Education and Social Policy Department
The World Bank
October 1993
ESP Discussion Paper Series
No. 15

Country Policies for Poverty Reduction
A Review of Poverty Assessments

Julia Dayton
Aziz Khan
Helena Ribe
Marc Schneider

SUMMARY

1. This paper reviews and summarizes the findings and recommendations of 30 poverty assessments. It analyzes the three principal parts of a poverty assessment — the poverty profile, the analysis of country policies and institutions, and the recommended strategy to reduce poverty.

Poverty Profile

2. A poverty profile that provides a clear understanding of the extent and nature of poverty in a given country as well as a complete description of the economic and social characteristics of the poor can act as a guide in selecting the main policies and institutions to be included in the analysis. The majority of the poverty assessments prepared an adequate profile of the poor. This generally included establishing a poverty line, measuring the incidence of poverty, describing the characteristics of the poor, determining the correlates of poverty and estimating poverty trends.

3. The concept of absolute poverty is preferable to that of relative poverty for comparative analysis, and 25 of the 30 poverty assessments used an absolute poverty line as a basis for assessing poverty. There are no unique guidelines on how to define a poverty line, and where the line is finally drawn is not as significant as clearly understanding and documenting how its underlying methodology will ultimately influence policy analysis and the design of strategies to reduce poverty. Once the poverty line is established, the next step is to measure the depth and severity of poverty. Most of the assessments limited their estimates of poverty incidence to the headcount index and only a few also used the poverty gap index and the weighted poverty gap index. The profile then describes the poor, including their characteristics, location and main sources of income. Finally, the poverty profile analyzes the correlates of poverty (e.g. income and social indicators) and estimates trends in poverty. Only about one-third of the assessments included information on the correlates and trends in poverty.

Assessing Country Policies and Institutions

4. The main objective of assessing country policies and institutions is to ascertain how consistent they are with the goal of reducing poverty. The 30 poverty assessments reviewed a wide range of policies and institutions that affect the poor, including those that influence broad-based growth, help to develop human resources and establish effective safety nets that protect the most vulnerable members of society.

5. Scope of analysis. 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 cover the main problems identified in the poverty profile. The aim is to determine — on the basis of the poverty profile -- which policies and institutions most constrain poverty reduction and to decide the extent to which the analysis should cover macro or sectoral policy issues. Accordingly, poverty assessments that contain a broad-based treatment of poverty tend to fall into one of two categories, depending on the nature of poverty in the country. In countries where poverty is widespread, the analysis typically covers a wide range of policies. Where poverty is more narrowly concentrated in certain areas or sectors, the focus is mainly on specific policies or programs that affect the poor in those areas.

6. While most of the assessments did a reasonable job of evaluating those policies and institutions that prevent efficient growth and labor demand, very few identified the ones that

discriminate against the poor more directly. Overall, there are four topics of analysis that could be improved in future assessment work: (i) the evaluation of the adequacy and viability of possible policy options; (ii) the impact of specific reforms on particular groups among the poor; (iii) the incidence and composition of public expenditures, especially outside the social sectors; and (iv) the role of the labor markets in reducing poverty.

7. Policy prescriptions. Many of the poverty assessments made policy recommendations that covered the regulatory and incentive environment, the development of human resources and the re-orientation of public spending in favor of basic social services and physical infrastructure. Few, however, took the next step to analyze the potential impact of the reforms on the poor (identifying the winners and the losers) or to discuss how obstacles to implementation, such as political opposition and lack of administrative capacity, could be overcome.

Country Poverty Strategies

8. The overall objective of a poverty assessment is to recommend a strategy of policy and institutional reforms to reduce poverty. The strategy should convey a clear sense of its likely impact on poverty and identify tradeoffs among possible policy options.

9. Impact on poverty. In general, there are two criteria for assessing the effectiveness of a poverty assessment. One way is to determine whether its analysis conveys a sense that the proposed strategy is addressing the main poverty problems in the country and that, if implemented, it is likely to have a significant impact on poverty. Overall, the assessments that developed a sound poverty profile and analyzed key policies and programs recommended a strategy that convincingly addressed the main poverty issues in the country. The assessments can be classified into three categories depending on the nature of poverty in the country and the scope of the analysis:

- One group of assessments, for 18 countries in which poverty is widespread, recommended strategies that encompassed a broad range of policies and institutions. These assessments typically analyzed macroeconomic and sectoral policy within the context of the poverty profile and were able to identify the general impact of policy reforms on the poor and to suggest poverty reduction strategies.

- The second category of reports is for countries where poverty is more localized. It includes the assessments for China and Malaysia, which addressed policy and institutional issues in the areas or sectors where the poor are concentrated.

- The third category consists of nine assessments that covered primarily social sector policies and programs. It is not clear from the analysis in some of these reports whether a wider range of policies that affect the poor also needs to be addressed.

10. Influence on the Bank's country assistance strategies. Another way to measure the effectiveness of a poverty assessment is to examine how the assessment has influenced the Bank's country assistance strategy. This is difficult to quantify and, in many cases, it is too soon to make a judgement.

11. A review of assessments that were completed before June 1992 indicated that, if a poverty assessment exists for a given country, it is more likely that the country assistance strategy will have a significant poverty orientation. In nine countries for which a poverty assessment was done prior

to or at the same time as the country assistance strategy was developed, poverty issues were discussed at some length in the assistance strategy. Those assessments that contained a detailed poverty profile and relevant policy analysis had the most impact on the country assistance strategy, including a poverty-focused policy dialogue and a shift in the composition of lending toward more poverty-focused interventions. For example, the country assistance strategies for India, Mexico, Malawi and Morocco have benefitted from the analysis in the poverty assessment and, thus, focus more explicitly on poverty reduction.

Country Policies for Poverty Reduction

A Review of Poverty Assessments

Table of Contents

Note: This report draws on the findings of two papers by Aziz Rahman Khan: *A Review of World Bank's Poverty Assessments and their Impact on the Country Strategies* and *A Review of World Bank's Recent (FY93) Poverty Assessments*. It also draws on the report *Implementing the World Bank's Strategy to Reduce Poverty: Progress and Challenges (1993)*. Guidelines for developing the components of a poverty assessment (measuring poverty, assessing country policies and institutions, and designing country poverty strategies) are based on the principles set forth in the *Poverty Reduction Handbook* and *Operational Directive 4.15: Poverty Reduction*. This paper was edited by Fiona Mackintosh and Melinda Salata.

List of Boxes

Country Policies for Poverty Reduction

A Review of Poverty Assessments

Introduction

1. The analysis of poverty at the World Bank has grown significantly in recent years in terms of both coverage and depth. A poverty assessment is just one aspect of this analysis, and those assessments that have been carried out over the last four years have covered more than 80 percent of the population of all low-income countries and well over 90 percent of the world's absolute poor.

2. Initially, poverty assessments were prepared mainly for countries that had large poor populations. Then, in 1991, a policy paper entitled *Assistance Strategies to Reduce Poverty* and the *Operational Directive 4.15: Poverty Reduction (OD 4.15)* required the Bank to conduct poverty assessments for all borrowing countries.

3. A poverty assessment is intended to provide the basis for collaboration between the World Bank and governments on strategies for reducing poverty. An assessment presents a profile of the poor, analyzes and evaluates country policies and institutions and proposes a poverty reduction strategy. It should also analyze existing data on poverty and recommend ways to improve the data if necessary. The *OD 4.15* and the *Poverty Reduction Handbook (Handbook)*, which was published in 1992, set standards for preparing a poverty assessment and give guidance on how to incorporate its findings into the Bank's country assistance strategy.

4. This paper reviews and summarizes the findings and recommendations of 30 poverty assessments.[1] It has three main sections that analyze the three parts of a poverty assessment — the poverty profile, the analysis of country policies and institutions, and the recommended strategy to reduce poverty. The final section synthesizes the lessons that might be applied to strengthen the effectiveness of future assessments.

I. POVERTY PROFILE

Measuring Poverty

5. Defining poverty. The concept of poverty is usually discussed in either relative or absolute terms. Relative poverty refers to the position of an individual or household in relation to the country's average income level. Absolute poverty refers to the position of an individual or household relative to a standard of living deemed to be a minimum below which one is deprived in some absolute sense in that society. The concept of absolute poverty is preferable for doing comparative analysis, and much of the recent literature (including 25 of the 30 poverty assessments) uses this concept as the basis for assessing poverty. Thus, in the subsequent discussion, poverty is defined in absolute rather than relative terms.

---

[1] Annex 1 presents a list of the 30 poverty assessments reviewed in this paper.

6. Defining the poverty line.[2] The first step in assessing poverty is to establish an absolute measure of the incidence of poverty. Accordingly, the *Poverty Reduction Handbook* and *OD 4.15* recommend using a poverty line — a measure of income or consumption that differentiates the poor from the non-poor. The poverty line should represent the same standard of living across groups or regions within the country and should be adjusted for spatial differences in the cost of living.

Box 1: ***Questions for the Poverty Profile***

A poverty profile provides a clear understanding of the magnitude of poverty as well as a complete description of the economic and social characteristics of the poor. To build a poverty profile, the following questions need to be addressed in as much detail as the data permit:

Measuring Poverty

- How is poverty defined?
- How is the poverty line defined?
- What is the incidence of poverty?
- What is the severity of poverty?

Describing the Poor

- Who are the poor?
- Where are the poor located?
- What are the main sources of income of the poor?

Changes over Time

- What are the key social indicators of the poor and how have they changed over time?
- What are the trends in poverty?

7. There are no unique guidelines on how to define a poverty line. Usually, it is based on income or consumption data, and its location can vary depending on how it is calculated. One widely used method of defining a poverty line is to establish a minimum level of income (consumption) that satisfies a person's basic nutritional needs. What constitutes or satisfies a basic needs basket is debatable. This is because the relationship between nutritional intake and income varies according to differences in taste, activity level, and the share of income a person spends on food and essential non-food items. The main point to recognize is that, however a poverty line is calculated, a certain amount of subjectivity and arbitrariness is inevitable. Often, there will be a range of possible lines over which neither the qualitative poverty picture nor the policy conclusion to be drawn will change. In some cases, the location of the poverty line can influence the policy conclusions, especially if it greatly under- or overestimates the incidence of poverty. It is important to remember that the poverty line is just one element in the overall analysis, and where the line is finally drawn is not as significant as clearly understanding and documenting how its underlying methodology will ultimately influence policy analysis and the design of strategies to reduce poverty.

