

Waging the Global War on Poverty

Strategies and Case Studies

Edited by

RAUNDI HALVORSON-QUEVEDO and HARTMUT SCHNEIDER



DEVELOPMENT ASSISTANCE COMMITTEE

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DEVELOPMENT CENTRE SEMINARS

WAGING THE GLOBAL WAR ON POVERTY

Strategies and Case Studies

Edited by
Raundi Halvorson-Quevedo
and
Hartmut Schneider

DEVELOPMENT CENTRE
OF THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Foreword

This publication was undertaken as a joint project between the OECD's Development Assistance Committee and Development Centre in the context of their common concern to identify poverty-reduction strategies.

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Preface

Poverty eradication has been a declared objective of development co-operation for many years. And for many years there has continued to exist much controversy about the effectiveness of development co-operation in addressing this objective. At a global level progress is evident. However, it is also evident that many people are falling behind and that entire societies are at risk of being marginalised.

The unacceptability of continued widespread poverty was given renewed emphasis in the 1995 World Summit for Social Development in Copenhagen. Participants, including Heads of State or Government or their personal representatives from 134 countries, committed themselves at Copenhagen to *“the goal of eradicating poverty in the world, through decisive national actions and international co-operation, as an ethical, social, political and economic imperative of humankind”*.

A concrete interim goal adopted one year later by the OECD Development Assistance Committee has become an internationally accepted target, embraced by developing and industrialised countries, by multilateral institutions and by organisations of civil society. *“The proportion of people living in extreme poverty in developing countries should be reduced by at least one-half by 2015.”*

Poverty eradication was the central theme of the United Nations Human Development Report in 1997, and the World Bank is preparing a World Development Report on this subject for publication in 2000. The Nobel Prize for economics was awarded to Amartya Sen in 1998 for his work on poverty and entitlements of poor people. Many development agencies have reformulated their mission statements, policies and operating strategies to give more central focus to poverty reduction, and more developing countries are giving increased prominence to poverty reduction in their national strategies.

However, all this renewed emphasis on poverty since the Copenhagen Summit has left unanswered the difficult question of how best to proceed. Indeed, all concerned have been reminded how complicated and obdurate the phenomenon of poverty is, and how multifaceted are its diverse economic, social, political and environmental dimensions. Accordingly, in collaboration with other institutions, the OECD Development Assistance Committee has initiated a major effort to identify best practices for achieving maximum effectiveness in poverty reduction. This work is scheduled to produce practical guidance for development co-operation efforts by the end of 2000.

As a first step, the Development Assistance Committee and the OECD Development Centre jointly organised a path-breaking forum in December 1997, bringing together the ideas and experience of a broad cross-section of experts, practitioners and stakeholders. At this forum, participants considered the feasibility of the goal of reducing the incidence of extreme poverty by half by 2015. They also explored the current policies and efforts of development agencies. However, the central feature of the forum was an examination of the specific strategies and experiences of five developing countries in their efforts to combat poverty — Bolivia, Côte d'Ivoire, the State of Kerala in India, Malaysia and Uganda.

The present volume collects the essential elements of the forum proceedings and, in particular, the five developing country case studies, together with a brief thematic summary of the forum discussions. These materials begin to point the way towards identifying successful poverty reduction strategies and more coherent, co-ordinated action to achieve what the Copenhagen summit rightly called “an imperative of humankind”.

The forum, and the publication of these materials, is an example of productive collaboration between the Development Assistance Committee and the Development Centre. The ongoing work by the Committee to identify best practices for poverty reduction will continue to benefit from that collaboration, especially from the current research programme of the Development Centre. This kind of collaboration, extending throughout the international community, will be essential to the success of efforts to attain the shared goal of poverty eradication.

Irreversible forces of globalisation are creating opportunities for remarkable economic and social progress. The challenge is no less than to influence those forces so that the course of human development will include the many for whom the future looks so bleak. The inequality from which they suffer is unjust and benefits no one. Moreover, it is creating the risk of an increasingly divided world that will be unstable and unsustainable. The fight against poverty is a struggle for a world that works for everyone. It is our hope that this publication will serve as a modest contribution to that struggle to reduce poverty and, thereby, to help attain a higher quality of life for all.

