Poverty profile. Indonesia achieved an impressive reduction in poverty during the 1980s despite having to make macroeconomic adjustments in response to external shocks. This decline in poverty has continued through 1990, the most recent year for which household level data are available, and the continued broad-based and rapid growth since 1990 suggests that poverty has continued to decline. The data also show marginal improvements in the distribution of income. However, a large proportion of the population still lives in near-poverty and remains vulnerable to changes in economic conditions. Much of the poverty that remains is now regionally concentrated in parts of Java and the eastern areas of Indonesia. Poverty is also increasingly becoming "hard core" in that it is becoming confined to those who face more than merely economic impediments.

Incentive and regulatory framework. Promoting equitable participation in economic growth requires a broad incentive framework that encourages labor-intensive and export-oriented growth. Within this framework agriculture continues to play an important role as a source of employment and of low-cost food, the main expenditure item for the poor. It is also important to ensure a "level playing field" so that small entrepreneurs are not disadvantaged by policies favoring larger firms or particular regions. Further deregulations in trade and investment policy will be necessary to promote equity goals.

Several sectors are still closed to new investment, in which a small number of firms, often conglomerates, control a large part of the domestic market and tend to be highly protected from international competition by nontariff barriers or high tariffs. The ban on exports of raw and semiprocessed rattan in mid-1988 has been removed but has been replaced by a tax that is prohibitively high. Thus, the main source of income of farmers in several Outer Island provinces continues to be depressed. The prohibitive export tax on sawn timber, levied in late 1989, has driven a number of sawmills out of business. Nor has the recent creation of a monopoly on domestic clove trading helped small farmers to cope with a glut of cloves on the market. A number of other export restrictions on, for example, palm oil, low-grade coffee, and rubber may also reduce the in-

comes of small farmers. These restrictions tend to reduce the farmgate price of crops grown on the Outer Islands while lowering input costs to manufacturers on Java, thereby aggravating interregional disparities.

The development of the Outer Island economies is also impeded by many regulations and restrictions on economic activity at the local level, particularly on inter- and intraprovincial trade. Both central and regional governments levy taxes on the movement of certain goods. Such impediments to trade add to the natural distance and infrastructure constraints in the Outer Islands, making it difficult for remote regions to compete.

Public expenditures. Indonesia's poor have benefited from public expenditures, although there has been little effort at direct targeting. Central government transfers to regional governments under the Instruksi Presiden (INPRES) program have been an important vehicle for creating employment opportunities in depressed areas and have been a major factor in reducing poverty in Indonesia. Recently there has been a sizable expansion of INPRES disbursements, but the allocation rules have not included specific poverty criteria. As a result, the impact on poverty has been no better than the impact a completely untargeted allocation would have had. Policy simulations show that an allocation specifically designed to reduce poverty would have targeted incremental resources to only a few regions and would have nearly doubled the poverty impact. Analyzing the incidence of public spending on the social sectors also shows that there are potentially large gains from restructuring public expenditure patterns to benefit the poor. Although public subsidies for education and health reduce inequality (in the sense that relative income transfers are larger for the poor than for the rich), the poorest 20 percent receive a disproportionately low share of public subsidies in these sectors (15 percent and 13 percent, respectively). Conversely, the richest 20 percent capture a disproportionately large share of public subsidies both in education (29 percent) and health (26 percent). There are, of course, reasons other than poverty reduction to spend public resources on health and education. The challenge is to achieve a more effective balance of expenditures.

Safety net. Energy subsidies for petroleum products, especially kerosene, are an important policy

instrument designed to augment the consumption of the poor. Although they absorb a significant percentage of the budget—more than public expenditures on health—these subsidies are not well targeted. The poorest 20 percent of consumers capture only 8 percent of the kerosene subsidy while the rich absorb nearly four times as much (28 percent). A new development in the safety net is the recent Social Security Law designed to extend mandatory pensions and accident and health insurance coverage to private sector workers. Social security coverage for the formal wage sector is unlikely to help the poor directly but it may enable the government to retarget public subsidies for health care to the poor by shifting the nonpoor out of the public sector.

Poverty strategy. The strategy to achieve further reductions in poverty comprises three key elements: (i) macroeconomic and sectoral policies to sustain rapid and broad-based growth; (ii) targeted interventions to generate income-earning opportunities for the poor; and (iii) improved access to basic social services. Sound macroeconomic policies can stimulate investment in labor-intensive export-oriented production and support investment in infrastructure and the social sectors. This needs to be complemented with policies to enhance the profitability of efficiently manufactured exports; to stimulate food crops, smallholder tree crops, and

nonfood farm activities; to deregulate trade and industry; to remove price controls and regulations inhibiting the efficient diversification of agricultural production; and to develop support services, especially in finance and transport.

Improved access to social services should be supported by measures to restructure public expenditures to achieve better targeting, for instance by exploiting opportunities for price discrimination in charging for public services.

Statistical system. A regular household survey has been in place for twenty years and provides the main database for measuring poverty and for conducting policy analysis. Efforts continue to refine the survey by broadening the coverage of core welfare indicators and deepening the sample size to allow district-level disaggregation of the data. These efforts will be complemented by improvements in the design of sector modules to facilitate policy analysis. In addition, there are plans to increase the access to and the use of the data by accelerating turnaround time and by teaching policy analysis skills to users within the government and universities. These efforts have been supported by technical assistance from the World Bank with UNDP funding. The government is now formulating a proposal to extend this support to consolidate the initiatives already under way.

Malawi: Poverty Assessment Summary

Poverty profile. The Malawi poverty assessment found that the poor in Malawi are predominantly rural, low-productivity agricultural smallholders and plantation laborers, which include at least half of the population. Despite the fact that Malawi has satisfactory economic growth rates, substantial World Bank support, and a sustained commitment to adjustment, the real income of the poor in Malawi has declined since 1980, and social indicators remain among the worst in Africa. The report concluded that Malawi's main productive asset is its labor force. But many in the labor force are poor, with fragile food security and health and limited skills.

Incentive and regulatory framework. The study analyzed the impact on employment of the trade reform and the stabilization program and found that nonprice structural factors continue to impede effective poverty reduction. These obstacles include investment and regulatory controls, financial market imperfections, inadequate human resources development, and labor market imperfections. Because these factors inhibit the private sector from getting involved in Malawi's reform process, they prevent improvements in labor demand and real wages.

Public expenditures. The study assessed overall social sector expenditures and found them to be inadequate for Malawi's human resources development requirements. The study concluded that the intrasectoral allocation of resources is a second, although lesser, concern. Priorities included increasing budgetary allocations beyond levels currently proposed by the government for programs in rural water and primary health and education. The additional resources would be financed by the proceeds from making expenditure cuts in other sectors.

Safety net. A key objective, if a safety net is to be provided, is to find transfers that will improve productivity. The study reviewed the experiences of existing NGO and government programs in preparation or pilot stages. Because it is difficult to identify the more vulnerable groups among the poor and because many of these groups are in rural areas, targeting the poor poses problems of coverage, leakage, and administrative cost. Financing the pro-

grams poses potential tradeoffs with medium-term growth.

The study found hospital- and clinic-based nutrition programs for malnourished children and pregnant and lactating mothers to be the type of program with the most potential for expansion. This is because the basic framework is already in place and tested, the targeting mechanism is relatively easy to implement, and the distortions to production incentives are minimal. Further analysis is warranted before determining the desirability of public works programs and other food aid. Increasing the degree to which NGOs are involved with delivering services at the community level should improve the affordability of transfers and the effectiveness of service delivery.