8. Twenty-five of the poverty assessments used an absolute measure of poverty — usually based on an absolute poverty line.[3] Nineteen of these reports based their line on some minimum nutritional standard or on the cost of a basket of goods that assured a basic level of consumption as recommended by the Food and Agricultural Organization and the World Health Organization.

---

[2] This section draws on work by Martin Ravallion. For a further discussion on the poverty line and poverty measures, see Martin Ravallion (1992).

[3] The reports for Chile, Mali and Mozambique used relative poverty lines. The assessment for the Central African Republic used real wages as a proxy for the poverty line. The assessment for Uruguay did not present a poverty profile analysis.

A variety of practices were used to estimate a basic level of consumption (see Box 2). Nine assessments did not, however, describe the principles they used to set the poverty line.

9. Measuring the extent and depth of poverty. Once the poverty line has been established, the next step is to measure the depth and severity of poverty. The *Handbook* and *OD 4.15* describe three different indices for measuring the incidence of poverty.

- The **headcount index** is the most commonly used poverty measure and it represents the proportion of the population whose standard of living falls below the poverty line. This index, however, cannot measure the depth of poverty. For example, it would not record a change in the incidence of poverty if the average income of a poor person improves or declines as long as he/she remains below the poverty line.

- The **poverty gap index** reflects the depth of poverty by taking into account how far the average poor person's income is from the poverty line.[4] One limitation of this index is that it cannot measure the severity of poverty. In a country where the average income and the number of the poor remain unchanged, the distribution of income among the poor can change substantially. The poverty gap index would not reflect this change because it cannot register a transfer from a poor person to someone who is less poor.

- The **weighted poverty gap** index shows how the distribution of living standards among the poor changes. It gives more weight to each increment of the poverty gap rating for a poorer person than for a poor person who is slightly better-off.[5] Thus, when a transfer is made from a poor person to an even poorer person, the weighted poverty gap index will record a decrease in aggregate poverty.

10. In most assessments, aggregate estimates of poverty incidence have been limited to the headcount measure. Only four of the 30 reports (Bangladesh, China, Malawi and Malaysia) used both the headcount index and the poverty gap index to measure the incidence of poverty, and only six assessments (Indonesia, Indonesia (update), Mexico, Morocco, the Philippines (update) and Uganda) used all three indices.

11. Using all three indices is important to understand fully the composition of poverty, and they can be estimated with little added cost using most household-based data. The Mexico report

---

[4] The poverty gap is the average distance below the poverty line (zero for the non-poor) in a population, expressed as a percentage of the poverty line. When multiplied by the headcount index, this becomes the poverty gap index. 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] The weighted poverty gap index reflects the difference in the severity of poverty. Assuming that the magnitude of poverty increases the further household income falls below the poverty line and that society places a greater value on helping the poorest members of society, the measure assigns a weight according to the extent to which a household's income falls below the poverty line. The households falling furthest below the line would be accorded the greatest weight, while those at or just below the line would be accorded less weight.

Box 2: *Ways Used by Poverty Assessments to Define the Poverty Line*

Assessment	Poverty Line Based On:	Estimated According To:
Bangladesh	Income for adequate calories	A minimum cost diet and consumer preference
Bolivia	Basic needs basket	Not explained
Central African Republic	Not explained	Not explained
Chile	Not explained	Not explained
China	Income for adequate calories	Consumer preference
Costa Rica	Expenditure for adequate calories	Not explained
Ecuador	Not explained	Not explained
Egypt	Income for adequate calories	Not explained
Ethiopia	Income for adequate calories in urban areas	Consumer preference
The Gambia	A minimum nutritional requirement	Not explained
Ghana	Mean per capita income	Not explained
India	Expenditure for adequate calories	Consumer preference
Indonesia	Possible -- minimum nutritional requirement	Not explained
Indonesia (update)	Possible -- minimum nutritional requirement	Not explained
Malawi	200 kilograms of maize	Consumer preference
Malaysia	A minimum nutritional requirement	Not explained
Mali	Mean per capita income	Not explained
Mexico	Income/expenditure for adequate calories	A minimum cost diet and consumer preference
Morocco	Expenditure for adequate calories	Consumer preference
Mozambique	Not explained	Not explained
Nepal	Income for adequate calories	Consumer preference
Pakistan	Expenditure for adequate calories	Consumer preference
Paraguay	Expenditure for adequate calories	Not explained
Peru	Expenditure for adequate calories	Not explained
Philippines	Not explained	Not explained
Philippines (update)	Income for adequate calories	Consumer preference
Sierra Leone	Not explained	Not explained
Uganda	Not explained	Not explained
Uruguay	Did not estimate poverty line	Not explained
Venezuela	Expenditure for adequate calories	Not explained

Definitions:

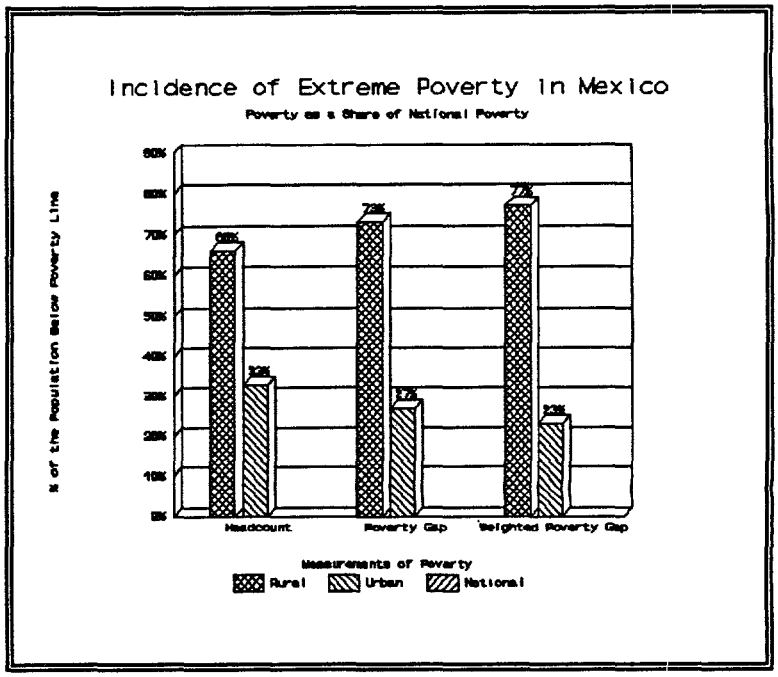
Income for adequate calories is defined as the income needed to purchase a basket of goods that satisfies basic consumption needs.

A minimum cost diet is typically found by calculating the combination of different items of food that represent the cheapest way of reaching a nutritional target.

The principle of *consumer preference* refers to observing consumer behavior to determine the level of income necessary to sustain a specified level of nutrition. It is based on the assumption that there can be no guarantees that the average consumer will acquire the minimum food bundle or conform to the normative distribution of expenditures between food and non-food consumption. A diet based on consumer preference is one that a consumer actually chooses as a result of minimizing cost subject to his/her preference, income and knowledge.

illustrates the importance of determining more than just a simple headcount measure for identifying policy options. The report found that rural poverty as a share of total national poverty was around either 66 percent or 77 percent, depending on whether it was measured by the headcount index or the weighted poverty gap index (see Box 3). It also found that the income of the rural poor fell much farther below the poverty line. If policy prescriptions had been based solely on the headcount index, rural poverty might have received less importance in the allocation of public expenditures, or in the design of targeted interventions or safety nets.

Box 3: ***Measuring the Incidence of Poverty in Mexico***



12. Multiple poverty lines. The *Handbook* and *OD 4.15* recommend drawing at least two poverty lines — an upper and a lower line — to differentiate between the poor and the extremely poor. This is because different kinds of policies and programs may be desirable to reach individuals who fall just below the poverty line as compared to individuals who have income or consumption levels far below the poverty threshold.

13. Twenty of the poverty assessments used multiple poverty lines.[6] The extent to which the upper and lower poverty lines effectively differentiated between the poor and the extremely poor for policy purposes varied greatly. In the cases of Bangladesh and Egypt, two separate lines referred to the poor and the "ultra poor" — the lower poverty line represented a percentage of the nutritional calories of the upper poverty line. In Bangladesh, this figure was 85 percent and in Egypt, it was 80 percent. The assessment for Mexico made a distinction between the moderately poor and the extremely poor based on their respective nutritional status. This distinction cannot be made with precision, because it is difficult to draw a sharp line that separates those who, as a result of their nutritional status, can "function adequately" and those who cannot. However, from a policy perspective, the concept of extreme poverty can be useful for identifying and targeting direct assistance programs to the poor. Several of the remaining reports set more arbitrary poverty lines. The Malawi report made a distinction between the poor and the "core poor," and defined the latter as the poorest 20 percent of the population. Most countries in Latin America generally defined the lower poverty line as the cost of a minimum food basket and the upper poverty line as the cost of a minimum food basket plus an allowance for non-food consumption.

[6] Bangladesh, Bolivia, Costa Rica, Egypt, Ethiopia, The Gambia, Ghana, Indonesia, Malaysia, Malawi, Mali, Mexico, Morocco, Nepal, Paraguay, Peru, the Philippines (update), Sierra Leone, Uganda and Venezuela.

Describing the Poor and Vulnerable

14. A poverty profile describes the extent and nature of poverty and the distinguishing characteristics of the poor (see the example of Indonesia (update) in Box 4). The profile is compiled from several different sources of data. While more data will generally improve a profile, a working profile can usually be assembled from information that is readily available if it is organized in a systematic fashion that is useful for policy analysis. For this reason, it is particularly important to follow an approach to measuring poverty that is consistently applied across data sources.