Jean Bonvin
President
OECD Development Centre

James Michel
Chair
OECD Development Assistance Committee

Paris
March 1999

Thematic Summary

Raundi Halvorson–Quevedo

For many years strategies for reducing poverty relied on three essential elements as highlighted in the World Bank's seminal 1990 report on poverty: stimulating broad-based, labour-intensive growth, investing in social development, and providing social safety nets for the absolute poor.

Nine years on, the view is more complex, more nuanced. Growth must be accompanied by an appropriate concern for equity. Social investment should focus on improving reach and effectiveness. More information on the causes and dynamics of poverty, and the reality experienced by poor people, is needed to inform policies and programmes. Poverty reduction strategies must be locally owned and widely shared — and translated into concrete policies and programmes. Government must be firmly committed.

Further, new directions in poverty reduction have clear political implications. Active participation by poor people in poverty reduction planning and implementation is essential. For this reason, empowerment is indispensable. Systems, institutions and interfaces to facilitate empowerment such as decentralised decision-making, democratic processes, information flows, functional literacy, and transparent and accountable government are needed. Progress here will be predicated on the political will of ruling elites to open up and foster participation.

These emerging essential elements for reducing poverty, distilled from a December 1997 Forum jointly sponsored by the OECD Development Assistance Committee (DAC) and the Development Centre, are summarised below. They raise the stakes for all development actors. But they also hold the promise of more effective, sustainable efforts to eradicate poverty. When combined with fresh insights about improving development co-operation efforts — through partnerships forged on shared visions and goals, mutual respect and accountability, reciprocal responsibilities — they may point the way to potent new strategies for marshalling forces against poverty.

A New Base for Action

Poverty is a key policy concern for many governments all over the world. Countless programmes and campaigns have been waged against it over time and across regions. Yet poverty continues to be a major impediment to human development and economic progress.

Nowhere is this more evident than in the developing world. Despite considerable advances over the past five decades in social and economic well-being — disease eradication, massive immunisation programmes, high-yielding crop strains, increased adult literacy, improved sanitation and water systems and technological advances for production and communications — a large number of people remain desperately poor.

With the approach of the new millennium, the international community is mobilising to tackle poverty with renewed resolve. A series of recent global conferences focusing on various aspects of the poverty problematique (e.g. education, population, gender, social development, food aid) have set ambitious goals for the future. These goals have been reaffirmed by the development community and distilled in the OECD DAC *Shaping the 21st Century Strategy*, where bilateral donors agreed to work towards reducing the proportion of people living in extreme poverty by at least one-half by 2015. That vision has become an accepted international goal, widely endorsed by multilateral development institutions, developing country partners and non-governmental organisations.

Setting goals, of course, is important for focusing efforts and measuring progress. But how can they be achieved? How should the battle against poverty be waged in this day and age? What have we learned from experience?

The Forum assessed the state-of-the-art regarding poverty reduction strategies, programmes and projects from a wide variety of perspectives: developing country governments; donor agencies; NGOs; and the research community. The objective was to identify some key concepts, approaches and elements of successful poverty reduction strategies, to test them through dialogue and debate, and begin to distil proven best practice.

This thematic summary sets out the basic themes and issues that resonated in Forum discussions and briefly illustrates how they've been applied in selected developing country settings. The ideas expressed below, which are discussed in greater detail in subsequent chapters, summarise “leading edge” thinking on what it takes — for developing country governments and their peoples, for donors, for the multilateral system — to durably eradicate deprivation and want. They reflect diverse developing country experience, a wide range of academic inquiry, know-how accrued over many years, trial and error. Together, they comprise a working primer of best practice for poverty reduction upon which future efforts should be built.

Key Elements of Successful Poverty Reduction Strategies

Who Are the Poor? What Do They Think They Need? How Best to Help Them Help Themselves?

Despite years of effort in fighting poverty, there continue to be misconceptions and ignorance about who the poor are, why they are poor and what is needed to help them lift themselves out of poverty. Much scope remains for improving the information and analytical tools used to identify and understand poverty.

Traditional definitions of poverty focused very heavily on per capita income measures. Most now agree, however, that poverty has multiple dimensions which go beyond simple income considerations to encompass other, more qualitative aspects of life such as ill-health, illiteracy, lack of access to basic services and assets, insecurity, powerlessness, social exclusion, physical isolation, and vulnerability.

Participants recognised the emergence of new types of poverty. Contemporary trends and events have added refugees, AIDS victims, and people living in conflict zones to the ranks of traditional poor subgroups such as the sick, the disabled, the aged, widows and orphans, female-headed households and often ethnic minorities.

