An Effective Strategy for Poverty Reduction

Plenary Address to the International Development Conference on “Overcoming Poverty: Global Priority”

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Poverty Overview

While substantial progress has been made over the past generation, the statistics on poverty continue to shock. About 1.1 billion people are struggling to survive on less than a dollar a day. Largely as a result of high population growth rates in the developing world, this number could increase to 1.3 billion by the end of the decade.

Today, in Sub-Saharan Africa, one child in every six dies before the age of five; in South Asia, barely a third of adult women can read or write; 3 million children in the developing countries die each year simply because they lack access to clean water.

East Asia is the only region where both the proportion and number of people in poverty have been reduced: from a third of the population in 1970 to 10 percent today.

While South Asia has also had some success in reducing the proportion of people in poverty, the actual number has increased—and the region still accounts for about half the world’s poor.

In recent years, both the proportion and the number of poor people have increased in Sub-Saharan Africa, in the Middle East and North Africa, and in Latin America. The fastest increase in poverty occurred in Sub-Saharan Africa, with the number of poor people increasing at roughly the same rate as population growth.

Poverty is also on the rise in the countries of Eastern Europe and the former Soviet Union. Average per capita income fell last year by about 20 percent. In countries such as Albania, Bulgaria, Georgia, and Romania, the reduction in living standards may have been even greater.

A Pro-Poor Strategy

None of us can claim that our understanding of the complexities of the poverty problem is complete. But we know enough to reduce poverty more effectively than in the past.

There is a solid body of evidence—based on diverse regional and country experience—which suggests that a “two-track” strategy is required: sustain-
able economic growth; and investment in people. The two “tracks” are mutually reinforcing; one without the other is not enough.

No country has managed to reduce poverty or make long-term social progress without sustained growth. Experience also indicates, however, that the pattern of growth is as important as the rate. Efficient, labor-intensive growth which provides employment and income for the poor is the most effective way to reduce poverty.

For example: Brazil’s average per capita income tripled between 1960 and 1980—and a third of the population moved out of poverty. Indonesia’s average per capita income, over a comparable period (1971-87), grew by less than half that of Brazil—but the poverty reduction achieved was even greater (over 40 percent).

It was the pattern of growth that made the difference. Indonesia’s growth was largely based on efficient agricultural development in which the majority of the poor could use their main asset—their labor—and thus increase their incomes. By contrast, Brazil’s growth was based on a capital-intensive industrial strategy that did not involve as many poor people.

China and Malaysia are other cases where substantial reductions in poverty have been achieved through the broad participation of the poor in rural economic growth. Thailand, on the other hand, while achieving as high a growth rate as its East Asian neighbors, did not have the same success in reducing poverty—because growth was not sufficiently broad-based.

The lesson is clear: to make the most direct attack on poverty, countries must not only pursue growth—but pursue a pattern of growth which specifically encourages efficient employment for the poor and thus increases their income.

With their current growth patterns, the economies of Sub-Saharan Africa would need to grow by about 5 percent per year to reduce the number of people in poverty. That is significantly higher than the average population growth rate of about 3 percent. This underscores the need to change the pattern of growth so that the incomes of the poor grow at least as fast, if not faster, than average incomes—resulting in more poverty reduction for a given rate of income growth.
Policies shape this “pro-poor” pattern: freeing the price of agricultural products can substantially benefit the poor, many of whom are producers in rural areas. Removing constraints on labor demand, such as restrictions on labor mobility and the subsidization of capital, can also give a major boost to employment prospects for the poor. Investing in infrastructure, extension, and efficient services are also important in helping increase the productivity of the poor.

These kinds of policy measures—many of them associated with economic adjustment—are both pro-growth and pro-poor.

Even with the right pattern of growth, however, it can take time for everyone to participate—and some may suffer in the transition. Social funds, compensation schemes, retraining, public work programs, and other forms of safety nets must be a part of growth-oriented reform programs.

Just as important as growth, there must be investment in people—the second “track” of the pro-poor strategy. Investments in people enable the poor to participate in the growth of the economy—and the evidence is compelling that education, health, and nutrition have a very high pay-off in terms of poverty reduction.

East Asia has reduced its infant mortality rate by nearly two-thirds since 1965; primary school enrollment has increased by almost 50 percent. Combined with sustained income growth, this has resulted in the proportion of people in poverty being reduced by about one percentage point every year for the past 20 years. This underscores the importance of investment in basic health and education.

Population policies are also important for poverty reduction. Each year, the world’s population grows by 100 million people; in some of the world’s poorest countries—particularly in Sub-Saharan Africa—it will double within the next two decades. Increasing investment in family planning, education, and health is critical to slowing this trend.

Giving women increased access to education is one of the most effective ways of not only reducing fertility rates, but also improving family health and productivity. In fact, getting more girls into school is probably the single most effective anti-poverty policy in the developing world today.
Increasing social expenditures is essential for poverty reduction. But it is not enough. Improving the efficiency and effectiveness of those expenditures is equally important. Indeed, improving quality is often more important than increasing quantity. Better focusing of expenditures is also essential: on rural areas, where most of the poor live, rather than cities; on primary education, from which the majority of the poor can benefit, rather than universities; and on low-cost rural health centers rather than expensive urban hospitals.