Box 4: ***Indonesia -- Profile of the Poor***

Characteristics of the Poor

- Poverty is concentrated in Java and the Eastern areas of Indonesia, and will continue to become more localized over time.
- Poorer households are significantly larger than the average with a high dependency ratio.
- An estimated 87 percent of all poor households are headed by males; however, by social convention, women are seldom recognized in this role.
- Virtually all poor households are headed by a person with no more than a primary school education.
- Seventy-five percent of the poor derive their income from agriculture or related activities.

Determinants of Poverty

- The rural poor generally do not have access to land or have holdings too small to generate an adequate income.
- The rural poor have little access to credit.
- The rural poor have limited access to primary education and health services.

Strategies to Reduce Poverty

- Target agricultural programs more effectively to poor rural farmers and the landless.
- Re-orient public expenditures to increase the poor's share of publicly subsidized services.
- Remove regulatory barriers that prevent the poor from obtaining institutional credit.

15. Location of the poor. A poverty profile describes the geographic location of the poor, and should be as specific as possible about where the clusters of poverty are in each country. Twenty-five assessments analyzed the geographic distribution of the poor, and these assessments also noted the presence of regional concentration of poverty.[7] In India, for example, a majority of the poor were found to be concentrated in the Central and Eastern states, and in Indonesia, the highest incidence of poverty was found in Java. While large countries tended to contain regions that had a much higher than average incidence of poverty, regional concentration of poverty was also significant in small countries such as Malawi.

[7] Bangladesh, Bolivia, the Central African Republic, China, Costa Rica, Egypt, Ethiopia, The Gambia, Ghana, India, Indonesia, Indonesia (update), Malawi, Malaysia, Mali, Mexico, Morocco, Mozambique, Nepal, Pakistan, Peru, the Philippines (update), Sierra Leone, Uganda and Venezuela.

16. Almost all of the reports discussed the regional distribution of the poor. They found that poverty was predominantly a rural problem, but, in some cases, this reflected the fact that most people in these countries lived in rural areas. There were, however, some countries in which the estimate of the incidence of poverty contained in the poverty assessment was lower in rural areas than in urban areas, such as Egypt, Ethiopia, Indonesia and Pakistan. Recent updated analysis for Indonesia and Pakistan, however, showed that these findings did not hold when better methodologies were used (see Box 5).

17. Several reports investigated in detail the distribution of poverty within the rural and urban areas. The report for Malawi concluded that the incidence of extreme poverty was greater in the estate sector than in the smallholder sector, whereas the reverse was true for moderate poverty. The results of Mexico's profile showed not only that there were more poor people for every hundred people living in rural areas than in urban areas, but also that the average income of the rural poor fell much further below the poverty line than did that of the urban poor. Moreover, the distribution of income among the poor was worse in rural areas than in urban areas.

Box 5: ***Reassessing the Methods Used to Construct Poverty Lines***

Indonesia. In the poverty assessment update for Indonesia, a new regional poverty profile was developed to ascertain the provincial distribution of poverty. The profile was based on a methodology that used a consistent food poverty line that was sensitive to the differences in the cost of living standards among provinces.

In the first poverty assessment for Indonesia, the lack of a spatial price index thwarted efforts to compare living standards in different parts of the country. By adjusting for spatial price variation, the new poverty profile showed that the incidence of absolute poverty was markedly higher in rural areas than in urban areas. This finding differed from the official estimates described in the first assessment, which suggested that the incidence of poverty was higher in urban areas.

18. Characteristics of the poor. Another component of a poverty profile is a description of the characteristics of the poor, especially their gender, age, ethnicity and occupation. The assessment for Uganda illustrates the use of qualitative information to supplement what we know about the poor from household surveys and other sources of data. This is based on evidence gathered in the field during a "rapid poverty appraisal," which included listening to what peasants had to say and observing the conditions in which they live.

Overall, the reports varied in the extent to which they documented these characteristics, but they had several findings in common, including:

- The families of the poor were larger than average.
- Poorer households had more children under the age of 15 who lived in homes with fewer adult income-earners per family, suggesting that the incidence of poverty was higher among children than adults.
- The poor had less human capital as demonstrated by fewer years of schooling, higher illiteracy rates and limited access to basic social services such as health care.

- The poor were more likely to be employed as casual laborers in rural agriculture or related activities.

- Women were more likely to be poor than men, as measured by their lower welfare and living standard indicators.

19. Eleven reports identified the most vulnerable groups.[8] Venezuela's poverty map, which ranked 23 administrative entities according to eight categories of poverty, is useful for targeting the poor by region. The report for China identified the floating migrant population, minorities and those individuals who have been subjected to involuntary resettlement as the groups who are most vulnerable to short-term fluctuations in the economy or in income. The reports for Bolivia, India, Indonesia, Indonesia (update), Malawi, Sierra Leone and the Philippines (update) identified rural smallholders and women and children in rural areas as groups in need of direct assistance. Those reports that identified the most vulnerable only in the broadest terms were the least successful in suggesting targeted poverty reduction interventions and in identifying policies and institutions that affected the poor.

Using Correlates of Poverty

20. Social and income indicators. By tracking what happens to the poor over time, poverty indicators help to guide the implementation and continuing analysis of country policies and programs. Changes in poverty indicators can illustrate where progress is being made, where there are obstacles to overcome and where new issues are emerging. The *Handbook* and *OD 4.15* recommend that each poverty assessment should include priority social and income indicators for the country under review. Priority social indicators include such indices as the share of public expenditures for basic social services in gross domestic product (GDP) and the under five mortality rate, while income indicators include indices of unskilled real wage rates, consumer prices for low income groups and the terms of trade for agriculture (see Box 6).[9]

21. Approximately three-fourths of the assessments included average social indicators. However, only four reports — those for Indonesia, Indonesia (update), Pakistan and Peru — broke down the average levels of the social indicators into indicators for the poor and the non-poor. This is useful because improvements in average social indicators do not necessarily indicate progress toward poverty reduction. For example, a change in average life expectancy does not necessarily mean that there has been an improvement in the life expectancy for all income levels across the urban and rural poor.

---

[8] Bolivia, China, Ethiopia, India, Indonesia, Indonesia (update), Malawi, the Philippines (update), Sierra Leone, Uganda and Venezuela.

[9] The *Poverty Reduction Handbook* lists the priority social and income indicators. The priority social indicators are: net primary school enrollment, under five mortality, child malnutrition and public expenditures for basic social services as a share of GDP. Also included as social indicators are demographic indicators: female/male life expectancy, total fertility rate and maternal mortality. The priority income indicators are: unskilled wage rates (urban and rural), rural terms of trade and the lower-income consumer price index.

Box 6: ***Terms of Trade for Agriculture and Poverty Reduction***

Terms of trade in agriculture can affect the level of income of poor rural producers and the demand price for agricultural labor. Their importance can be examined by comparing the Indonesian and Thailand experiences and by examining China's performance before and after 1985. While Thailand and Indonesia's rates of growth have been high (and similar), Thailand has had less success than Indonesia in reducing poverty. One aspect of this difference can be explained by each country's agricultural terms of trade -- Indonesia's terms of trade have improved while Thailand's have deteriorated. Moreover, China had great success in reducing poverty before 1985 when its agricultural terms of trade were improving. Since then, the trend has reversed, and there has been no appreciable reduction in poverty.

22. Using income indicators together with social indicators can help to obtain a clearer picture of the changing incidence of poverty (see Box 7). However, these indicators were not included in most of the assessments or they were shown in averages that are not very useful for devising policy options. In fact, only about one-third of the reports presented trends in real wages (for example, the reports for India, Morocco and Uganda), and only a few provided information concerning rural terms of trade (Uganda, for example). Several reports did present some indicators of agricultural producer prices.[10] Clearly, in order to monitor changes in poverty over time, complete income and social indicators must be collected and, whenever possible, disaggregated into indicators for the poor and the non-poor.

Estimating Trends in Poverty

23. Measuring poverty trends. The final task of a poverty profile is to analyze poverty trends. The way in which the incidence of poverty has changed over time is often a better indicator of the nature of the problem than the incidence itself. Estimating these changes is also a way to assess the effectiveness of past government policies. Since data for such estimates are generally scarce and subject to error, as many related indicators as possible should be used. In addition, trends in poverty incidence should be estimated separately for different locations, sectors and socio-economic groups. This enables policymakers to see which policies have been effective and which need to be changed.

Box 7: ***Income Indicators***

Income indicators are important supplements to the socio-economic data presented in the poverty profile. These indicators focus on the income and living standards of the poor. Two income indicators that are important to the analysis of poverty include:

- *Rural terms of trade* help to identify the impact of price changes on smallholder farmers whose incomes depend predominantly on the prices of the crops they produce compared with the prices of the goods they consume.

- *Unskilled wage rates (urban and rural)* are one barometer of the changes in the level of income of the poor. Since the poor have no land or not enough land to meet their subsistence needs, they depend on the casual or informal labor market for part-time and seasonal employment.

[10] Bangladesh, Egypt, Ghana, Indonesia, Malawi, Morocco, the Philippines, the Philippines (update), Peru, Uganda and, to a certain extent, Ethiopia.

24. Thirteen of the 30 reports estimated poverty trends over time (see Box 8). The reports for China, Malaysia and Indonesia document the decline in the incidence of poverty. Some reports, however, based their estimates on only a few observations spaced at wide intervals. In Egypt, for example, the estimate was based on three points of time separated respectively by 16 and seven years. Other reports focused on a period too far in the past to be useful for evaluating current programs or they estimated trends that did not seem credible given the evidence presented by other sources (as in Bangladesh).

25. None of the assessments for the Sub-Saharan Africa region estimated trends in poverty. This is mainly due to the lack of data on the poverty situation in that region. For the remaining assessments that did not specifically estimate trends, enough evidence was available, either in the reports themselves or from alternative sources within the Bank, for it to be possible to arrive at a reasonable assumption about the trends. Given the usefulness of poverty trends in determining the effectiveness of policies to reduce poverty, greater effort must be spent on quantifying them in future assessment work.