Poverty is best understood as a cumulative process involving a combination of educational and material deficits that combine in a series of immiserating traps. Poor people very often face vicious circles of low income, low education, low productivity, low life expectancy, early marriage, a large number of children, malnutrition, poor health, all of which lock them into low income, low education — and so forth.

A better understanding of who the poor are and their socio-economic reality is essential to tackling the root causes of poverty and improving the focus and impact of interventions. Nevertheless, assisting the poorest of the poor continues to pose special challenges given that they are often “invisible” and risk-averse. Identifying, reaching and working with poorer people requires commitment, diligence and a continuous reassessment of perceptions, understandings and actions.

The requisite agenda for deepening knowledge about poverty and improving efforts to reduce it include:

- improving data collection, strengthening analytical tools (e.g. participatory poverty assessments) and using common, widely shared analyses of the nature and dynamics of poverty in specific country contexts for planning purposes;
- reaching agreement among all development actors on approaches to measuring poverty and on indicators and benchmarks to be used for assessing change over time;
- determining the most effective policy instruments to protect the poor from short-run adverse macroeconomic policies, and defining the most powerful social programmes, investments and delivery mechanisms for improving their welfare, and

- improving evaluation methodologies for assessing the impact of poverty reduction programmes and projects and sharing lessons learned more broadly with the development community and stakeholders.

Defining a Locally Developed, Widely-shared Strategy

The point of departure for fighting poverty successfully is elaborating a strategy for dealing with its causes, its dynamics, and its manifestations. This strategy should be at the centre of the country's development plan to ensure it receives priority. Strong local ownership, which is essential for sustainability, can be promoted through wide consultation with all levels of civil society, who should play a key role in determining the strategy's substance, scope and priorities.

Successful poverty reduction strategies are those that:

- aim to attack poverty on many fronts (e.g. access to resources and services, safety nets), simultaneously, within an integrated framework;
- operate at different levels within the country (national, regional, local) and across public policy (macroeconomy, institutional development, sectors and micro-level or targeted projects);
- forthrightly address the gender dimensions of poverty given the separate and unique contributions, needs, and constraints experienced by poor men and poor women;
- promote partnerships between local authorities, the private sector, civil society (including NGOs), and external donors for implementing plans and strengthening awareness, commitment and responsibilities;
- balance equitable economic growth with investment in human development; and
- have been translated into concrete programmes and projects.

Uganda mobilised nationwide support and ideas — and generated local ownership, commitment and creative energies — for its poverty reduction strategy cum national development plan through widespread public consultation processes carried out at the rural, district and provincial level.

Economic Growth and Equity

In a general way, participants agreed that there is no universal pro-poor growth strategy or development model. Each country must find its own path. Strategies for pro-poor growth and economic development will differ from country to country depending on resource endowments, relative development progress, and the historical/cultural/social context.

Beyond this, however, much is known about how economic growth and poverty intersect. Cross-country assessments show conclusively that no country has had a significant decline in poverty without high levels of growth — and no country has achieved high growth without high levels of public and private investment.

But what kind of growth? Forum discussions revealed that the most successful economic development strategies for reducing poverty combine three approaches: *i)* rapid, broad-based growth with little rise in inequality; *ii)* the development of sectors and regions where the poor predominate (or avoidance of discrimination against the poor in these areas), and *iii)* stimulating labour-intensive production.

On the first of these points, Forum participants acknowledged the crucial role played by equitable growth: where economic and social opportunities and benefits are distributed more widely in society, there is more scope for making greater inroads in poverty reduction. Recent analysis conducted by the World Bank confirms that the level of inequality in a society has an important bearing on the level of growth required for reducing poverty. While there is no simple relationship between growth, initial poverty and the pattern of income distribution, in general the higher the initial poverty rate and the greater the initial inequality, the higher the growth rate required to reduce poverty. Thus, equitable growth patterns and redistribution policies can have an important impact on the pace and scope of poverty reduction.