Poverty strategy. Priorities for reducing poverty include expanding employment opportunities, improving the productivity of smallholder agriculture, and enhancing human capital. To improve employment opportunities, the study proposed reforms in urban business licensing—zoning requirements and building and production standards—and in the provision of public utilities. It also proposed reforms to improve the competitiveness of financial markets and to liberalize trade further. More regular revision of the agricultural minimum wage should smooth the adjustments of the labor market to price changes, while reforms of major crop pricing and licensing would benefit smallholders.

To raise the productivity of smallholder agriculture, the study proposed to increase the provision of fertilizer, agricultural credit, and research and extension services for new crops. The study proposed that investments be made in water, in transport, and in agricultural technology that would save labor and, hence, address the labor constraints on female-headed households.

Expanding access to family planning services and complementary investments in human resources, particularly in primary education, will also be vital in raising agricultural productivity and improving social indicators. Because the effects of these reforms will not be immediate, the study also recommended introducing a program of temporary income transfers.

Statistical system. Because no comprehensive household data are available in Malawi, the study

uses an amalgam of agricultural surveys, employer surveys, and other indicators to measure and analyze poverty. Preparations to introduce a regular household survey instrument under the SDA pro-

gram are under way. An important element of the process at this stage is to illustrate the value and importance of these data to the government and to put in place the requisite institutional support.

Malaysia: Poverty Assessment Summary

Poverty profile. In Peninsular Malaysia, household poverty incidence has declined by 34 percentage points over the last two decades, from 49.3 percent in 1970 to 15.3 percent in 1989. Meanwhile, the incidence of hardcore poverty (defined as income less than half the poverty line) has declined from 16 percent in 1973 to 2.4 percent in 1989. However, this encouraging trend masks the fact that different regions of the country exhibit a considerable range of poverty incidence—for example, from 11.2 percent in Peninsular Malaysia to as high as 31.9 percent in Sabah.

In the early 1970s poverty tended to be concentrated among paddy farmers, fishermen, and rubber smallholders. In 1973 more than half the rural population was poor, but by 1987 this had dropped to 24.7 percent. Economic growth enabled many people to move out of low-productivity jobs into higher-productivity jobs that paid more, thus lifting them out of poverty.

The ethnic dimension of poverty is very important in Malaysia, and achievement on this front is also impressive. In 1973 poverty incidence among the Malays was nearly 60 percent, but by 1989 it had fallen to 23 percent. Similarly, hardcore poverty incidence among the Malays fell from 25.3 percent to 3.8 percent.

Incentives and regulatory framework. Given Malaysia's success in eradicating poverty, the appropriate question is which regulatory and macroeconomic policies played the most crucial roles. Malaysia's success in reducing poverty can be thought of as the outcome of a development strategy that saw growth and equity as complementary and not as a tradeoff. This strategy led to policies that strengthened both aggregate demand and aggregate supply. Demand was increased by pursuing macroeconomic stability and by strengthening domestic and foreign investment. Supply was strengthened by investing in education for both males and females. This resulted in a long period of sustained growth and created the employment opportunities that allowed people (in particular, Malay women) to move out of low- and into high-productivity jobs. The strengthening of competition (through privatization and further deregulation) and growth in productivity are now the main points of emphasis of Malaysia's poverty reduction strategy.

Public expenditures. Broadly speaking, four categories of public expenditures helped to reduce poverty: (i) health care (including the availability of potable water); (ii) education; (iii) public programs for generating employment (including employment in public enterprises); and (iv) agriculture and rural uplift (including infrastructure). Health care and education programs were particularly successful. Malaysia now enjoys an infant mortality rate of fourteen per thousand and a life expectancy of seventy-three years for females and sixty for males. Ninety-three percent of the urban and 69 percent of the rural population have access to safe water. The primary school enrollment rate is 99 percent, and more remarkably, the gender and ethnic disparities in the number of completed years of schooling have disappeared. An assessment of Malaysia's public expenditures on health and on primary and secondary education carried out in the last economic report, *Malaysia: Fiscal Reform for Stable Growth* (Report 10120, April 1992), shows that these expenditures are, if anything, even better targeted now than they were in the past.

Public employment, which was very important in the 1970s and the early 1980s for absorbing the newly educated poor, now matters less. Most new jobs are being created in the private sector (in manufacturing and services).

Another important antipoverty strategy pursued under the New Economic Policies (NEP) was the settlement and development of new land. Between 1986-90, the last phase of the NEP, agricultural programs aimed at reducing poverty received M\$7.6 billion or 55.7 percent of the total expenditure on poverty reduction. It is estimated that about 40 percent of this was directly channeled to the poor, 31.8 percent benefited the poor indirectly, and the balance was spent on buildings and administration costs.

Institutions. The success of Malaysia's poverty eradication programs is indicative that the institutional capacity exists to formulate and execute policies and to deliver services.

Safety net. None exist (other than sustained economic growth in an open setting).

Poverty strategy. In the 1990s the nature and dimension of the poverty problem have altered radically. The overall incidence of poverty has sharply

declined, to approximately 15 percent by 1989, and the poverty gap—the income that would be needed to bring all the poor above the poverty line—has declined from about 6 percent of GNP in 1970 to less than 1 percent at present. Preliminary estimates suggest that even if perfect targeting could be achieved, only M\$500 million would be needed to bring the income of the poor in the Peninsula above the poverty threshold, while M\$59 million would be needed to relieve all hardcore poverty.

This reduction in poverty has two fundamental implications. First, the magnitude of the problem is small enough to be taken care of through direct income transfer programs, which include provision of goods and services to vulnerable groups (children, the elderly, pregnant women). Second, membership in one of the existing target groups is no longer a cost-efficient way of identifying a poor household. In recognition of this, the government is establishing a master list of hardcore poor households.

But experience in Malaysia and other countries suggests that basing such a list on income, as is currently planned, is difficult, and establishing an accurate and up-to-date list can become very expensive. An alternative approach would be to base it on easily observable household characteristics—such as housing roof material, quality of water supply and other amenities, and location—that are closely correlated with the income measure of poverty. Such an approach would benefit the hardcore poor

the most. Several such schemes have successfully completed pilot phases (for example, Project Ikhtiar), thus demonstrating their viability. This change of focus in the poverty reduction strategy will make it possible for agricultural programs (such as Federal Land Development Authority [FELDA]) to be put on a commercial basis, allowing funds to be diverted from explicit and hidden government subsidies to the new antipoverty programs.

It is important to note that these successes in reducing poverty could not have come about without the presence of stable macroeconomic conditions conducive to high investment rates and smooth structural change. The extent of the achievement is attributable not just to targeted government programs but also to factors such as: first, the spread of universal primary education, which boosted mean real incomes by about 30 percent; second, overall capital deepening in the economy, which raised the marginal product of unskilled labor at an estimated rate of 1 percent per year, or a cumulative 22 percent between 1970 and 1990; and third, structural change, which created higher-productivity jobs outside agriculture.

Statistical system. Malaysia has a very good statistical base for poverty assessment work. Household Income Surveys are done quite regularly. Data are available for surveys carried out in 1973, 1984, 1987, and 1989. Their coverage and quality are excellent.

Mexico: Poverty Assessment Summary

Poverty profile. The report found that approximately 20 percent of Mexicans are very poor. The study suggests that poverty is primarily a rural phenomenon; the majority of the poor (nearly 70 percent) and the poorest among them reside in rural areas. The very poor—whether urban or rural—have the largest families, the highest dependency ratios, and the lowest levels of education. Most depend on agriculture for their livelihood; almost 40 percent of the poorest heads of household work in rural areas (primarily as self-employed, small-scale agricultural producers), and an additional 21 percent work as agricultural laborers.