Box 8: ***Measuring Trends in Poverty***

Assessment	*Trend in Poverty*	*Assessment*	*Trend in Poverty*
Bangladesh	Falling	Malaysia	Falling to a very low incidence of poverty
Bolivia	No estimate		
Central African Republic	No estimate	Malawi	No estimate
Chile	No estimate	Mexico	No estimate
China	Falling until 1985; leveled off thereafter	Morocco	Falling
		Mozambique	No estimate
Costa Rica	Falling	Nepal	No estimate
Ecuador	No estimate	Pakistan	No estimate
Egypt	Falling	Paraguay	No estimate
Ethiopia	No Estimate	Philippines (and update)	Rising or steady, depending on source
The Gambia	No Estimate		
Ghana	No estimate	Peru	Rising
India	Falling	Sierra Leone	No estimate
Indonesia (and update)	Falling steadily and rapidly	Uganda	No estimate
		Uruguay	No estimate
Mali	No estimate	Venezuela	Rising

II. ASSESSING COUNTRY POLICIES AND INSTITUTIONS

26. The main objective of assessing country policies and institutions is to ascertain how consistent they are with the goal of reducing poverty. Since the range of policies and institutions that can be examined is quite broad, the poverty profile can act as a guide in selecting the main policies and institutions to be considered in the analysis. The conclusions drawn from the analysis can then be used to recommend to policymakers an agenda of policy reforms or investments that constitutes a pro-poor development strategy.

27. The elements of the poverty reduction strategy set out in the *1990 World Development Report (WDR)* provide a framework for analyzing a country's policies and institutions (see Box 9). The first element involves encouraging the kind of growth that makes efficient use of the poor's most abundant asset — their labor. This includes overcoming constraints on the demand for labor (such as the subsidization of capital, distortions of prices for labor-intensive products and restrictions on labor mobility) and improving basic infrastructure and inputs. The second element of the strategy involves ensuring widespread access to primary education and health care, family planning and nutritional services to improve the well-being of the poor and to enable them to participate fully in the growth of the economy. A third element consists of establishing effective safety nets that protect the most vulnerable members of society.

Box 9: ***Policies & Institutions Analyzed in Poverty Assessments***

Poverty assessments typically analyze policies and institutions that affect:

Broad-based Growth
- Efficient use of assets owned by the poor
- Demand for labor
- Ability of the poor to accumulate assets
- Availability and quality of physical infrastructure and inputs

Human Resources Development
- Level and composition of public expenditures in basic social services
- Efficiency and effectiveness of programs that provide social services

Safety Nets
- Scope and incidence of existing safety nets
- Cost-effectiveness of existing safety nets
- Adequacy of targeting mechanisms

28. Accurate and reliable data also play an important role in shaping the scope of the analysis. For the most part, poverty assessments have been done in countries for which fairly reliable data exist, and a number of reports have made good use of existing information (for example, India, Indonesia, Morocco and the Philippines (update). In countries where data availability is more limited, the analysis is more qualitative.[11] Some assessments, however, could have made better use of available information (as in Ghana, Mali and Sierra Leone). Nevertheless, a few exemplary reports have been produced for data-poor countries (such as Ethiopia, Malawi and Uganda), where rough indicators and a mix of agricultural and small sample surveys were used.

[11] Bangladesh, Bolivia, the Central African Republic, Ethiopia, The Gambia, Mali, Nepal and Sierra Leone.

29. The review of the poverty assessments shows that not all the topics in Box 9 need to be addressed in each country study. 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 cover the main problems identified in the poverty profile. The aim is to determine — on the basis of the poverty profile — which policies and institutions most constrain poverty reduction and to decide the extent to which the analysis should cover macro or sectoral policy issues. Accordingly, poverty assessments that contain a broad-based treatment of poverty tend to fall into one of two categories, depending on the nature of poverty in the country. In countries where poverty is widespread, the analysis typically covers a wide range of policies. Where poverty is more narrowly concentrated in certain areas or sectors, the focus is on only a few specific policies or programs that affect the poor in those areas. Overall, the most useful examples of assessments that analyze the most relevant policy issues are those for China, India, Malawi, Morocco, and Uganda.

30. The 30 poverty assessments differ in the extent to which they analyzed the range of policies and institutions that affect the poor.

- *Assessments that contain a broad-based treatment of poverty.* Twenty-one assessments used a broad-based approach to analyze poverty.[12] While the scope and depth of analysis varied among the reports, it generally covered the regulatory and incentive framework, the role of policies in the social sectors and the effectiveness of specific targeted interventions. In 18 countries where poverty is widespread, the assessments concentrated on a broad range of issues, covering a wide scope of policy and institutional elements.[13] In countries such as China and Malaysia, where poverty is concentrated in certain areas, the assessments focused on a limited number of policy, investment or institutional issues that affect the poor in those areas. In several assessments for countries in Sub-Saharan Africa, the analysis of the consistency of country policies and institutions with the goal of poverty reduction and a specific agenda for a pro-poor development strategy were less well developed than in other assessments.

- *Assessments that focus on the role of the social sectors.* Nine reports evaluated the impact that social sector policies and institutions had on poverty reduction and discussed the efficiency and equity of public spending in the social sectors.[14]

31. Overall, there are four topics of analysis that could be improved in future assessment work: (i) the evaluation of the adequacy and viability of possible policy options; (ii) the impact of specific reforms on particular groups among the poor; (iii) the incidence and composition of public expenditures, particularly outside the social sectors; and (iv) the role of the labor markets in reducing poverty.

---

[12] Bolivia, the Central African Republic, China, Egypt, Ethiopia, The Gambia, Ghana, India, Indonesia, Malawi, Malaysia, Mali, Mexico, Morocco, Mozambique, Nepal, Pakistan, the Philippines, the Philippines (update), Sierra Leone and Uganda.

[13] Bolivia, the Central African Republic, Egypt, Ethiopia, The Gambia, Ghana, India, Indonesia, Malawi, Mali, Mexico, Morocco, Mozambique, Nepal, Pakistan, the Philippines, the Philippines (update), Sierra Leone and Uganda.

[14] Bangladesh, Chile, Costa Rica, Ecuador, Indonesia (update), Paraguay, Peru, Uruguay and Venezuela.

Growth-oriented Policies

32. The analysis of growth-oriented policies includes an examination of product and labor market policies that affect the efficient use of assets owned by the poor and of policies that limit the access of the poor to land and other physical assets. For instance, the assessment for Malaysia found that the country's success in reducing poverty resulted from policies that encouraged sustained growth and labor demand. Increasing investment, particularly in primary education and land development, allowed many people (in particular Malay women) to move out of low-productivity and into high-productivity jobs.

33. Improving the efficient use of resources owned by the poor. Policies affecting trade, taxation and/or producer pricing can introduce biases against the demand for unskilled labor and can distort relative prices in ways that constrain growth in employment or output. Regulatory policies such as labor market regulations and minimum wage legislation can increase the cost of labor and thus actually reduce employment, especially in the formal sector. Furthermore, legal constraints may prevent some groups (women, for example) from competing for jobs, and in some cases, industrial regulations can raise the operating costs of small firms.

34. Eighteen of the 30 poverty assessments analyzed incentive and regulatory policies.[15] Of these, several reports stand out, including those for India, Malawi, Morocco and Uganda. Although the scope and depth of the analysis varied, overall the reports focused on policies that affected: (i) the rural sector; (ii) the demand for labor; and (iii) the prices of goods produced and consumed by the poor. A few reports also analyzed the impact of adjustment policies on the poor. As a whole, however, the reports were more successful in analyzing those policies and institutions that prevented efficient growth and labor demand than in identifying the ones that discriminated against the poor more directly.

35. Policies affecting the rural sector. Nine reports examined policies that affect the rural poor.[16] In India, the poverty assessment included an extensive analysis of the policies that affect agricultural employment and rural wages. It found that the agriculture sector, which accounts for four-fifths of employment among poor rural households, may not be able to absorb India's growing labor force, indicating a need for policies that generate labor demand in other sectors of the economy. The assessment also reviewed land, water, research and extension programs and policies, and concluded that public expenditures should be re-directed toward those states in which poverty is more concentrated. Widespread participation in reform-driven growth in China's agriculture sector brought about a sharp reduction in poverty during the period 1978-85. The assessment for China concluded that, while there is limited scope for additional growth in agricultural employment, the expansion and development of efficient rural enterprises will eventually become an important source of employment opportunities for the rural poor.

---

[15] Bangladesh, China, Ecuador, Egypt, Ethiopia, India, Indonesia, Malaysia, Mali, Mexico, Morocco, Nepal, the Philippines, the Philippines (update), Peru, Sierra Leone, Uganda and Venezuela.

[16] Bangladesh, China, India, Malawi, Mali, Morocco, Nepal, Sierra Leone and Uganda.

36. Limited access to inputs and physical infrastructure also decreases the earnings capacity of the poor. The reports for Bangladesh, Malawi and Nepal discussed how administrative interference with the distribution of inputs in smallholder agriculture lowered their income-generating opportunities. They concluded that limited distribution networks often obstruct the delivery of vital agricultural inputs such as fertilizer and new technology, thus decreasing the productivity of smallholders.

37. Policies affecting the demand for labor. Several assessments examined policies and institutions that slowed the growth in the demand for labor.[17] For instance, regulations and small business protection schemes were found to inhibit labor-intensive growth in India's industrial sector. In Egypt, the report found that impediments to employment creation, restrictions against dismissals, over-staffing of public enterprises and irrational wage policies in the public sector restrict employment opportunities for the poor. The assessment for Nepal argued that the system of labor contracting is exploitative and suggested that current policies prevent the establishment of large-scale public works that could create alternative employment opportunities for the poor.

38. Most of the assessments generally discounted the public sector (including public administration and public enterprises) as a potential source of employment expansion for the poor. In fact, those for Egypt, Malaysia and Uganda recommended reducing the public sector workforce.

39. Policies affecting the prices of goods produced and consumed by the poor. Five assessments found that distortionary macroeconomic policies decrease the income of the poor.[18] The report for Indonesia concluded that removing price distortions led to gains in terms of trade for producers and wage earners alike. However, existing export restrictions and prohibitively high taxes on goods produced by small farmers (including saw timber, palm oil and rubber) continue to reduce their incomes. The Ecuador assessment suggested that there was an improvement in the terms of trade for the rural sector in the 1980s because of the real devaluation of the currency, despite continued price controls for agricultural products.