Evidence from countries such as Malaysia and Indonesia—where the Bank has recently completed studies of social expenditures—shows that the poor benefit most from the broad targeting of basic services such as primary schools and health centers.

At the same time, narrower methods of targeting are needed to help reach particularly vulnerable groups: health and nutrition programs for mothers and infants; feeding programs for victims of drought or famine; safety nets for the sick, the old, and the disabled. Self-targeting schemes, in which the poor choose to participate, but the better-off do not, can also be effective—subsidizing foods which only the very poor are likely to eat, for example.

**Poverty and the Environment**

Protecting the environment is also important for the strategy's effectiveness. The poor are both victims and agents of environmental damage.

A third of the world's population—1.7 billion people—lack access to adequate sanitation. Hundreds of millions of poor people are exposed to large quantities of indoor soot and smoke every day. Poor farmers are often forced to cultivate erosion-prone hillsides and fragile forest lands.

In short, the most common environmental problems hit the poor hardest. These problems can often be effectively tackled by building upon the links between economic growth, poverty reduction, and environmental protection.

Providing clean water, sanitation, and agricultural extension is good for growth and good for the environment; removing energy subsidies can help make economies competitive and discourage overuse of natural resources; clarifying property rights can empower farmers and encourage better land management.
Again, the real issue here is the pattern of development. It must involve and benefit the poor—and it must be sustainable.

We are making a strong effort at the World Bank to place sustainability at the center of our work. Bank-financed projects now include an up-front environmental assessment; our support for research and extension, energy conservation, pollution control, clean water, and sanitation is increasing; and we are assisting the low-income countries with the preparation of National Environmental Action Plans. With the UNDP and UNEP, the Bank is also a principal supporter of the Global Environment Facility.

Reducing poverty requires protecting the environment. Equally, protecting the environment requires growth and poverty reduction.

The Bank's Role in Reducing Poverty

The Bank has had a longstanding commitment to poverty reduction. We are now intensifying that commitment, increasingly linking our assistance to the strength of a government's effort to reduce poverty. This is particularly the case in our poorest member countries which receive assistance from our concessional affiliate, IDA (the International Development Association).

Our approach is evolving around the "two track" strategy: supporting a pro-poor pattern of growth, and investing in people.

To help implement the strategy, we are working with each of our borrowers on comprehensive national poverty assessments which address three basic issues: Who is poor? Why are they poor? What needs to be done to reduce the number of poor? The assessments then form the basis of action plans designed to reduce poverty.

In China, for example, the assessment found that the poor are concentrated in resource-deficient parts of the interior provinces—thus requiring a carefully targeted anti-poverty program. In India, the assessment concluded that more broad-based structural reforms were needed to promote growth and stimulate labor demand. In Malawi, an increase in social expenditures was deemed a priority. And in Russia, the emphasis is on restructuring the social safety net to cope with rapidly increasing unemployment.
Through our country assistance programs, the Bank helps to support these kinds of programs and policies which favor the poor. Our adjustment lending, for example, is increasingly focused not only on promoting growth, but also on restructuring public expenditures toward basic social services. Recent adjustment loans to Côte d'Ivoire, Uganda, Morocco, and Bangladesh have been tied to maintaining or increasing expenditures on social services.

At the same time, the Bank's lending for population, health, and nutrition has tripled over the last five years; for primary education, it doubled. Our social sector lending is projected to reach an annual average of about $5 billion over the next three years.

**Aspects Requiring More Emphasis**

I have focussed on the two central elements of a pro-poor strategy: the pattern of growth, and investment in the productivity of the poor. In implementing this strategy, however, there are other aspects which also require our attention if we are to be successful:

- **First,** we need to listen more—and listen more carefully—to the poor. Their participation, ownership, and involvement lead to more effective and sustainable development. First and foremost, it is a government's responsibility to ensure that its citizens are fully involved in the development decisions which affect their lives. But donors and outside agencies can help to encourage participation. At the Bank, we are giving increasing emphasis to participatory approaches.

- **Second,** we need to take account of the linkages between poverty and governance issues—accountability, transparency, and adherence to the rule of law. We have to recognize that corruption, unjustified military spending, and civil strife often divert governments' attention and resources from development—with particularly adverse effects for the poor.

- **Third,** we must greatly strengthen partnerships: among developing country governments, NGOs, bilateral donors, the UN system, and the Bretton Woods institutions. We all share the same goal. We can achieve it more effectively by pulling together around the same broad strategy.
Finally, we need to improve our measurement and tracking of poverty. Poverty assessments, and studies being undertaken at the household level, should help to provide more reliable data. Better information and evaluation should help us to incorporate lessons learned and improve the implementation of anti-poverty programs. This, in turn, should help ensure better on-the-ground results—which are what really count.

Action Now

No task should command a higher priority for the world's policymakers than that of reducing poverty. In this last decade of the 20th century, it remains a problem of staggering dimensions. And yet, despite the difficulties, the principal elements of an effective strategy are well known.

It is our joint responsibility to implement that strategy—and it is time for more determined action.