Incentive and regulatory framework. The study found that poverty in Mexico is exacerbated by policies and institutional structures that generate market outcomes that undervalue the resources owned by the poor. Regulations and land tenure institutions in agriculture, in particular, have hurt the rural poor by lowering the return to their land, reducing the demand for labor in rural areas, and impeding labor mobility. Rural-urban imbalances in resource allocation have further contributed to worsening income disparities. Over the past six years, Mexico has successfully removed many of the biases that discriminate against the poor. By stabilizing, liberalizing, and privatizing the economy, the government has set the stage for a period of sustained economic growth that should generate more plentiful and more lucrative employment opportunities for all. However, if poverty reduction is to be sustained, further institutional reform will be necessary, particularly in agriculture where progress to date has been more limited. Recent government efforts in this area have focused on restructuring the rural financial system, partially liberalizing output pricing, and reforming the land tenure—*ejido*—system. Nevertheless, the prices of key agricultural goods—particularly of maize—remain distorted. The heavy protection granted to maize producers benefits medium- and large-scale farmers but harms the rural poor, who subsist largely on this staple.

Public expenditures. The study concluded that despite the fiscal discipline imposed by the macroeconomic stabilization program, more resources are being channeled to the poor more effectively than

in the past. The two key improvements in this regard are the replacement of generalized price subsidies by targeted programs and a renewed emphasis on making social and infrastructure investments in poor regions. A major recent development has been the introduction of the Programa Nacional de Solidaridad (PRONASOL), an umbrella organization that delivers health, nutrition, education, housing, infrastructure, and other productive projects to the poor. An important feature of the program is that it encourages intended beneficiaries to participate in setting priorities. Beneficiaries are also held responsible for results and, in some cases, are expected to contribute financially or with their labor. Although the study found this overall framework for reducing poverty to be appropriate, it identified two issues that remain to be addressed. First, public expenditures for poverty reduction remain biased toward urban areas even though the bulk and the poorest of the poor live in rural areas. Second, there is a substantial group, labeled the extremely poor, whose nutritional and health status needs to be improved before they can be expected to benefit from general programs.

Safety net. In the past, Mexico's efforts to provide a safety net were mostly limited to food subsidies. The report noted that more than half of the budget allocated to this was for untargeted subsidies, the majority of which benefited only those in urban areas. More recently, efforts have turned to providing a more comprehensive safety net that exploits the complementarities among health, nutrition, education, and information services. Two innovative health programs, supported in part by Bank-financed projects, are being implemented on a pilot basis in selected states: (i) the Basic Health Care Project, an integrated program for delivering basic health care services to the poor and uninsured rural population, particularly women and children under five; and (ii) the Nutrition/Health Pilot Project, a project offering joint health care services and food transfers. These interventions are complemented by actions designed to increase the quality of education in poor areas and by a variety of productive projects supported by PRONASOL to increase the employment opportunities of the poor.

Poverty strategy. The report's proposed strategy for reducing poverty drew a distinction between the poor and the very poor. For the former, the report

recommended institutional reforms and allocating public resources to increase the permanent demand for unskilled labor and the returns to land. It also called for efforts to increase the access of the poor to social and physical infrastructure. For the very poor (the poorest 10 to 20 percent of the population), the report proposed directly targeted programs to reduce undernutrition, infant mortality, illness, and fertility. Recognizing the dynamics among interventions, the report recommended integrating the delivery of nutritious food, health care, preventive medicine, and related education.

Statistical system. The report's main source of data is a 1984 nationwide household expenditure survey. The report noted some of the weaknesses of this data source and calls for higher quality and more frequent surveys. A 1989 survey has recently been processed, and the World Bank has begun to analyze it. There is no official definition of the poverty line in Mexico. However, a line of extreme poverty has been constructed from the Coplamar (1983) study of basic needs, which calculated the annual cost of a basket of food that would satisfy the minimum requirements of calories and proteins.

Mozambique: Poverty Assessment Summary

Poverty profile. Mozambique is one of the poorest countries in Sub-Saharan Africa. Poverty is pervasive, and even by the strictest definition of absolute poverty, it affects about 60 percent of the population. Absolute poverty is identified by the level of monthly household income per person below which growth faltering in children is very common or when the cost of a basic monthly food ration equals 50 percent or more of income per person. Including refugees, around two-thirds of the population of Mozambique (more than 10 million people) are estimated to live in absolute poverty. If peace were to be maintained and absolute priority were to be given to poverty reduction, this number could be cut by as much as half.

Several groups of the absolute poor have been identified. Poverty in urban areas is estimated to be 30 to 50 percent. In peri-urban areas between 40 and 60 percent are considered poor. They have limited potential for earning cash income, despite having substantial food purchase requirements. Some 60 percent of the rural population are estimated to fall below the poverty line. These households have limited access to seeds, tools, markets, or goods to buy. One hundred percent of the displaced and 90 percent of those severely affected by the war are expected to be poor. Also, included among the poor are returnees from the mines and other employment in the Republic of South Africa or other neighboring countries who lack access to either land or remunerative employment in Mozambique.

Government policy. The Mozambican government attaches the highest priority to addressing poverty issues and has placed poverty reduction at the core of its macroeconomic program. The government's strategy emphasizes the following four priorities: (i) creating employment and income-generating opportunities; (ii) improving the delivery of basic services; (iii) restoring basic infrastructure; and (iv) providing a safety net of direct and indirect income transfers.

In implementing its strategy, the government is emphasizing the following:

- Ensuring that all public expenditures adequately reflect the need to deal with poverty.
- Targeting programs to vulnerable groups, especially infants, children under five, and women,

in a manner that is cost-effective and culturally appropriate.

- Developing a comprehensive employment generation strategy, targeted to low-income households.
- Building up the capacity of all levels of government (including enlisting NGOs and communities) in the implementation of these initiatives.
- Improving the coordination of ongoing programs so that the limited capacity for implementation is not overloaded.

Reaching small farmers. Emphasis has been put on clearing land for tillage; providing tools, utensils, and other items needed to reestablish homes; developing extension services relevant to small farmers; increasing access to agricultural credit and inputs; revitalizing private trade and marketing channels; rehabilitating feeder road networks; improving village water supply; and increasing access to basic services.

Strengthening basic services. **Health:** The government's immediate attention is focused on rebuilding or rehabilitating health infrastructure for all levels of the system and on revitalizing basic preventive services, including immunization, communicable disease control, and maternal health and family planning. Initiatives to improve the efficiency of health services have already begun, principally to strengthen and decentralize the health maintenance network to increase hospital efficiency at the central and regional hospitals, to strengthen financial management, and to improve the capacity for storage and management of drugs and medical supplies. **Education:** The sectoral priorities are providing education in rural areas, rehabilitating educational infrastructure, improving the quality of teaching, increasing the efficiency of investment, focusing on investment that will increase recurrent costs, and improving the sector's capacity for planning and designing its own projects.

Restoring basic infrastructure. The physical reconstruction and rehabilitation of basic infrastructure is a task of enormous size. In particular, to restore smallholder production and rural trade rapidly, increased emphasis is being put on developing a network of rural feeder roads and on rehabilitating smaller secondary ports. Labor-intensive projects for rehabilitating infrastructure are emphasized.

World Bank assistance strategy. Based on the government's commitment to poverty reduction, the strategy of the World Bank is clearly directed toward the same aim. The Economic Recovery Program (fiscal 1992) emphasizes (i) the redeployment of budgetary expenditures toward key social sectors (primary health, primary and secondary education) and smallholder agriculture; (ii) the reform of agricultural marketing; (iii) the improvement of access to credit by the private sector, including smallholders; and (iv) the provision of direct income transfers to poor households.