40. The assessments for Ethiopia, Mexico, Mozambique, Sierra Leone and Venezuela addressed policies that affect the prices of products consumed by the poor. In Mexico, heavy protection granted to maize producers benefit medium- and large-scale farmers but harm the rural poor who are its net buyers. In Ethiopia and Sierra Leone, price incentives for producers of food have negative effects on the poor, especially the urban poor who are not covered by a safety net. The report for Venezuela found that the economic crisis of the 1980s and the resulting inflation caused a more rapid increase in food prices as compared to other products. This especially affected poor households that spent a large proportion of their income on food. Overall, the assessments did not analyze the tradeoffs for the poor among different policy options (identifying winners and losers).

41. Adjustment policies affecting the poor. The assessments generally did not evaluate the effects of adjustment policies on the poor. This was true even for those countries that were undergoing adjustment programs, with a few exceptions described below. The assessment for the Philippines found that the failure of macroeconomic adjustments to incorporate appropriate

---

[17] China, Egypt, India, Philippines, Mali, Morocco, Nepal and Sierra Leone.

[18] India, Indonesia, Mexico, Mozambique and Venezuela.

exchange rates caused the prices of the labor-intensive exports and the tradeable products of the poor to drop. The assessment for Egypt indicated that growing unemployment, price increases for food commodities and other goods and services and the deterioration in the provision of basic social services are likely to have an adverse effect on the poor. It suggested that the negative effects of the economic crisis will probably increase if a strong macroeconomic reform program is not introduced. In The Gambia, the Economic Recovery Program redefined the government's role in the economy by introducing a market determined exchange rate and by removing agricultural subsidies and price controls. The assessment concluded that, although these reforms have laid the foundation for sustainable economic growth, a large proportion of the country's population is still poor. Thus, as the country emerges from a period of adjustment, the government will have to continue to concentrate on human resources development and poverty reduction.

42. Recent assessments have done a better job at identifying those people that are affected by adjustment policies. For example, the assessment for Uganda concluded that incomes increased for many of the poor and that the majority of the poor in the country have not been adversely affected by adjustment. It also found that the improvement in the economic and political environment has provided the basis for sustained poverty reduction. The report for Morocco found that, during the initial phase of the adjustment reforms, living standards deteriorated, but during the second phase income and consumption expanded substantially and the incidence of poverty declined. Thus the government's success in reducing poverty during the 1980s is largely attributed to its ability to stabilize the economy, undertake comprehensive structural reforms, and maintain high economic growth. None of the assessments, however, provided an analysis of how adjustment might have been based on an alternative package of policies. This is partly due to the lack of information within certain countries and because it is difficult to determine the counterfactual in the event of not implementing an adjustment program.

43. Policies that affect the ability of the poor to accumulate assets. Policies that encourage sustained growth have a greater impact on the poor's ability to accumulate assets if they are accompanied by reforms that improve the poor's access to land and financial capital. The assessments for Mexico, Morocco, and Nepal provide extensive analysis of land tenure and reform issues, and those for Bangladesh and India review the access by the poor to existing credit programs.

44. Land tenure and reform. Eight assessments analyzed land tenure issues and suggested that clarifying land tenure arrangements by changing legislation or financing land transfers can increase the productivity of smallholders.[19] In the cases of Mali, Mexico, Nepal and the Philippines (update), the assessments found that the systems of land tenure in each country are inequitable and inefficient. In Nepal, the prospect of the government transferring land to tenants has made landlords unwilling to make fixed investments (such as irrigation systems) in the land. Similarly, the lack of land titles and the uncertainty of ownership rights have removed any incentive for the tenants to increase their equity in the land by making their own improvements. The report for Mexico suggested that land regulations and institutions hurt the poor by lowering the return to their land and impeding their mobility. Furthermore, land reform in the Philippines was not considered to be a viable means for reducing poverty in the medium term, although legalizing the land rights of squatters would allow for greater investments in land over time.

---

[19] Ethiopia, Mail, Mexico, Morocco, Nepal, the Philippines, the Philippines (update), and Sierra Leone.

45. Access to Credit. Access to credit is important for financing investment, improving productivity and increasing earning possibilities. High interest rates, transaction costs and the risk of non-repayment assumed by the lender often exclude the rural poor from access to institutional credit.[20] In Bangladesh, the poor's access to credit is marginal despite the existence of programs that are aimed at making it easier for them to borrow money. In Mali and Sierra Leone, the poor have great difficulties in obtaining credit because of their lack of collateral and high loan processing costs relative to the small size of their transactions. The report for India reviewed the Integrated Rural Development Program (IRDP) and found that its dual role as a credit and asset-transfer scheme limits its effectiveness in serving the poor. It quoted evidence suggesting that the IRDP has not provided viable income-earning opportunities for a large segment of the poor population who lack the skills and experience to become self-employed.

Human Resources Development

46. Investing in the human resources development of the poor, primarily through programs that increase the availability of basic education and primary health care, is often one of the most direct ways that a government can reduce poverty. In order to find ways to improve the access of the poor to basic social services, it is necessary to review the level and composition of public expenditures and the effectiveness of social service programs. The reports for Costa Rica, Indonesia (update) and Uruguay provide in-depth analysis of the incidence of public expenditures.

47. Level and composition of public expenditures. The objective in evaluating the level and composition of public expenditures is to identify potential reallocations of resources within and across sectors that would promote the reduction of poverty in a cost-effective, economically efficient and sustainable way. The next step is to specify where additional resources are needed to improve the living standards of the poor.

48. Ten assessments found that spending on basic social services and infrastructure, which is generally considered to benefit the poor, is disproportionately higher in urban as opposed to rural areas.[21] The resources that are channeled to rural areas are mostly untargeted and typically benefit those who are well-off in those areas, limiting the access of the rural poor to education and health services and, thus, to opportunities to improve their human capital. In Mali, for instance, intra-sectoral spending favors secondary and university education. Primary education, on the other hand, is characterized by declining enrollment rates (23 percent for all children and 12 percent for girls), an insufficient number of schools and qualified teachers and a lack of job opportunities for young graduates. Indeed, Mali's education system can only accommodate 20-25 percent of all children of primary school age. The assessments for Ecuador and Morocco also concluded that public spending for primary education and health care mostly benefits the better-off in urban areas. For example, expenditures in health favors expensive curative services instead of providing primary and preventive health care to the rural poor. Both assessments recommended introducing cost

[20] The assessments for Bangladesh, Bolivia, India, Malawi, Mali, Morocco, Nepal and Sierra Leone found that limited access to institutional credit by the rural poor is a widespread problem.

[21] The Central African Republic, Ecuador, Ethiopia, Ghana, Mali, Mexico, Morocco, Nepal, Sierra Leone and Uganda.

recovery measures for services (such as curative hospital care and higher education) whose beneficiaries are predominantly non-poor, yet the question of how this is to be carried out was left unanswered. Overall, the reports recommended reorienting expenditures in favor of basic social services and physical infrastructure, but they did not evaluate the potential impact that these reforms would have on the poor.

49. The majority of the assessments done in Sub-Saharan Africa concluded that the level and composition of public spending for social services is too low to meet the needs of the poor. In particular, the reports for the Central African Republic and Ethiopia noted that the extent of available social services is extremely limited compared to elsewhere in Sub-Saharan Africa. In Mali, the delivery of social services is dismal, and the level of spending on them is well below a minimum level needed to make a measurable impact on poverty.

50. Efficiency and effectiveness of programs to provide basic social services. A vital part of the analysis in an assessment is determining how effectively services are being delivered and if they are reaching the target population. This includes reviewing: (i) which government agencies and nongovernmental organizations (NGOs) deliver services to the poor; (ii) how the services are provided; (iii) what provisions exist for meeting the special needs of women; and (iv) how the poor claim their share of public goods and services.

51. Thirteen reports showed that the poor have inadequate access to basic social services such as primary education and health care.[22] In Indonesia, the analysis concluded that the health services are infrequently used by the poor, indicating a need to improve both the quality and quantity of available services. The report for Bangladesh discussed the need to improve the low internal efficiency of the education sector, the absence of cost containment in post-primary education and the fact that the beneficiaries of higher education do not pay for the costs of that education. In public health, the report suggested that the reason why a large percentage of the population, especially in impoverished rural areas, has no access to health care is that basic services suffer from weak management and coordination. The report for Ethiopia found that less than 50 percent of the population lives within 10 kilometers of a health facility. In addition, only 12 percent of the rural population has access to safe water as compared to 24 percent in Sub-Saharan Africa. In Nepal, the assessment found that infrastructure in the health sector is severely underdeveloped — in most parts of the country, it takes several days to walk to the nearest health post, which is often little more than a shack that lacks staff and supplies. It also indicated that the health system is plagued by a range of institutional and service delivery weaknesses, and, as in most countries in Sub-Saharan Africa, the composition of spending on health care is biased (both geographically and by type of care) in favor of the non-poor.

52. A few of the assessments reviewed the effectiveness and quality of social sector spending. The assessments for the Central African Republic and Ghana concluded that managerial weakness in carrying out programs for the poor continues to constrain the effectiveness of public spending to reduce poverty. The Uruguay report found that, while the overall objective of public spending is to reduce inequality, its individual components (housing subsidies and social security) have a dis-equalizing effect on the distribution of income. In India, the fact that the public resources devoted

[22] Bangladesh, the Central African Republic, China, Ethiopia, The Gambia, Ghana, Mali, Morocco, Nepal, the Philippines, Sierra Leone, Uganda and Uruguay.

to health and education are mismanaged is the main reason for the low educational and health status of the Indian population, rather than any inadequacy in the total amount of resources allocated to the social sectors.

Safety Nets

53. Even when public expenditure programs are designed to increase the income and human capital of the poor, often there are many poor people who fail to benefit from them. In these circumstances, the government should consider establishing a safety net to protect the poor during short-term declines in income due to economic hardship or a period of adjustment. Analyzing the success or failure of safety nets includes evaluating: (i) the scope and coverage of the safety net; (ii) if the safety net is an appropriate mechanism to reach the poor given the poverty profile of the country; (iii) how target groups are identified; and (iv) whether targeted assistance is a cost-effective, politically feasible alternative.