Regarding the latter two approaches, participants agreed that the chief axes for pursuing pro-poor growth fall in the areas of agriculture and labour-intensive production, where the following points were underscored:

- *Agriculture.* The majority of the poor in many developing countries live in rural areas. Agriculture thus plays a critical role in incomes, nutrition, food security and mortality. Agricultural programmes that liberalise markets, increase productivity and increase the availability of food will have a very substantial impact on the well-being of the poor. Special attention needs to be given to how agriculture is being modernised, land issues that affect productivity, agricultural infrastructure (feeder roads, markets, information) and research and extension services. Strategies that target agricultural productivity to relieve poverty should also strengthen linkages between the non-farm rural sector and agriculture.
- *Labour-intensive production.* Growth that is based on the most abundant factor of production in developing countries — labour — is key for increasing the employment and incomes of poor people. Possible avenues for strategic support and targeted efforts in this regard include agro-industry, textiles, construction, services, public works and microenterprises. At the same time, participants recognised that globalisation, technical change and private sector development — key to future development progress — are not necessarily supportive of poverty reduction strategies. More effort is needed to elaborate policy responses to strengthen these linkages, such as stimulating export production (e.g. manufactures, non-traditional crops) within large numbers of local enterprises

not yet participating in globalisation. Strengthening the enabling environment for investment and enterprise can dynamise the business sector, creating demand for microenterprise development. Participants stressed the central role of public action (sectoral policies, training, financial support) to enhance the capabilities and opportunities of the poor at the local and national level, which will determine the extent to which they will be included in global growth and development.

More generally, pro-poor growth strategies call for a stable macroeconomic framework (low inflation, prudent fiscal management to support pro-poor expenditure and structural reforms to strengthen market forces) in combination with shifts in expenditure patterns towards basic health and education services and with well-targeted safety nets to offset the costs of adjustment for poor people. They require systematic and continuous analyses of the pros and cons of different macroeconomic policies from the perspective of their anticipated impact (including distribution patterns) on the poor. A case in point: deregulated food prices will have different effects on the poor depending on whether they are net food producers or food consumers.

Finally, participants in the Forum carefully considered the role that women play in economic growth and income-generation. How can policies improve women's access to credit and business training? What are the key issues here (land ownership constraints? time constraints? food security needs?)? How can women be more actively involved in producing non-traditional export crops? Do women risk being further marginalised given that men can afford to take greater risks?

Malaysia focused on redistributive policies and on creating an enabling environment for investment that powered private-sector-led growth which, together, created a virtuous circle of poverty-reducing growth and growth-enhancing poverty reduction.

Uganda's current poverty reduction strategy focuses (inter alia) on increasing agricultural productivity in rural areas as a way of strengthening the link between economic growth and poverty reduction.

The state of Kerala in India achieved exceptional progress in reducing poverty over an extended period through a two-pronged strategy emphasising public investment in social services and important redistributive measures (e.g. land reform, housing schemes, food supplements and an expanded distribution system for public services).

Investing in People

Access to health and education has long been considered as pivotal in helping people acquire core capabilities that, in turn, permit them to escape from poverty: healthy, literate people are in a better position to create and exploit economic opportunities. But while the emphasis for many years has been on increasing public expenditure in these areas, Forum participants agreed that now efforts should stress improving public sector capacity to deliver quality social services more broadly

throughout society. Efforts to upgrade, focus and improve the coherence of public policies and programmes on a sectoral basis (such as through sector investment programmes) are key in this regard, although it will be necessary to ensure that the centrality of poverty concerns are not lost while reforming social sectors.

Forum participants noted the continuing bias of social expenditure in many developing countries towards higher-income groups (e.g. urban focus, curative care, tertiary education) and agreed that efforts must be redoubled to ensure public spending is reallocated to basic social services, which will have greater impact on improving the wherewithal and capabilities of poorer populations.

Education (including community-based, non-formal literacy programmes in local languages) is considered a prime vector for poverty reduction given its role in opening up economic opportunities and for associated benefits it generates (e.g. literacy enables people to learn about hygiene, nutrition and public services and helps inform them of political and social rights). Factors to be stressed here include:

- *Functional adult literacy*, which helps people understand their role in development — and equips them to carry out that role (e.g. make informed decisions, set priorities, participate in local affairs); and
- *Increasing the access of girls and women to education* given its demonstrated effect on fertility rates, productivity and employment possibilities and the key role that education plays in helping women — key catalysts for social development — provide the array of knowledge and services needed to improve child welfare, so important for stemming the intergenerational transfer of poverty.