The project lending is similarly targeted. The Agricultural Services Rehabilitation and Development project (fiscal 1992) focuses on developing integrated agricultural services and providing assistance to some 130,000 small-scale family farmers producing food crops and cotton in Nampula and Cabo Delgado provinces. It also aims to improve water supply facilities in rural areas. The Rural Rehabilitation project (fiscal 1993) includes the recapitalization of the smallholder sector in four prov-

inces to pre-war levels, the rehabilitation of rural infrastructure, particularly in the smallholder sector, and the construction of community and individual grain stores. It pays particular attention to the land tenure rights of women and includes resettlement support to returning refugees.

Finally, the Second Health project (fiscal 1994) will aim to expand primary health care services as well as to establish and improve health facilities in rural areas.

Statistical system. The absence of sufficient data limits the degree to which it is possible to quantify satisfactorily the extent and depth of poverty in Mozambique. At the time of the report, no recent household survey was available. Since then, the UNDP is carrying out a household budget survey with modules on employment, education, and health. This survey has been completed in Maputo and will now be extended to other provinces. It will collect the necessary information to analyze poverty and living conditions in selected areas of the country.

Nepal: Poverty Assessment Summary

Poverty profile. The report estimated that about 40 percent of the Nepalese population live in absolute poverty—in other words, have incomes below the level required to support a minimum daily calorie intake. Rural households, which represent over 80 percent of the population, account for the vast majority of the poor. The poor are overwhelmingly subsistence farmers, earning half their incomes from their own agricultural production, 30 percent from employment (mostly working on farms), and the remainder from miscellaneous subsistence activities.

Incentive and regulatory framework. The study found that the present high population growth and the prevailing demographic profile will translate into a growth in the labor force of about 400,000 people per year—twice the average number during the 1980s. Thus, effective absorption of the labor force will be essential to avoid any deterioration in the present poverty situation. The study, therefore, emphasized that an effective program to slow population growth should be the starting point of any serious efforts to combat poverty. In addition, reducing poverty would also require raising the overall rate of economic growth by increasing agricultural productivity and exploiting the growth potential of other sectors such as services, energy, and light manufacturing, particularly for export.

Public expenditures. The report pointed out that although the composition of public expenditures (which emphasize agriculture and infrastructure, with a reasonable share allocated to the social services) is consistent with a poverty reduction strategy, the absolute level of financing social services is very low on a per capita basis. Institutional and service delivery problems have also seriously undermined the efficient use of available resources in the social sectors, as elsewhere.

In 1987 the government initiated a Basic Needs Program, which was intended to achieve the minimum for all by the year 2000. The program included most of the elements needed for a poverty reduction program, but it concentrated on expanding existing programs without having done a full analysis of which ones worked well and which did not. The program had also set unrealistic targets.

Safety net. Nepal does not have extensive price subsidy and income transfer programs for the poor. Although some programs exist—such as Food for Work, the Nutritious Food Program (supported by World Food Program), and the Joint Nutrition Support Program (under the guidance of UNICEF)—they have had limited success because of poor targeting and the limited capacity of the government to deliver programs effectively. The report, therefore, recommended improving targeting and enhancing the government's capacity to deliver services as ways to increase the benefits reaching the poor.

Poverty strategy. The report pointed out that the poverty reduction strategy in Nepal must include strong public policy measures to curb population growth. It argued that a multifaceted approach should be adopted, including: (i) accelerating the overall growth of the economy by exploiting the potential in tourism, hydropower, and services; (ii) promoting labor-absorbing measures to increase employment in other sectors; (iii) improving agricultural productivity, especially among smallholders, which should also help in increasing employment in agriculture; (iv) introducing measures that would allow the poor to help themselves by equipping them with education and skills; and (v) providing basic infrastructure. Other actions that should be taken include selected interventions to compensate for the remoteness and seasonal variations in food supply, limited programs for feeding the vulnerable groups, and measures to improve nutritional retention at existing consumption levels.

Statistical issues. The statistical system for measuring poverty is weak. The available information is not adequate to assess the impact of specific measures on the poor and other disadvantaged groups. There is no recent source of information that permits the identification of the poor or an assessment of changes in the poverty situation. The information collected on social and demographic indicators does not provide a basis on which to make judgments on the effectiveness of program or policy initiatives. Few nationally representative household surveys have been done in Nepal, and those that are available either are out of date or have limited coverage.

Pakistan: Poverty Assessment Summary

Poverty profile. Poverty in Pakistan is widespread. It is more prevalent in rural areas than in large cities, with small cities and towns coming somewhere in between. The poor are typically headed by a male breadwinner rather than by a single mother. Poor households are larger than nonpoor households and tend to contain more children below the age of 15 (4.0 versus 1.7 on average) and a larger number of adults (3.6 versus 3.1). Many children in poor households are malnourished; however, this problem is common over a broader spectrum of the population, as almost 60 percent of all children under the age of five have some kind of nutritional deficiency. Infant mortality among the poor is extremely high, with poor settlements reporting rates substantially higher than the national rate of 110 deaths per 1,000 live births. The educational levels of poor households are low; 80 percent of household heads in the lowest expenditure quintile have no formal education. Boys in the poorest 20 percent of the households are less likely to complete primary school than boys in the wealthiest 20 percent of the households by a factor of 40 to 50 percent. These differentials are smaller for girls (but girls have a much lower educational achievement than boys across the whole income range).

The sources of income of poor rural households are diverse. Wage employment is the most important source of income for the rural poor. Only 16 percent of rural households in the bottom quintile of income own any land; on average, poor rural households derive about 30 percent of their income from farming land they own or work as tenants. More family members in poor households work, especially young men, women, and children. Family members of poor households, usually male, often seek more remunerative work outside the home area, either elsewhere in Pakistan or in the Gulf, and they send transfers home. In several poor rural districts about 20 to 30 percent of all households receive remittances covering more than 50 percent of their total expenditure.

Incentive and regulatory framework. This topic was not systematically covered in this poverty assessment.

Public expenditures. This topic was not systematically covered in this poverty assessment. The Bank

conducted several sector studies shortly before the assessment. The conclusions of these studies were used to make recommendations in the assessment concerning the provision of basic public services as part of its recommended poverty reduction strategy.

Safety net. The official safety net program in Pakistan is the Zakat and Ushr program, introduced in 1979 as part of the government's Islamization program. Revenues from Zakat and Ushr taxes are used to assist the needy, particularly orphans, widows, and the disabled. Collected by the government (although completely separated from the budget) and distributed by provincial and local councils for specified purposes, some of the funds are allocated to institutions that benefit the poor (medical, educational, and social welfare institutions) and the rest to individuals. The portion going directly to individuals would better fit the concept of safety net as usually understood; the institutional portion is more akin to public expenditure on basic social services. In addition, there seems to be a large private safety net that provides an important, albeit imperfect, support system to help in emergencies or as a regular income supplement. The program reaches at most 15 to 20 percent of the target population. Subsistence payments are typically very small—accounting for 1 to 2 percent of monthly expenditures for families in a poor section of Karachi for which data were available—and are not necessarily regular.

Poverty strategy. The assessment recommended a three-pronged strategy for reducing poverty. First, there should be sound overall economic policies leading to sustained growth, because expanding employment with rising real wages is the key to reducing poverty for the vast majority of the poor. Second, the government should ensure that basic social services of an adequate minimum standard are being provided. Particular priorities should include increasing primary school enrollments (especially for girls and in rural areas), providing basic health interventions to reduce the high infant and child mortality rate, offering family planning services in all public health clinics, targeting food subsidies to poor mothers and children to reduce malnutrition, and expanding access to

clean potable water and sanitation facilities. Third, the government should take more specific measures to increase the productivity of rural producers, such as widening access to institutional credit, making the pricing of agricultural inputs and outputs more efficient, setting up land distribution programs, and strengthening agricultural

research and extension services to help small farmers to make better use of their inputs.