54. The India assessment carried out one of the most extensive analyses of safety nets, taking into consideration public food and distribution systems and rural employment schemes. In general, it concluded that the public distribution system costs too much, is not well-targeted and has a strong urban bias. The employment schemes in India have had positive impact on the income of poor households, yet these schemes have been limited to a few very poor states. The reports for Indonesia (update) and Uruguay found that existing public programs do not provide an effective safety net. The benefits of only three out of 10 subsidy programs in Indonesia actually reached the poor. In Bangladesh, the assessment reviewed several income transfer programs and concluded that, although the non-monetary benefits of the public food distribution program generally reach the poor, the monetary components of the programs generally benefit the non-poor. The report for Ethiopia reviewed both urban and rural safety nets and makes specific recommendations for each of them.

55. The report for Egypt assessed safety nets in the context of the adjustment program. It concluded that, despite the government's commitment to reducing poverty, the existing safety nets do not protect the most vulnerable members of society from the negative effects of adjustment. More specifically, the government has not adopted any targeting mechanisms to cushion the poor against rising food prices, and there are no employment services to provide unemployment benefits, re-training or relocation to retrenched workers.

56. Other assessments only briefly discussed the issue of safety nets.[23] The report for Indonesia (update) suggested that the most vulnerable groups are not fully covered by the safety net, and they cited inefficient targeting of beneficiaries and a sharp erosion in the real value of cash benefits as the principal problems in the implementation of safety net programs. The assessments for The Gambia and Mali concluded that in the absence of any state supported welfare program, the traditional reliance on family and friends acts as an effective alternative safety net. It can, however, also serve as a disincentive to household income growth since those with higher incomes are expected to support friends and close relatives with lower incomes.

---

[23] Bangladesh, Ecuador, Indonesia (update), Malawi, Mexico, Mozambique, Paraguay and Venezuela.

III. COUNTRY POVERTY STRATEGIES

Effectiveness of the Poverty Assessments

57. In general, there are two criteria for assessing the effectiveness of a poverty assessment. One focuses on whether the assessment demonstrates that the proposed policies and expenditure reforms are likely to have a significant impact on poverty. The second considers the influence of the assessment on the Bank's country assistance strategy. Usually, those assessments that recommend a strategy that convincingly addresses the main poverty issues in the country have a greater influence on the poverty orientation of the Bank's country assistance strategy.

58. Impact on poverty. One way of judging the effectiveness of a poverty assessment is to determine whether its analysis conveys a sense that the proposed strategy is addressing the main poverty problems in the country and that, if implemented, it is likely to have a significant impact on poverty. Thus, an assessment may be judged to be effective if it suggests solutions to the main policy problems that must be addressed if poverty is to be reduced significantly. In general, those assessments that developed a sound poverty profile and analyzed key policies and programs recommended a strategy that convincingly addressed the main poverty issues in the country. The most useful examples are the reports for China, India, Malawi, Mexico and Morocco. Overall, the assessments did not discuss in-depth how the recommendations would be implemented. The assessments can be classified into three categories depending on the nature of poverty in the country and the scope of the analysis:

- One group of assessments, for 18 countries in which poverty is widespread, recommended strategies that encompassed a broad range of policies and institutions.[24] These assessments typically analyzed macroeconomic and sectoral policy within the context of the poverty profile and were able to identify the general impact of policy reforms on the poor and to suggest strategies for reducing poverty.

- The second category includes reports for countries where poverty is more localized. It includes the assessments for China and Malaysia, which addressed policy and institutional issues in the areas or sectors where the poor are concentrated.

- The third category consists of nine assessments that primarily covered social sector policies and programs.[25] It is not clear from the analysis in some of these reports whether a wider range of policies that affect the poor also need to be addressed.

59. Influence on the Bank's country assistance strategies. The second way to judge the effectiveness of a poverty assessment is to examine how the assessment has influenced the Bank's

---

[24] Bolivia, the Central African Republic, Egypt, Ethiopia, The Gambia, Ghana, India, Indonesia, Malawi, Mali, Mexico, Morocco, Mozambique, Nepal, Pakistan, the Philippines, the Philippines (update), Sierra Leone and Uganda.

[25] Bangladesh, Chile, Costa Rica, Ecuador, Indonesia (update), Paraguay, Peru, Uruguay and Venezuela.

country assistance strategy. This is difficult to quantify and, in many cases, it is too soon to make a judgement.

60. A review of assessments that were completed before June 1992 indicated that, if a poverty assessment exists for a given country, it is more likely that the country assistance strategy will have a significant poverty orientation. In nine countries for which a poverty assessment was done prior to or at the same time as the country assistance strategy was developed, poverty issues were discussed at some length in the assistance strategy. Those assessments that contained a detailed poverty profile and relevant policy analysis had the most impact on the country assistance strategy, for example, by stimulating a poverty-focused policy dialogue and a shift in the composition of lending toward more poverty-focused interventions. The country assistance strategies for India, Mexico, Malawi and Morocco have benefitted from the analysis in the poverty assessments for those countries and, thus, focus more explicitly on poverty reduction (see Box 10).

61. On the other hand, in five cases where the country assistance strategy was prepared before the assessment was done, the country assistance strategies lacked a clear poverty focus. Nevertheless, the existence of a poverty assessment is not an essential precondition for the country assistance strategy to have a strong poverty focus — in three countries, the country assistance strategy had a significant poverty orientation, even though the assessment had not yet been completed.

Recommendations of the Poverty Assessments

62. As a whole, the strategies advocated by the poverty assessments have several common themes along the lines of the *1990 WDR* strategy, including: (i) expanding efficient employment opportunities for the poor; (ii) enhancing the productivity of poor self-employed producers; (iii) investing in the human capital of the poor; and (iv) providing safety nets that are consistent with macroeconomic policy and that protect vulnerable groups. The following policy recommendations provide country-specific examples, illustrating how some assessments addressed these topics.

63. Expanding productive employment for the poor. Growth in productive employment was mentioned in most of the reports as the key to reducing poverty. For countries that achieved high agricultural employment in the past, the assessments noted that they may have difficulty in expanding future employment opportunities in this sector. In India, for example, the labor force is growing at such a rate that it is likely to exceed the future employment opportunities in the agriculture sector. Therefore, the assessment recommended adopting policies that will encourage the creation of new jobs in the manufacturing sector. In Egypt, the analysis recommended overcoming impediments to employment (such as restrictions against dismissal and irrational wage policies) by redirecting incentives and regulations in favor of private sector development. This would entail breaking down the public sector

Box 10: *Poverty-oriented Assistance Strategies*

India. To reduce poverty further in India, structural reforms that promote growth and efficient labor demand need to be introduced. The Bank's assistance strategy has changed to respond to these findings and to those of other Bank analysis. For instance, the Bank is considering a variety of ways to improve the delivery of social services, to increase the effectiveness of safety nets and to monitor the impact of adjustment on the poor. The Bank's resources have also been increasingly used to restructure the Indian economy, and lending is increasingly supporting basic health and education programs and financing agriculture and infrastructure investments in the poorest states. Social sector projects as a proportion of total Bank lending rose from less than 1 percent in the early 1980s to about 20 percent in the early 1990s.

Mexico. Consistent with the finding that poverty is mainly rural and is associated with an imbalance in public expenditures between urban and rural areas, the Bank's lending to agriculture and rural development 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 year 1991. In addition, a recent adjustment loan in the agricultural sector supported the rationalization of public investment, the privatization of parastatals and a nutrition/health pilot project for the poorest groups.

Malawi. The assessment found that poverty reduction has been limited by regulatory controls on business and agriculture and by financial and labor market imperfections. It also found that the level of spending on the social sectors is inadequate. The Bank's overall assistance strategy to Malawi has changed to reflect these findings. The Agriculture Sector Adjustment Credit is reforming regulations that limit smallholders from growing certain crops. Also, the Entrepreneurship and Capital Market Adjustment Program has been set up to expand access to investment opportunities and financial capital, to reform trade, tax and labor policies and to reorient public expenditures toward basic social services. About one-fourth of the Bank's lending during fiscal year 1990-92 supported the social sectors and about one-third was directed toward smallholder agriculture.

Morocco. A recent structural adjustment loan in Morocco has helped to develop an information base, which was used to conduct the country's first poverty assessment. This involved preparing a poverty profile and developing a set of priority social and income indicators that could be used to measure the changing incidence of poverty. One of the main conclusions of the poverty assessment is that Morocco will not be able to attain macroeconomic stability and competitiveness without making progress in the social sectors. It recommended that policymakers focus on reforms that would secure land tenure, increase the coverage of agricultural research and extension services to smallholders and build rural infrastructure. Approximately 15 percent of the Bank's lending to Morocco during the period 1988-1992 supported agricultural investment, while about 15 percent of total lending went to education, health and nutrition interventions.

monopoly on low-cost capital, and removing wage restrictions to encourage labor mobility from low-productivity to high-productivity jobs.

64. In The Gambia, close to 70 percent of rural households depend on agriculture as the most important contributor to household income. The assessment found that the share of agriculture (in particular, crop production) in GDP has been declining over the past decade, while the share of non-agriculture activities (services and industry) has increased significantly. This is explained by a liberal sectoral policy framework that no longer offers agricultural subsidies to farmers. As a result, many rural farmers have moved into non-farm activities in urban areas. The assessment concluded that the growing incidence of urban migration indicates that there is a need for

government policies and programs that develop social and economic infrastructure in urban as well as rural areas.

65. In countries where agriculture is considered to be the main source of current and future employment for the poor, the assessments recommended reforms that would increase employment in this sector. In Indonesia, where 75 percent of the poor derive their income from agriculture or non-farm activities, the analysis found that limited access to land and credit and stringent regulatory policies governing agricultural output decrease the income of the rural poor. The assessment proposed deregulating area and production controls, encouraging the production of non-rice crops, and developing new production capacity in areas with a high incidence of poverty. In order to raise the productivity of small farmers and agricultural output, the assessments for Morocco and Uganda recommended instituting policies that secure land tenure, increase the coverage of agricultural research and extension services to the poor and build rural infrastructure.