Engaging the State and Society in Effective Poverty Reduction: The Political Agenda

Findings from the field, from research, and from developing country case studies discussed during Forum proceedings repeatedly stressed the importance of volition, engagement, commitment and opportunity in addressing the poverty problematique. Poverty, it was agreed, is much more than an economic and social issue. It has strong political content. In fact, there seems to be a growing consensus that participation, empowerment, political pluralism and good government may be as important to durable and effective poverty reduction as equitable economic growth and widespread access to basic social services.

Why is this so? Experience has shown that successful poverty reduction programmes and projects are dependent, in the first instance, on people themselves: their ideas, their energies, their motivations, their actions. A supportive social and political environment is essential for enabling poor people to convert their latent capabilities into better social conditions and higher standards of living. Strengthening institutions, political processes, social mechanisms/groups and government facilitation for opening up society and actively engaging people can be pursued on a number of fronts:

- stimulating through decentralisation the active *participation* of poor people and wider society in determining policies and priorities, in allocating public resources, and in choosing, implementing and being responsible for poverty reduction programmes and projects. By participating actively in poverty reduction strategies and reflecting on their own problems and needs, poor communities can release considerable energies and create local ownership, leading to more appropriate, sustainable solutions.
- *empowering* civil society (especially rural people) to take charge, to exercise voice, to act in their own interests and shape their destinies through democratic processes and institutions that mobilise and channel participation;
- *involving the non-poor* in national poverty reduction strategies, marshalling their commitment and contributions on the basis of dialogue and mutual interest, laying the foundations of social consciousness leading to more just and caring societies;
- providing education, sensitisation and information for the poor and civil society more generally in order to facilitate informed participation; and
- *improving local governance*, including policy-making, managerial capacities and integrity (transparency and accountability).

Of course, the state itself plays a key role in facilitating these dynamics in society. Evidence from developing countries shows that where there has been a serious attempt to reduce poverty or where prospects are more promising, the state has taken on a new role. It is a more voluntarist, committed state, taking strong ownership of the poverty reduction strategy, leading its implementation and actively promoting internal partnerships in pursuit of that goal. A state that is more accepting of pluralism and supportive of mechanisms to decentralise power and promote participation, which means very deliberate efforts to strengthen transparency, accountability and capacity at the local level. It is a state progressively working to strengthen national stability, integrity and institutional certainty, from whence democratic forces can take root and flourish.

Women play a special, catalytic role in development and, particularly, in poverty reduction. Empowering women to participate fully in civic and economic activities, to play a role in decision-making, to influence policies and to access resources and services will enhance their potential as development actors. Efforts should focus on addressing the institutional and legal constraints that prevent their participation in decision-making processes at all levels of society. Forum participants underscored the need for both partner countries and donors to systematically consider and deal with the gender implications of poverty in policies, programmes and projects.

Civil society's active participation in Kerala's poverty reduction strategy (e.g. choosing and allocating resources for programmes, keeping track of expenditures, influencing policy, developing a wide spectrum of information sources and channels) was key to building the social capital that overcame caste discrimination and the opposition of elites.

Malaysia's highly effective delivery system for implementing its poverty reduction strategy involved top-down and bottom-up processes based on technical and co-ordinating committees formed at different levels of government down to the community level, which ensured a participatory — and thus effective and sustainable — process. The commitment and leadership of the Malaysian government to its poverty reduction strategy was crucial as well. Government determined the economic policy framework, redistributed assets and resources, provided critical social services and infrastructure to the poor and framed legislation that established property rights and the legal basis for discouraging discrimination (e.g. gender, race, ethnicity).

Bolivia's highly innovative "Law of Popular Participation" is proving to be a potentially powerful instrument for decentralising decision-making and resource allocation to the local level and creating the basis for a more informed, participative and equitable society.

Partnership

The OECD DAC Shaping the 21st Century Strategy highlights the importance of creating a new relationship between developing countries and donors based on mutual accountability and characterised by both common visions and goals and reciprocal rights and responsibilities. Experience shows that development partnerships will achieve greatest effect when they respect and encourage strong local commitment, ownership, participation and capacity development. Forum participants underscored the centrality of partnership between internal and external actors, across countries and among national stakeholders (poor people, local government, NGOs, civil society, the private sector) for eradicating poverty.