Statistical system. The assessment did not discuss the adequacy of the country's statistical system from the point of view of the measurement of poverty indicators.

Paraguay: Poverty Assessment Summary

Poverty profile. Preliminary findings on poverty, as assessed in the report, suggest that the social situation in Paraguay is surprisingly good despite the country's relatively low per capita income, although this evaluation may change as more refined and accurate information becomes available. Paraguay is among the countries in Latin America and the Caribbean where income is most evenly distributed and extreme poverty is least widespread. Available estimates show that 22 percent of households receive an income that puts them below the poverty level and 4.2 percent receive one that puts them below the absolute poverty level. Not much is known about the characteristics of the poor, but because half the population live in rural areas, poverty should presumably be significant there. In fact, to reduce the *minifundia* problem in the country's central region (equivalent to fighting poverty in rural areas), the official strategy was to expand colonization programs; some changes to this strategy may soon be needed.

The access to and the coverage of primary education are both nearly universal, repetition rates in primary education are lower, and completion rates in this cycle are higher than in similar countries. Educational quality is low, however, and so is coverage at the secondary level. Life expectancy at birth and infant mortality indicators are more favorable than in countries that have a similar per capita income, but maternal mortality and the incidence of easily controllable diseases (such as goiter, anemia, diarrhea, and parasitic diseases) are high. Chronic malnutrition is lower than in most Latin American countries, with daily caloric and protein intakes exceeding minimum requirements. Sanitation and sewerage services are, however, among the least adequate on the continent.

Incentive and regulatory framework. Government intervention is minimal, which means that there are few distortions in the relative prices of goods and factors. This also means that the public sector is small and that tax rates are correspondingly low. Price controls are few and often meaningless and although a high minimum wage is set by law, it is not enforced. The economy is actually almost fully open although not always through formal channels (smuggling is widespread on items carrying high tariffs). As a result, unemployment does not appear

to be a big problem. The public sector is overstaffed but small and pays low wages; thus, distortions stemming from public employment are small. Fortunately, many existing formal regulations are unenforced, because if they were, the consequences would be serious. Therefore, a key concern is that these regulations should be changed to reflect what actually happens. But important regulations that would be worthwhile enforcing are also meaningless. Public institutions are weak, which reflects to some extent the limited role that the government plays in the economy.

Public expenditures. Indicators that are available are surprisingly good, despite weak public institutions and low public expenditures on the social sectors. Public expenditures on social services declined in the 1980s, from a peak of 2.8 percent of GDP in 1981 at the height of the Itaipu dam construction to 2.3 percent in 1988. This drop was due to lower health expenditures, mainly as a result of the completion of hospital construction. This share went up afterward, however, and reached more than 2.9 percent of GDP in 1990 as a result of higher expenditures on housing and education, particularly primary education.

Nevertheless, the level of public expenditures allocated to the social sectors has not been the key factor in bringing about these encouragingly low poverty statistics. The crucial factor seems to have been a strong reliance on community participation, which has made it possible to deliver social services effectively and inexpensively. There are areas, however, where substantial improvements could be achieved for only modest outlays, among them improvements in primary education quality, in maternal care, and in nutritional habits. Other key areas that need to be addressed (but that will be more expensive to deal with) are secondary education coverage and the need for better sanitation and sewerage services in rural and urban communities, including the capital city.

Safety net. There is no safety net in Paraguay. Social security is not widespread, and low public expenditures are of little help to the most vulnerable groups. However, because the economy has few price or wage distortions and the tax burden is very low, the macroeconomic adjustments that were in response to the crisis of the 1980s have been carried out more quickly and have apparently been easier

to endure than has been the case in other Latin American countries. Given that the poverty assessment, which was carried out after almost a decade of reductions in per capita income (per capita GDP was 6 percent lower in 1989 than in 1981), was favorable in its conclusions, this speaks well of the simple and inexpensive system of fighting poverty in Paraguay.

Poverty strategy. There has been no formal or explicit strategy for fighting poverty. Instead, at the aggregate level authorities have concentrated on providing a distortion-free macroeconomic environment with little government intervention and a small public sector. In rural areas an ambitious colonization program has been in place for several decades whereby rich agricultural lands in eastern Paraguay that were once publicly owned have been turned over to landless peasants. These actions have reduced migration to the cities and have helped to keep poverty under control.

The poverty problem has not been eradicated, however. Landless peasants are still numerous, and since there are no more public lands available in eastern Paraguay, the "poverty strategy" may need

to be revised. To reduce poverty, the Bank has recommended increasing the quality of primary education and coverage in secondary education (at the expense of public spending on higher education), increasing maternity care and the control of easily preventable diseases (at the expense of further construction of big new hospitals), developing public information campaigns on proper nutritional habits, and increasing water and sewerage coverage in urban and rural areas (accompanied by proper tariff policies on the services provided).

Statistical system. The existing information base on poverty is far from satisfactory, and the data that do exist are often contradictory. Therefore, the conclusions of the assessment may change as better data become available. Important new information is now being processed. An excellent household survey carried out by the Central Bank in 1991, which includes detailed information on social indicators (such as housing, health, and education), and a well-planned population and housing census carried out in 1992 helped to improve both the process of identifying pockets of poverty and the characteristics of the poor.

Peru: Poverty Assessment Summary

Poverty profile. Households are classified as extremely poor if their total expenditures are less than the cost of a basic food basket. Households are classified as poor if their total expenditures are less than the cost of a basic food basket plus an estimate of nonfood expenditures. About half of the population surveyed in 1991 fell below the higher of the two poverty lines, and a fifth fell below the lower cutoff. Among the four regions sampled, the incidence of poverty is highest in the rural sierra. About 66 percent of the households there are poor, and 47 percent are extremely poor.

The typical poor person lives in a larger household than a typical nonpoor person. Each worker in a poor household supports four family members. For the nonpoor, the equivalent number is three. Poverty is particularly high among the indigenous population.

The poor are found largely among two occupational groups—the self-employed and private sector workers. Working in agriculture is positively associated with poverty. The relatively high incidence of poverty in Peru has been a chronic problem for some time, and the situation deteriorated further during the latter part of the 1980s as a result of the economic crisis.

Incentive and regulatory framework. One of the legacies of Peru's poor economic performance is the persistence of high poverty levels in some regions and among some ethnic groups and the decline in the living standards of others. Until now, the macroeconomic stability, administrative framework, and incentive structure conducive to growth were absent. In August 1990 the Fujimori administration launched an orthodox and sweeping stabilization and structural reform program. These reforms aim to promote competitiveness and deregulate economic activity. Several reforms are crucial for poverty reduction. Peru's ability to reverse the sharp decline in tax revenues lies at the heart of the restoration of fiscal balance. It is also vital in order to guarantee the government's ability to provide basic services in the long run.

Growth in urban employment and wages is a major determinant of the pace of poverty reduction. Greater neutrality in the trade regime can support a more labor-intensive pattern of industry. The government has moved quickly and boldly to liberalize

the trade regime, but additional actions are needed to ensure that factors of production are free to respond to market forces.

Public expenditures. The public resources available for social services have become scarcer with the sharp drop in overall government expenditures during the last five years. The decline is explained by several factors, including the severe recession and the near disappearance of the country's tax system. Although the social sectors have been protected from the more extreme reductions experienced in other sectors, Peru still spends less than its neighbors in these areas.