66. Enhancing the productivity of the poor. Improving access to land, credit and productive inputs increases the opportunities for self-employment and enhances the productivity of the poor.

67. Improving access to land. Based on an analysis of how land tenure arrangements affect the poor, the reports for Indonesia and Pakistan supported the redistribution of public land. The Bolivian assessment and, to a certain degree, the assessment for the Philippines advocated land titling to ensure property rights. In Nepal, the report suggested securing ownership rights to land in order to increase incentives for tenants and landlords to make greater fixed investments in the land. The Morocco report recommended improving land tenure arrangements by simplifying rural contracts and developing a rental market for land that would allow some small-scale farmers to work elsewhere and earn wage income, while also allowing farmers with more assets and a higher level of skills to work more efficiently on larger plots of land. In Mexico, the report concluded that rural development is hindered by institutional regulations that promote inefficient uses of land, depress the demand for unskilled rural labor and reduce the incentives for private investment. Moreover, attempts to solve the underlying difficulties by simply increasing resources have resulted in large untargeted subsidies that have failed to raise the rate of growth of agricultural output or to increase the income of the rural poor. To have a greater impact on poverty reduction, the assessment suggested it would be necessary: (i) to ensure that credit is not contingent on a farmer's choice of crop; (ii) to legalize the ownership rights of smallholders (ejidos) to reduce the likelihood of eviction; (iii) to legalize renting of ejido land, sharecropping and joint operations between ejido and private landowners; and (iv) to clarify the laws regarding the use of private land.

68. Expanding access to credit. The assessments made specific recommendations for improving and, in some cases, expanding credit programs. The report for Nepal suggested expanding the coverage of the state's credit program. In India, the assessment indicated that major reforms of IRDP are needed if it is to have a positive impact on low-income borrowers. It suggested focusing more on the financial viability of potential projects. In reviewing targeted credit programs, the report for Bangladesh indicated four ways to strengthen their effectiveness: (i) to consolidate the existing credit programs; (ii) to use the "group lending" method to guarantee loans; (iii) to strengthen training; and (iv) to increase coordination among funding agencies.

69. Improving access to productive inputs. Several reports indicated that the productivity of the poor would increase if they had access to certain inputs and agricultural technologies. The assessment for India analyzed water extension policies and suggested changing irrigation patterns

and making agricultural technology and inputs available to small farmers in order to increase their productivity and the output of labor-intensive crops. In addition, the Malawi report argued that ensuring that the poor (and especially poor women) have access to water, transportation and agricultural technology would give women more time for productive and higher-paying tasks. The Nepal assessment recommended promoting the widespread use of fertilizer as a means to increase the productivity of smallholders. However, in the absence of irrigation, using fertilizer requires large cash outlays and, since poor households can only finance these costs by assuming more debt, they are unlikely to buy it.

70. Investing in the human capital of the poor. The reports recommended a variety of different ways to provide the poor with human capital. They suggested increasing public expenditures on basic social services or targeted programs and improving the quality and delivery of social services, especially in areas where poverty is widespread.

71. Reorienting public expenditures. Many assessments recommended redirecting public expenditures toward basic social services, but few explained how this was to be accomplished. This was most evident in the Latin American countries where the reports specifically focused on the social sectors.

72. Several reports recommended improving the targeting of existing programs, but few explained how the obstacles to these initiatives (such as political opposition and limitations on administrative capacity) would be overcome. The report for the Philippines identified a need for more narrowly targeted programs in order to stop leakages to the non-poor. The assessments for Venezuela and Nepal recommended improving the targeting of nutrition programs by shifting resources from untargeted food subsidies toward feeding programs for infants and pregnant women. However, the Uganda assessment pointed out that targeting the poorest and most vulnerable is far too expensive an option for the government to consider, given the weak administrative capacity and financial position of the country. Instead, it recommended that local communities should work together with the government to design and implement projects that would provide basic social services to rural areas.

73. Expanding services in specific geographic areas. In countries where poverty is concentrated in certain geographic areas, the assessments recommended expanding basic social services in areas where the poor live. The assessment for Peru suggested that the government should expand services, especially basic education, in the rural sierra and specifically for the indigenous populations, while the reports for Bolivia and Ecuador recommended expanding the coverage and improving the quality of social services in specific rural and peri-urban areas.

74. Improving the quality and efficiency of basic social services. The reports also underscored the need for institutional reforms and better program management in order to improve the quality of basic social services. In primary education, the reports for Bangladesh, Malawi and Mali emphasized increasing the number of schools (especially in the rural areas and specifically for girls) and improving the quality of education. In Nepal, the analysis found that the education system as a whole suffered from poor facilities, inadequate teacher training and an excessive reliance on rote learning and examinations. The report suggested that the government should consider locating schools closer to families, offering more flexible hours, recruiting teachers (especially female teachers) locally and providing scholarships and free uniforms to female students. Other reports

recommended introducing more direct inducements to increase enrollment, including subsidies to compensate households for lost income while their children attend school.

75. In the health sector, the assessments emphasized increasing basic and preventive health care for children and mothers, complemented by nutritional interventions. The assessment for Nepal found that the health status of the whole population is poor, with infant mortality rates among the highest in the world and life expectancy rates among the lowest. The report recommended making improvements in immunization coverage, oral rehydration and micro-nutrient programs, complemented by introducing a program that disseminates information on weaning and feeding babies.

76. Several reports stressed the importance of intensifying efforts to reduce rapid population growth. In Nepal, the assessment concluded that curbing population growth is the single most important poverty issue. The report recommended establishing programs that offer contraceptive information and supplies to the poor and sterilization programs for families that have reached their desired size. The Bangladesh report recommended increasing family planning services through a program that would focus on women's health, the access of girls to education and the benefits of contraceptive use. The Pakistan assessment recommended offering family planning services at all public health clinics. The report for Costa Rica suggested extending the existing information campaign, providing appropriate training to nurses and doctors, focusing more attention on teenagers and single mothers and ensuring that contraceptives continue to be readily available.

77. Some of the reports suggested increasing the emphasis on community involvement and the participation of NGOs as a means of improving program management and cost-effectiveness. The assessment for the Central African Republic concluded that any poverty reduction strategy in the country should include an increased role for NGOs in the management and delivery of social services and the promotion of micro and small-scale enterprise development. The assessment for Paraguay recommended greater community and NGO involvement in designing and implementing social sector projects in order to improve the delivery of basic social services to the poor. The report for Indonesia suggested creating a national body to coordinate all poverty reduction activities. In addition, many countries have incorporated investment projects (such as social funds) into their poverty reduction strategy. These projects are based on a decentralized approach to project initiation and implementation, which requires the participation of NGOs and local community groups. Social funds have been particularly successful in building rural infrastructure in Latin America.

78. Safety nets and income transfers. In most assessments, a safety net was mentioned as only one of many components of the overall poverty reduction strategy. The strategy for Malaysia was an exception; it advocated that targeted income transfers should be the main instrument for poverty reduction, since poverty in Malaysia has been reduced to a manageable level.

79. Using the highly successful public works programs in the region (including the Employment Guarantee Scheme in the state of Maharashtra in India and the Food-for-Work program in Bangladesh) as examples, the reports for India, Bangladesh and Nepal advocated using targeted income transfers for creating employment. The Nepal report also envisioned that its public works program would promote competition in the labor market, thereby breaking the exploitative power of labor contractors. Other reports, such as those for Mozambique and Egypt, viewed public works

programs as a way to create employment for the poor, while protecting them from the short-term adverse effects of structural adjustment.

80. Many assessments also supported improvements in food distribution and/or food subsidy programs. The India assessment recommended increasing the efficiency of targeting mechanisms by reducing the leakages in the public distribution system. In order to reduce the burden on the government's budget, the assessment for Egypt suggested narrowing the pool of beneficiaries of the country's food subsidy program. The political and social difficulties involved in carrying out these changes, however, may limit the feasibility of this suggestion.

IV. SUMMARY OF THE MAIN FINDINGS AND LESSONS

81. This paper reviews and summarizes the findings and recommendations of 30 poverty assessments. It analyzes the three principal parts of a poverty assessment — the poverty profile, the analysis of country policies and institutions, and the recommended strategy to reduce poverty. This section synthesizes the lessons that might be applied to strengthen the effectiveness of future assessments and summarizes the main findings of the assessments (see Box 11).

Poverty Profile

82. A poverty profile that provides a clear understanding of the extent and nature of poverty in a given country as well as a complete description of the economic and social characteristics of the poor can act as a guide in selecting the main policies and institutions to be included in the analysis. A poverty profile is compiled from several different sources of data. While generally the more data that are available the better, a working profile can usually be assembled from whatever information is readily available if it is organized in a systematic fashion that is useful for policy analysis. Thus, it is particularly important to follow a clear definition of poverty that is consistently applied across data sources.

Box 11: ***Designing Effective Poverty Assessments***

- ***Poverty Profile.*** A poverty profile that provides a clear understanding of the extent and nature of poverty, as well as an adequate description of the economic and social characteristics of the poor, can serve as a guide in selecting the main country policies and institutions to be included in the analysis.
- ***Assessing Country Policies and Institutions.*** Effective assessments determine which policies and institutions most constrain poverty reduction and suggest solutions to overcome them. This includes deciding the extent to which macro versus sectoral issues need to be addressed.
- ***Country Poverty Strategy.*** Those assessments that develop a sound poverty profile and analyze key policies and programs recommend a strategy that convincingly addresses the main poverty issues in the country. Likewise, they have a greater influence on the poverty orientation of the Bank's country assistance strategy.

83. The majority of the poverty assessments prepared an adequate profile of the poor. This generally included establishing a poverty line, measuring the incidence of poverty, describing the characteristics of the poor, determining the correlates of poverty and estimating poverty trends. Strong examples include the assessments for Indonesia (update), Mexico, and Uganda.

84. Poverty line. The concept of absolute poverty is preferable to that of relative poverty for comparative analysis, and 25 of the 30 poverty assessments used an absolute poverty line as a basis for assessing poverty. There are no unique guidelines on how to define a poverty line. Usually a poverty line is based on income or consumption data, and its location can vary depending on how it is calculated. Since there are many ways to calculate a poverty line, it is important that assessments should clearly document the methodology used to set the poverty line. Not all assessments reviewed in this paper did this.