Recommendations for improving development partnerships advanced by Forum participants include:

- strengthening the scope and frequency of dialogue among all partners, which will facilitate agreed understandings about goals, ways of reaching them, and ways of measuring and evaluating achievements;
- giving adequate attention to the need for mutual accountability among all development partners (e.g. partner governments, donors, NGOs, self-help organisations, community associations, etc.);

— for external partners:

- helping partner countries develop national capacity to conceive, prepare and implement programmes and projects as their poverty reduction strategy;
- keeping in mind that partnership is built on mutual respect for different approaches and different knowledge;
- rallying behind local leadership, a common agenda and harmonised reporting procedures, and
- establishing credible, poverty-focused partnerships by providing future aid on the basis of partner countries' demonstrated commitment to, and performance towards, poverty reduction goals.
- Participants raised a number of questions regarding partnership that will have to be addressed through country-based experience. By what criteria will partner country commitment be judged? What is going to be the nature of the compact between partners, and what benchmarks will be used for judging mutual performance? How can performance-based conditionality be applied to donors as well?

The Development Co-operation Side of the Equation: Living Up to Commitments and Expectations

The Donor Balance Sheet

A good share of Forum discussions focused on how bilateral donors are performing in terms of their commitment to reduce poverty through development co-operation efforts.

On the positive side, more donors see poverty reduction as the overarching goal of development co-operation and a greater share of agency resources have been allocated accordingly. Most focus their efforts on helping the poor gain access to resources, services and employment opportunities. More donors are attempting more frequently to include a gender perspective, to work in participatory ways and to focus on institutional development. Further, from the limited information available regarding ex post impact, it appears that the poor have, in fact, been able to benefit from donor interventions, especially in the health, water and sanitation sectors and, to a lesser extent, rural development.

Nevertheless, available research and analysis indicate that donors have a long way to go before their aspirations and rhetoric will be matched by efforts and practices. Shortfalls in donor policies and actions can be summarised as follows:

- *Scant targeting.* Relatively few interventions are directly targeted at the poor despite obvious needs and the benefits of immediate impact;

- *Donor poverty reduction interventions fall short of best practice.* Not enough best practice approaches have been identified or disseminated, much less systematically applied;
- *Unfocused strategies and lack of dialogue.* Most donors do not have clearly articulated strategies for supporting poverty reduction in specific partner countries or, where they do, there is little operational content. Little dialogue takes place with partners (either government or civil society) on poverty issues. Donors do not co-ordinate their poverty reduction efforts and there is limited exchange of information and experience;
- *Uneven performance in mainstreaming gender.* Most donors recognise the importance of gender in poverty reduction strategies. Progress has been made: gender perspectives are increasingly being integrated at every stage of the project cycle. But too often intentions and principles are not backed up by practices and actions, and there are few examples of ex post impact having been assessed in a gender-disaggregated fashion.

Emerging Guidelines for Improving Donor Performance

Participants agreed that donors can be influential for furthering structural reform leading to decentralisation and better management of poverty reduction programmes, for bringing public services closer to the poor, for promoting greater participation by the poor in development, and for fostering transparency and accountability in governance and the use of public resources.

Many observations, ideas and suggestions were proposed for improving the focus and impact of development co-operation supporting poverty reduction initiatives, including:

Overall Policies

- *Ensure that existing policy frameworks are well-conceived.* Aid effectiveness is conditional on good macroeconomic and sectoral policies (otherwise development assistance will only lead to increased public expenditure that cannot be sustained).
- *If poverty reduction is a priority, then show it by actions and allocations.* What share of development assistance goes to the poorest countries? supports direct poverty reduction activities? Do poverty reduction-related projects, programmes and technical co-operation in a given partner country directly derive from the national poverty reduction strategy?
- *Upgrade the quality and focus of country strategies.* Strengthen the underlying poverty analysis (e.g. understanding the nature, causes and dynamics of poverty, identifying poor populations and policy/programme priorities) and clarify the linkages between donor interventions and the local poverty problematique. Too often, donor “strategies” are little more than a list of what they are doing in partner countries.

- *Be more selective.* Development assistance alone cannot and should not drive the poverty reduction process: aid is nothing more — and nothing less — than a catalytic instrument, working in conformity with local institutions, conditions and cultures. Nevertheless, donors can make a big difference regarding strategic support for partner countries that are serious about poverty reduction.
- *Insist on policy coherence.* Donors should more systematically examine how other donor country domestic and foreign policies (e.g. debt, agriculture, trade, arms issues, environment) impact on poverty and efforts to alleviate it.