In education, there has been an impressive expansion in primary enrollments. However, this was coupled with a decline in expenditure per student and an exodus of trained teachers. Internal efficiency is low as is the quality of pre-primary education. In addition, there are wide disparities in educational attainment and efficiency within the country. The lack of supplies and poor teaching practices are particular problems in multigrade schools in rural areas. Another concern is the persistence of a relatively high rate of illiteracy because little progress has been made in rural areas and among women. Data show that children of poor families begin school at a later age than children of nonpoor families. Also, a larger proportion of the children of the poorest families never attend school or drop out early. One of the factors behind the relatively high repetition rates for children from poorer households is lower attendance at kindergarten.

In health, in spite of an expansion in primary care infrastructure, Peru has some of the worst indicators on the continent. Many health problems could be improved with more concerted efforts in primary health care. The full benefits of the network of primary care facilities are not being realized because of a scarcity of equipment, poor distribution of personnel, and low expenditures on the programs. Thus, the quality of services provided is not adequate. Vaccination coverage among children is low, particularly among the poor and in the rural sierra.

Safety net. Food assistance to the urban poor is widespread and generally well targeted in Lima. It represents an important source of consumption for poor households. In other areas of the country,

however—where most of the extremely poor live—these transfers account for a negligible percentage of the household expenditures of the poor. Also, it is likely that the absence of complementary health and nutrition promotion activities lessens the nutritional impact of the food assistance that is provided. Nongovernmental organizations play an important role in Peru in providing social assistance.

Poverty strategy. Improvements in access to and quality of public services, particularly education, are needed to reduce extreme poverty. These programs should target the rural sierra and the indigenous population. These households are also at greater risk for poor health because they lack clean water and sanitation. Nevertheless, the poor (as opposed to the extremely poor) have relatively good access to public services. Their households are

poor because they are in low-paying, low-productivity jobs in the private or informal sector or are unemployed. They need more productive jobs to raise their expenditures above the poverty level, and they are relatively well-equipped to take advantage of employment opportunities. The implementation of the economic reform program and the liberalization of the labor market are the most important measures to take to reduce poverty for this group.

Statistical system. The quality of data in Peru is relatively good. There is capacity and experience in both the public and private sector to carry out and analyze household expenditure surveys. Since 1985-86, four Living Standards Measurement Surveys have been carried out, although two covered only Lima.

Philippines: Poverty Assessment Summary

Poverty profile. The report found that about 30 percent of families in the Philippines lived below the poverty line in 1988, but fewer than 9 percent of these fell below a minimum subsistence line. These percentages have been slowly improving over time, despite the fact that according to the National Income Accounts, personal income growth has been negative in real terms since the early 1970s. The real wages of urban unskilled workers have also declined. The government's commitment to social development and poverty eradication is partly responsible for these improvements in poverty indicators, but the poor (especially retirees, the unemployed, and female-headed households) have benefited significantly from rapid urbanization, from transfers from family workers, from a complex network of private relationships, and from productivity and price gains for traditional crops.

Poverty is considered to be largely a problem of underemployment and low productivity rather than of open unemployment. Income distribution is comparable to or better than that in other low middle-income countries. Most of the poor (more than 80 percent) are found in rural areas; many of them work as self-employed rice, corn, and coconut farmers and fishermen, but nonagricultural seasonal work is also an important income source for the poor.

There are fewer poor people in urban areas, but they are susceptible to specific health hazards such as high levels of fertility, malnutrition (especially in pregnant and lactating women), infectious diseases, and other consequences of urban pollution and slum growth. Both urban and rural poverty are worst in regions outside the national capital region.

Incentive and regulatory framework. The report identified the absence of any structural shift from self employment toward wage-paying jobs as a key correlate of poverty. This is attributed to low demand for wage labor because of minimum wage legislation that is effectively enforced in the formal sector and to a bias in the trade and investment incentive regime toward large firms that have also been the most capital intensive. This has been compounded by a macroeconomic strategy that has accommodated an appreciated peso in order to reduce the costs of debt service and to keep fiscal balances under control. As the poor produce trad-

ables and receive significant transfers from abroad, they are adversely affected by real exchange rate appreciation directly, as well as indirectly, because jobs are lost as competitiveness declines. Recent structural reforms have significantly reduced the bias toward large firms, however, and have made the exchange rate into a market-determined price. The poor should benefit as firms adapt to this new situation. The labor market has yet to be reformed, although for the past two years real minimum wages have been allowed to erode with inflation.

In rural areas, poverty has been associated with an unequal distribution of land, although less so than in Indonesia and Thailand. Population pressures have led, however, to growing migration to upland areas and to overexploitation of natural resources, which has led to soil erosion, deforestation, overfishing, and the destruction of fragile mangrove ecosystems. Policies have been established to rationalize natural resource use, including large increases in forestry charges, but these need to be implemented more vigorously. Land reform is not seen as a major means of reducing poverty in the medium term. Some of the land involved is already farmed by squatters, and so no additional assets would be transferred to the poor. Legalizing their land rights will allow, however, for greater investment in the land over time.

Another element of the land program involves the government's purchasing land from private owners at fair market prices, again with a limited net asset transfer to the poor.

Public taxes and expenditures. Despite being heavily reliant on indirect taxes, the tax burden in the Philippines is fairly evenly distributed across income deciles. It could and should be made more progressive. The problem lies in tax administration rather than with the structure of taxes. Only about 50 percent of personal and business income taxes are collected; improving this percentage would have both revenue and equity benefits.

Public expenditures on social services have been protected throughout the economic crises of the last decade, and the poor are significant beneficiaries of public expenditures in the aggregate because the expenditures are targeted toward poorer regions and selected low-income municipalities. The private sector also contributes significantly in providing both education and health services. As has been true for some time, indicators of literacy, life expect-

tancy, and infant mortality remain better in the Philippines than in other countries, adjusting for per capita income levels.

In education, the structure of public expenditures is sound, with the bulk of the budget going to primary education while the private sector dominates the provision of tertiary education. The poor, however, do not benefit from the education system as much as they might; rates of return are lowered by high drop-out and repetition rates for children from poor families. Public secondary education also suffers from high unit costs and lower quality, compared with the private sector. Thus, quality and access remain key issues.

Important increases in public health expenditures have been made over the past six years, but these have largely been offset by reductions in private spending. There has been a shift, however, from preventive to curative services in the budget, which has had an adverse impact on the incidence of health expenditures. Some areas remain neglected, including nutrition programs (especially provision of iron, vitamin A, and iodine supplements), family planning, and women's health. Health risks from urban pollution are also growing but have been neglected in government programs. Better targeting would refocus health expenditures in a more cost-effective way.

In all the social sectors, establishing the relative roles of the public and private sectors and a clear set of regulations within which the private sector can operate is vital as is mobilizing more financial resources from the private sector and from NGOs.

Safety net. The public safety net is not very well developed. How much it benefits the most vulnerable groups is questionable. Several broad-based programs, including social security, which accounts for a significant fraction of welfare services, are not certain to benefit the poor because of the extensive role played by private transfers. If private transfers decline as public transfers rise, the benefits will be shared by private transfer givers. Other programs, such as those benefiting sugar workers, have uncertain horizontal equity implications in that rice and corn farmers and coastal fishermen may be equally disadvantaged and unable to have access to the same benefits. Food ration shops run by the National Food Authority are found mostly in urban areas where few truly indigent groups are to be found. In the end

the public safety net is likely to remain fragile, given present budgetary circumstances. Private safety nets compensate to a certain degree, but for now the government's efforts to reduce poverty should focus on encouraging overall growth and employment.