85. There will often be a range of possible lines over which neither the qualitative poverty picture nor the policy conclusions to be drawn will change. Nevertheless, in some cases, the location of the poverty line can influence the policy conclusion, especially if it greatly under- or overestimates the incidence of poverty. In such cases, multiple poverty lines can provide additional information about the distribution of the poor and help to guide policy choices.

86. Overall, it is important to remember that the poverty line is just one element in the overall analysis, and where the line is finally drawn is not as significant as clearly understanding and documenting how its underlying methodology will ultimately influence policy analysis and the design of strategies to reduce poverty.

87. Poverty measures. Once the poverty line is established, the next step is to measure the depth and severity of poverty. Most of the assessments limited their estimates of poverty incidence to the headcount index. Only four of the 30 reports used both the headcount index and the poverty gap index to measure the incidence of poverty, and only six assessments used all three indices. Using all three indices is important to understanding fully the composition of poverty, and helps policymakers to design targeted interventions and safety nets for the very poor.

88. Describing the poor and vulnerable. Another element of a poverty profile consists of describing the poor, including their characteristics, location and main sources of income. Although the scope and depth of the analyses varied among the poverty assessments, they had several findings in common (see Box 12).

89. Using correlates of poverty. Tracking what happens to the poor over time using a variety of indicators helps to guide the analysis of country policies and programs and to identify where progress has been made, where there are obstacles to overcome and where new issues are emerging. Approximately three-fourths of the assessments provided average social indicators. However, only four reports disaggregated average social indicators into indicators for the poor and the non-poor. In addition, very few assessments presented income indicators. In fact, only about one-third of the reports documented the trends in real wages, and none of the assessments provided information concerning rural terms of trade. Several reports did present some indicators of agricultural producer prices. Clearly, in order to monitor changes in poverty over time, complete income and social indicators must be collected and, whenever possible, disaggregated into indicators for the poor and the non-poor.

90. Measuring poverty trends. The way in which the incidence of poverty has changed over time is often a better indicator of the nature of the problem than the incidence itself. Estimating these trends is also a way to assess the effectiveness of past government policies. Since data for such estimates are generally scarce and subject to error, as many related indicators as possible should be used. In addition, trends in poverty incidence should be estimated separately for different

locations, sectors and socio-economic groups. This will enable policymakers to see which policies have been effective and which need to be changed.

91. Eleven of the 30 reports estimated poverty trends over time. None of the assessments for the Sub-Saharan Africa Region estimated trends in poverty. This is mainly due to the lack of data on the poverty situation in each country. For the remaining assessments that did not specifically estimate trends, enough evidence was available, either in the reports themselves or from alternative sources within the Bank, to arrive at a reasonable assumption about the trends. Given their usefulness in determining the effectiveness of policies to reduce poverty, greater efforts must be made to quantify poverty trends in future assessment work.

Box 12: ***Common Findings of Poverty Profiles***

Characteristics

- The families of the poor were larger than average.
- Poorer households had more children under the age of 15 who lived in homes with fewer adult income-earners per family, suggesting that the incidence of poverty was higher among children than adults.
- The poor had less human capital as demonstrated by fewer years of schooling, higher illiteracy rates and limited access to basic social services such as health care.
- Women were more likely to be poor than men, as measured by their lower welfare and living standard indicators.

Location

- Poverty was predominantly a rural problem.
- Poverty tended to be concentrated in certain geographic regions, in small as well as large countries.

Main Sources of Income

- The poor were more likely than the rest of the population to be employed as casual laborers in rural agriculture or related activities.

Assessing Country Policies and Institutions

92. The main objective of assessing country policies and institutions is to ascertain how consistent they are with the goal of reducing poverty. The 30 poverty assessments reviewed a wide range of policies and institutions that affect the poor, including those that influence broad-based growth, help to develop human resources and establish effective safety nets that protect the most vulnerable members of society.

93. Scope of analysis. 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 cover the main problems identified in the poverty profile. The aim is to determine — on the basis of the poverty profile -- which policies and institutions most constrain poverty reduction and to decide the extent to which the analysis should cover macro or sectoral policy issues. Accordingly, poverty assessments that contain a broad-based treatment of poverty tend to fall into one of two categories, depending on the nature of poverty in the country. In countries where poverty is widespread, the analysis typically covers a wide range of policies. Where poverty is more narrowly concentrated in certain areas or sectors, the focus is mainly on specific policies or programs that affect the poor in those areas.

94. The availability of data can play a role in shaping the scope of the analysis. For the most part, poverty assessments have been done in countries for which fairly reliable data exist, and a number of reports have made good use of existing information for poverty monitoring, analysis and designing poverty reduction strategies. However, having good data is not a prerequisite for a strong policy analysis. In countries where data availability is more limited, the analysis is more qualitative,

and a few exemplary reports have been produced for data-poor countries (such as Malawi and Uganda).

95. While most of the assessments did a reasonable job of evaluating those policies and institutions that prevent efficient growth and labor demand, very few identified the ones that discriminate against the poor more directly. Overall, there are four topics of analysis that could be improved in future assessment work: (i) the evaluation of the adequacy and viability of possible policy options; (ii) the impact of specific reforms on particular groups among the poor; (iii) the incidence and composition of public expenditures, especially outside the social sectors; and (iv) the role of the labor markets in reducing poverty.

96. Policy prescriptions. Many of the poverty assessments made policy recommendations that covered the regulatory and incentive environment, the development of human resources and the re-orientation of public spending in favor of basic social services and physical infrastructure. Few, however, took the next step to analyze the potential impact of the reforms on the poor (identifying the winners and the losers) or to discuss how obstacles to implementation, such as political opposition and lack of administrative capacity, could be overcome.

Country Poverty Strategies

97. The overall objective of a poverty assessment is to recommend a strategy of policy and institutional reforms to reduce poverty. The strategy should convey a clear sense of its likely impact on poverty and identify tradeoffs among possible policy options.

98. Impact on poverty. In general, there are two criteria for assessing the effectiveness of a poverty assessment. One way is to determine whether its analysis conveys a sense that the proposed strategy is addressing the main poverty problems in the country and that, if implemented, it is likely to have a significant impact on poverty. Overall, the assessments that developed a sound poverty profile and analyzed key policies and programs recommended a strategy that convincingly addressed the main poverty issues in the country. The assessments can be classified into three categories depending on the nature of poverty in the country and the scope of the analysis:

- One group of assessments, for 18 countries in which poverty is widespread, recommended strategies that encompassed a broad range of policies and institutions. These assessments typically analyzed macroeconomic and sectoral policy within the context of the poverty profile and were able to identify the general impact of policy reforms on the poor and to suggest poverty reduction strategies.

- The second category of reports is for countries where poverty is more localized. It includes the assessments for China and Malaysia, which addressed policy and institutional issues in the areas or sectors where the poor are concentrated.

- The third category consists of nine assessments that covered primarily social sector policies and programs. It is not clear from the analysis in some of these reports whether a wider range of policies that affect the poor also needs to be addressed.

99. Influence on the Bank's country assistance strategies. Another way to measure the effectiveness of a poverty assessment is to examine how the assessment has influenced the Bank's country assistance strategy. This is difficult to quantify and, in many cases, it is too soon to make a judgement.

100. A review of assessments that were completed before June 1992 indicated that, if a poverty assessment exists for a given country, it is more likely that the country assistance strategy will have a significant poverty orientation. In nine countries for which a poverty assessment was done prior to or at the same time as the country assistance strategy was developed, poverty issues were discussed at some length in the assistance strategy. Those assessments that contained a detailed poverty profile and relevant policy analysis had the most impact on the country assistance strategy, including a poverty-focused policy dialogue and a shift in the composition of lending toward more poverty-focused interventions. For example, the country assistance strategies for India, Mexico, Malawi and Morocco have benefitted from the analysis in the poverty assessment and, thus, focus more explicitly on poverty reduction.

Annex I

Poverty Assessments Reviewed

Bangladesh	*Poverty and Public Expenditures, An Evaluation of the Impact of Selected Government Programs*
Bolivia	*Poverty Report*
Central African Republic	*Poverty Alleviation in the Central African Republic: Country Assessment and Policy Issues*
Chile	*Social Development Progress in Chile: Achievements and Challenges*
China	*Strategies for the Reduction of Poverty in the 1990s*
Costa Rica	*Public Sector Social Spending*
Ecuador	*A Social Sector Strategy for the Nineties*
Egypt	*Alleviating Poverty During Structural Adjustment*
Ethiopia	*Toward Poverty Alleviation and a Social Action Program*
The Gambia	*An Assessment of Poverty*
Ghana	*2000 and Beyond: Setting the Stage for Accelerated Growth and Poverty Reduction*
India	*Poverty, Employment and Social Services*
Indonesia	*Strategy for a Sustained Reduction in Poverty*
Indonesia (update)	*Public Expenditures, Prices and the Poor*
Mali	*Assessment of Living Conditions*
Malaysia	*Growth, Poverty Alleviation and Improved Income Distribution in Malaysia: Changing the Focus of Government Policy Intervention*
Malawi	*Growth Through Poverty Reduction*
Mexico	*Towards a New Role for the Public Sector*

Annex I

Poverty Assessments Reviewed (continued)

Morocco	*Adjustment, Growth and Poverty*
Mozambique	*Poverty Reduction Framework Paper*
Nepal	*Poverty and Incomes*
Pakistan	*A Profile of Poverty*
Paraguay	*Public Expenditure Review — Policies and Programs*
Peru	*Poverty Issues and Social Sector Policies and Programs*
Philippines	*The Challenge of Poverty*
Philippines (update)	*An Opening for Sustained Growth*
Sierra Leone	*Policies for Sustained Economic Growth and Poverty Alleviation*
Uganda	*Growing Out of Poverty*
Uruguay	*Poverty Assessment: Public Social Expenditures and Their Impact on the Income Distribution*
Venezuela	*Poverty Study: From Generalized Subsidies to Targeted Programs*