In the Field

- *Increase and improve targeting.* Focus on the poorest regions or districts and the poorest individuals or subgroups (e.g. the landless, tribal peoples, the handicapped, refugees, single-parent families). Analyse how to reduce leakage and benefit capture (especially in the productive sector, where people with assets are considered better credit risks) and how to design demand-creating rather than supply-led interventions.
- *Support local leadership.* Reduce hands-on micro-management. Where partner governments have decentralised funding and decision-making to the local level, back this with funding and institutional support for the poverty reduction schemes of local authorities. Donors should aim to “buy-in” to local programmes and projects.
- *Refocus poverty reduction portfolios.* Activities that have a long-term impact need to have greater emphasis in donor programming (primary education, health and sanitation particularly affecting women and children, time- and labour-saving technologies for women, social infrastructure, employment-generating public works programmes, etc.).
- *Untie aid to enhance cost effectiveness, promote partner country provision of goods and services and widen technological choice.*
- *Go the extra mile on participation.* Top-down project design and implementation usually results in irrelevant and ineffective assistance. Rely on participatory techniques and approaches, and explore ways of integrating them in the formal planning and project implementation practices of local authorities.
- *Strengthen engagement with civil society where poverty is not an official priority.* Where partner countries are not committed to poverty reduction as a policy priority, where no strategy exists, or where conflict prevails, donors can help catalyse and strengthen national forces concerned about poverty in a participatory and democratic manner. If a country is unwilling to elaborate a poverty strategy, donors could gear further support to encouraging the strategy formulation process.

Changing How Donors Think and How They Operate

The principles set out above call for fundamental change in aid management and practices along the following lines:

- *Stress poverty reduction as a priority.* Headquarters needs to give clear operational signals to programme managers that poverty reduction is a central priority.
- *Stimulate better poverty reduction performance.* Work to link agency reward and incentive structures with staff performance vis-à-vis poverty reduction impact.
- *Operationalise poverty reduction.* When it comes to poverty reduction, field staff often operate in a vacuum: they need more and better guidance about how to translate policy into effective and viable projects and programmes at the field level.
- *Decentralise decision-making to the field.* Flexible and timely responses to local conditions are essential when partner country governments and civil society are in the driver's seat.
- *Strengthen and deepen field presence.* The multidimensional nature of poverty calls for diverse skills and adequate staff for determining and carrying out appropriate actions.
- *Retool evaluation to assess impact.* Too little is known about the ultimate impact of donor poverty reduction efforts, mainly because evaluation systems — which focus on outputs and objectives — are not yet geared to extracting this information.

Shaping the Future

Forum discussions pulled together experience and knowledge, refined long-standing elements of poverty reduction strategies, added new ones. The essential elements of contemporary poverty reduction strategies distilled above have great relevance for future efforts.

But they are neither complete nor fully developed. Research, analysis, innovation and testing must continue. All sources of intellectual, human and social capital must be brought to bear in the quest for solutions. This is the development challenge.

There are still many unanswered questions. How to move from policy to practice? How to balance growth with social and environmental investments? How to respect differences among countries in pursuing poverty reduction strategies and yet better understand how experience and best practice can be modified and applied elsewhere? How to achieve results, rapidly, while avoiding an erosion of local ownership and partnership? How to balance commitments for achieving global results with the need to address local poverty pockets, regional poverty, poverty within different population groups?

Moving from ideas and best intentions to action and results in the fight against poverty remains the goal.

Progress will doubtless be contingent on the extent to which these key elements find their way into poverty reduction strategies. It will depend on the strength of government resolve to articulate and put in place its poverty reduction strategy, the role of civil society in participating in the design and implementation of that plan, and the co-ordination of development partners around that plan. It will call for commitment, discipline, perseverance and continuous efforts to learn from one another.

PART ONE

GOALS AND STRATEGIES

Poverty Reduction: A Review of Donor Strategies and Practices

Aidan Cox and John Healey

Introduction

Poverty reduction has loomed large in the agenda of most donors in the 1990s, yet the precise benefits for the poor remain less clear. This paper seeks to analyse whether the enthusiasm with which most donors have embraced poverty reduction (PR) as an aid objective has made a practical difference in the way they go about their business. The first section asks whether donors' strategic goals and operational objectives have changed to ensure a greater pro-poor focus and, if so, whether this reflects evidence of truly increased commitment and greater consensus on how to operationalise poverty reduction. The second section looks in greater depth at the extent to which donors have translated their goals and objectives into effective poverty-focused country programmes. Criteria examined include efforts made to understand the nature of poverty through country poverty assessments, the poverty focus of country strategies, the instruments used, evaluation, dialogue with governments and the effectiveness of pro-poor policy reform. The third section sets out one view of what donor best practice approaches to poverty reduction might look like, and provides evidence from the field of actual donor practices. The paper concludes that despite greater consensus on operational aims, best practice is less prevalent than might have been expected. A number of possible changes in donor organisational structure and management systems are explored in terms of their potential to bring objectives and practice into closer harmony. While recognising the vital importance of the recipient country context for effective PR, this paper focuses largely on the donor role and perspective.