Poverty strategy. The strategy in place in the Philippines includes both broad-based growth and specific targeted interventions to support the poor. They would benefit significantly from a development strategy that would generate more wage-paying jobs. Some aspects of the broad-based growth strategy are already in place, including macroeconomic stability, internationally competitive prices, market exchange rates, transportation deregulation and decentralization, and a focus on primary health care and primary education.

Priorities for what remains to be done include reforming taxes, restructuring public employment, reforming energy pricing and institutions, rehabilitating existing transport infrastructure, and deepening capital markets, including reforming social security policies and restructuring the Central Bank. In addition, at least three groups need special attention—the indigent, those who are at risk because of natural resource degradation, and those who are at risk from environmental pollution or other health hazards. Measures that should be supported include: (i) low-cost activities such as nutritional supplements, especially iodine, vitamin A, and iron to benefit mainly the indigent; (ii) birth-based targeting and women's health; (iii) environmental projects to clean up water in cities and to improve the health of the urban poor; (iv) improved disaster preparedness; and (v) the substitution of narrow- for broad-based targeting.

Statistical system. Household data in the Philippines are processed with considerable delay, and major discrepancies exist between poverty measures based on income and those based on expenditure. The Consumer Price Index (CPI) is not a good reflection of the consumption basket of the poor, so it is difficult to compare whether the real poverty line is being held constant over time. The official poverty line is sharply overestimated in comparison to neighboring countries because it includes a much higher proportion of higher-value foods in the supply of total calories and allows for a higher proportion of nonfood expenditures.

Venezuela: Poverty Assessment Summary

Poverty profile. Poverty in Venezuela is primarily an urban phenomenon, given that nearly 85 percent of the total population of the country live in urban areas. Three-quarters of the poor are urban dwellers, and the incidence of poverty in this group is about 50 percent. Of particular concern are the desperate conditions of the majority of residents in the squatter settlements that surround the major cities. However, the incidence of poverty is higher in rural areas (75 percent). Poverty is strongly correlated with illiteracy, low educational attainment, poor health, and malnutrition. Female-headed households are more prevalent in the poorer segments of the population, particularly in urban areas where one-third of the households in extreme poverty are headed by women. Poor households are larger but contain fewer working members than non-poor households.

Incentive and regulatory framework. For fifteen years after the 1973-74 oil price increases, Venezuela lived on the rents generated from oil revenues instead of on the proceeds of growth in productive capacity. The economy also became highly regulated. The reform program introduced in 1989 was designed to transform the economy from one based on the consumption of oil rents to one based on growth in productive activities. Under this program, the economy began to be deregulated, and fundamental exchange, trade, financial, and fiscal reforms were introduced. A poverty assessment update to be carried out in fiscal 1993 will evaluate the impact on poverty reduction of both short- and long-term economic management and of current government policies affecting the pattern of growth, labor demand, and asset accumulation by the poor.

Public expenditure. Through the mid-1980s, Venezuela devoted relatively large proportions of its public expenditures to the social sectors as compared to those spent by other middle-income countries. During the first half of the 1980s, spending on education and health (excluding social security) averaged nearly 8 percent of GDP. However, since then expenditures have fallen to the equivalent of only slightly over 5 percent of GDP in 1989. Moreover, the share of the health and education budgets allocated to basic services appears to have declined. In the late

1980s, basic education accounted for only 30 percent of the education budget. In the case of health, preventive medicine represented only 15 percent of the budget in 1987.

Although social indicators have improved, the level of achievement is far less than what might be expected of a country with one of the highest GNPs per capita in Latin America and the Caribbean. Some indicators are typical of those expected in a low-income country, and they have deteriorated in recent years, particularly those related to the nutritional status of the most vulnerable groups—infants, children under the age of six, and pregnant and nursing mothers. Also, cases of endemic diseases have increased dramatically in recent years. Given Venezuela's relatively high social expenditures, the appropriateness and efficiency of spending must come into question. Although some of these issues are partly addressed by the government's poverty reduction strategy, greater attention should be paid to improving the efficiency of traditional social services.

Public health expenditures are significantly biased toward curative and hospital care at the expense of preventive and primary care. The lack of efficiency prevalent in the sector undermines the effectiveness of both. Similarly, the share of personnel expenditures has increased substantially at the expense of operations and maintenance, resulting in the deterioration of facilities and a lack of complementary inputs such as drugs and consumables. Overhead expenditures have also increased at the expense of medical attention, environmental and disease control, and disease prevention. The result of these trends is a low quality of service, a lack of necessary medical supplies, and inequitable access to service.

Public education also suffers from inefficiency, inequity, and poor quality. Public funding is heavily skewed toward higher education. Free university education amounts to a large subsidy to students from middle- and higher-income households, who make up the majority of university students. At lower levels of education, rates of repetition, drop-out, and non-attendance are high, particularly for children from rural and marginal urban areas. Part of the reason for this is the deterioration in the quality of education.

Safety net. The government has introduced several innovative safety net programs. Four of the

most prominent are: (i) the *Beca Alimentaria*, a nutritional program that provides a direct cash subsidy to families of school children living in low-income areas; (ii) *Salud Materno-Infantil (SMI)*, a maternal and child health feeding program that aims to expand primary health coverage by distributing food to vulnerable groups seeking preventive health care (mainly pregnant and nursing women and children under the age of six); (iii) *Hogares de Cuidado Diario*, a community-based daycare program for children of working mothers in low-income neighborhoods; and (iv) a preschool expansion program targeted to poor rural and urban areas. Initial results indicate that these programs are proving to be relatively effective in reaching their target groups, and some have been expanded beyond their initial plans. In the case of the SMI, demand for primary health care services has increased sixfold in the areas covered by the program, resulting in an increase in coverage of the maternal-infant population from 12.5 percent in 1988 to 60 percent in 1991.

Poverty strategy. The Government of Venezuela has adopted a national poverty reduction plan that includes specific measures to eliminate general food subsidies in favor of programs targeted to lower income groups, to strengthen existing social services, particularly those designed to benefit the most vulnerable groups, and to increase the role of the private sector in service delivery. Despite these promising measures, however, several issues are not addressed. Most of the poverty reduction programs are new and tend to fall outside the traditional social service channels. Consequently, health, nutrition, and education services continue to be highly inefficient and have not yet incorporated

some of the fundamental principles of targeting and cost effectiveness that have driven the new programs.

A second phase of the strategy should be developed to improve the effectiveness and quality of established social services. Some of the measures required include improving the targeting and administrative efficiency in nutrition programs; re-allocating education expenditures toward basic education; and in health, increasing funding for preventive services, for expanding care in underserved regions, and for improving the quality and efficiency of hospital services. The government is beginning to make efforts to control endemic diseases, to reform hospital management, and to improve basic education.

Statistical system. Although Venezuela has a system of household surveys, they have not been used to monitor social programs or to inform social policy on a regular basis. Consequently, the government has recently decided to enhance its system of monitoring social conditions, based on the approach developed by the World Bank's Living Standards Measurement Study. This builds on the existing household survey, incorporating new sections on, for example, health (including women's reproductive health, children's health, breast feeding, and fertility), education, income and expenditures, and anthropometrics. The results from the first revised survey that was carried out in late 1991-early 1992 are being processed. The results of this and future surveys will be analyzed regularly by working groups with members from research institutes and from those institutions in charge of formulating and implementing social policies and programs.

Annex E. Selected Country Economic and Sector Work, Fiscal 1992

A great deal of poverty analysis exists other than that contained in the poverty assessments. Most studies produced by the Bank are country specific and thus have served as a basis for lending in many countries. Studies have typically prepared poverty profiles or analyzed single topics, mainly food security and agricultural issues, human resources development, and, to a lesser extent, population, environment, and women in development issues. Some poverty analysis is in the country economic memorandums and in the public expenditure reviews, but most analysis is contained in sectoral reports. (See table E-1 for a selected list of poverty-focused economic and sector tasks.)

Poverty Trends and Profiles

In the East Asia and the Pacific and Latin America and the Caribbean regions, fairly detailed studies of the trends in poverty and social indicators up to the end of the 1980s have been prepared, covering most countries in the two regions. In the Sub-Saharan Africa region, poverty profiles have been prepared for six countries for which household data are available, including Côte d'Ivoire, Ghana, Guinea, Guinea-Bissau, Mauritania, and Rwanda, and in Chad a profile was prepared for the capital city. Poverty-related information has also been included in about sixteen country assessments. These will provide the basis for future poverty assessments. In a few cases, the country assessments have analyzed the impact of policy reforms on the poor. Also, many studies have been done on the conditions for women. In Latin America and the Caribbean, for example, one study examined gender discrimination in labor markets. Similar country assessments on women in development have been prepared for seventeen countries in Sub-Saharan Africa.

Sectoral Studies

Poverty-related issues have been addressed in a large number of sectoral studies, most of which

concentrate on food security, human resources development issues, agriculture, and the environment. *Food security studies* have been prepared for twenty countries in Sub-Saharan Africa. These studies are important sources of measures of poverty incidence because each provides rough estimates of the percentage of the population with sufficient income to meet its food needs. In Mozambique, for instance, the food insecure are identified as those who are dependent on the government's rationing scheme, and in Nigeria it was found that 22 percent of urban households and 17 percent of rural households are food insecure. In Rwanda, one report outlined the dimensions of food security in the country and served as a basis for the Food Security and Social Action Project (fiscal 1992). In addition, two Sub-Saharan Africa regional studies addressed ways to improve the effectiveness of food aid and to prepare an agenda for actions to be taken in response to disasters.

During fiscal 1992 about fifty *social sector reviews* of education, health, population, and nutrition were completed. Overall they examined the provision of basic services, which gave them an implicit focus on poverty although they were rarely based on household and community data. The strongest reports based their analysis on a poverty profile classifying the poor by gender, region, and nutrition, among other criteria. One example was a Côte d'Ivoire study, which analyzed Living Standards Study data and found that the existing distribution of social expenditures had few benefits for the poor and that the situation of the poor deteriorated over the survey period (1985-87).

A few common themes can be identified. First, many of the studies address the composition of spending—which often favors the nonpoor—and the need to expand financing, including increasing private-sector provision. This is the case in Nigeria, where a study on health care emphasized the need to encourage the complementary role of private-

sector provision of services, especially to higher income groups, so as to release public resources to finance basic services.

Second, the reports identify ways to improve the access to and the quality of services in neglected areas. For instance, a report for the Republic of Yemen recommends training female health care workers as a means of decentralizing and improving the access to and the quality of health care, especially for women.

Third, the reports consider ways to reduce gender differences in access to services. The Women's Reproductive Health Report for Brazil, for example, recommended that women in particular be targeted to receive basic health services since they currently receive a disproportionately low share of available health resources. Several reports specifically addressed *targeting* and *safety net* issues. These issues are particularly predominant in analysis in Eastern Europe and in the countries of the former Soviet Union for which the studies addressed the need to move from universal social support toward creating more targeted safety nets that protect the most vulnerable groups.

A recent study from the Latin American and the Caribbean region, *From Platitudes to Practice: Targeting Social Programs in Latin America*, found that targeted programs are much more progressive than general food price subsidies and even somewhat more progressive than primary health and primary education. It also concluded that the costs of targeting are quite small (on average about 1 percent of the total program costs) and that there is not a single most effective targeting mechanism. In addition, the report identified relatively simple ways to improve targeting, such as targeting programs to poor municipalities or using existing health or school programs to identify those who are poor or nutritionally at risk.

Some studies examined *food subsidy policies*. Recent sector work in Algeria and Tunisia, for example, found that generalized food price subsidies favored the nonpoor, and this led to their reduction in favor of more targeted interventions. A recent food policy review in Bangladesh recommended reforming the way the price of rice is stabilized so that there is less price variability, which is especially hard on the poor. The report also suggested expanding self-targeted programs (such as food-for-work) to offer a range of activities beyond the construction

of rural infrastructure, which typically benefits men, to include women and children.

Some reports addressed a variety of agricultural and environmental topics. A recent regional report for Sub-Saharan Africa examined the interrelationship between poor agricultural performance, rapid population growth, and environmental degradation in creating and perpetuating poverty in the region. In India, a forthcoming study will examine ways of encouraging sustainable agricultural practices in rainfed areas (which are among the poorest areas in India) and of counteracting the disincentives to rational land use brought about by poverty. The study will also develop a strategy for Bank investment in rainfed agriculture.

Public Expenditure Reviews

Public expenditure reviews (PERS) are an important part of the Bank's country economic analysis. They can help assess the effectiveness of existing expenditures in reducing poverty and in redirecting resources in ways that will enhance the economic opportunities of the poor and their capacity to take advantage of such opportunities. A review of PERS completed during the past three years has concluded that for the most part their treatment of poverty is limited. However, they do analyze social expenditure allocations, and many recommend increasing the coverage and quality of certain social services by taking measures such as reallocating resources from higher education and curative health care to primary education and preventive health care. For example, a study on Bangladesh examined the incidence of social sector expenditures and targeted government programs such as credit and food-for-work programs, and a report on Indonesia analyzed the role of public expenditures in reducing poverty.

Most PERS do not examine the incidence of public expenditures for the social sectors or analyze how other types of public expenditures (such as physical infrastructure investments, consumer and producer subsidies, and other targeted programs) can contribute to reducing poverty. At the same time, social sector expenditure reviews cover the impact of social expenditures on poverty more frequently, and it would be helpful if their findings could be routinely integrated into the PERS.

Table E-1. Selected Poverty-focused Economic and Sector Tasks, Fiscal 1992

East Asia and the Pacific	
Malaysia	Fiscal Reform for Stable Growth
Papua New Guinea	Agriculture Sector Review
Viet Nam	Population and Health Sector Review
Europe and Central Asia	
Hungary	CEM Social Policy and Distribution
Poland	Income Support and Social Safety Net Health Sector Review Social Expenditure Review
Romania	Accelerating the Transition: Human Resources Strategies for the 1990s Identifying Needs for Social Protection in Romania: A Constrained Empirical Analysis
Turkey	Agricultural Environment Study Women in Development
Ukraine	Employment, Social Protection, and Social Spending in the Transition to a Market Economy
Regional	Women's Employment in Eastern Europe
Latin America and the Caribbean	
Brazil	Addressing Nutritional Problems
Guatemala	Health and Nutrition Sector Study
Nicaragua	Social Sector Study
Regional	Feeding Latin America's Children: An Analytic Study of Food Programs Women's Employment and Pay in Latin America
Middle East and North Africa	
Algeria	Consumer Price Subsidy
Morocco	Health Insurance Social Services and Recurrent Costs
South Asia	
Bangladesh	Food Policy Development in Population and Family Planning Small and Cottage Industry
India	Education Finance Health Finance Small-scale Industry Women's Health
Pakistan	Access of the Poor to Basic Services in Pakistan
Sub-Saharan Africa	
Cape Verde	Environmental Strategy Paper
Ethiopia	Food Security
Mauritania	Food Security/Nutrition
Niger	Food Security
Sahel	Drug Policies Education Strategy
Senegal	Health Finance
Uganda	Public Investment Review Strengthening District Management

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