The review is based largely on donors' own accounts of their policies and evaluation findings but also draws heavily from an ongoing *Comparative European Study of Aid for Poverty Reduction Study of Aid for Poverty Reduction*¹. The coverage of donors' PR actions tends to be tilted towards the low-income countries of sub-Saharan Africa and South Asia due to the location of the seven country case studies and the focus of much official documentation.

Donor Strategic Goals and Operational Approaches Regarding Poverty Reduction

What Priority is Given to Poverty Reduction by Donors?

It is possible to classify donors according to whether they have an overarching PR goal, whether PR is one among other high priority objectives, or whether it does not feature explicitly at all. Overarching PR goals are a feature of Belgium, Canada, Denmark, Finland, the Netherlands, Norway, Sweden, the United Kingdom (strengthened in 1997) and the World Bank. Other donors — such as Australia, Austria, Germany, Italy, Japan, Switzerland and the United States — consider PR as one among a number of development co-operation goals. Finally, there are some donors like France who see poverty reduction as part of a total process of development and not as an explicit objective requiring special measures (de Boisdeffre, 1997). Spain also does not consider poverty reduction an explicit priority (Freres and Corral, 1997).

An overarching PR goal should represent the strongest and most comprehensive commitment by a donor since, in principle, all their activities would be oriented and justified in terms of the ultimate goal, although there remains a risk that every activity can be interpreted as “poverty reducing” without adequate justification. On the other hand, those donors who have multiple goals including PR leave the priority they accord to PR ambiguous, making it difficult to judge performance against the goal.

Operational Approaches of Donors for PR: Is There Consensus?

Donors seek to achieve their strategic PR goals through their operational aims and approaches. Explicitness and clarity of these approaches is important for guidance to managers, and consensus among donors is important if progress in fighting poverty is to be achieved most effectively.

It is useful to start with the World Bank position (initially spelt out in the early 1990s), since it is in many ways the most worked out. For the World Bank, sustained growth is a necessary condition for PR (and its latest research suggests that this has been the most important factor in PR). However, growth and trickle-down are not seen as sufficient unless the distribution of the benefits of growth is shifted in favour of the poor, especially in employment opportunities. To achieve this a “three-pronged” operational approach is recommended:

- i) To pursue a pattern of growth that will allow the poor to participate in income-earning activities. This depends mainly on support for macroeconomic and structural policies to eliminate the bias against the demand for unskilled labour and to remove constraints/improve incentives for poor producers (especially women);
- ii) To assist poor people to improve their productivity, especially through investing in human development. The main operational aims have been to improve access of the poor to public services for human development (especially at primary level), including reallocated public expenditure and decentralised public services;

- iii) To provide safety nets for those who cannot take advantage of the above policies, e.g. the aged, the disabled, and those temporarily adversely affected by shocks.

Is There a Consensus on Operational Approaches?

First, most donors accept the World Bank position and sometimes reflect this explicitly in their own operational aims. However, there is not complete consensus. Some donors (such as France) do not have the same conception of the poor as a group for whom special measures are necessary, while others [the European Commission (EC), Italy and Spain] do not appear to have clear conceptions of poverty and pro-poor operational aims.

Second, there is a substantial difference between the World Bank and the UNDP, which sees human development as more important than income growth. For the World Bank, growth in income is vital to poverty reduction and brings improved human development with it, while the UNDP is primarily focused on human development and focuses more on the efficiency with which donors and governments achieve human development *per se*. While the UNDP would like governments to have employment targets, the World Bank sees the need for macroeconomic and structural reform to encourage “efficient” job creation to help reduce poverty. Most bilateral donors tend to agree with the World Bank view on this issue.

Third, there is a difference between the World Bank and certain bilateral donors who have developed a broader conception of poverty, which has important operational implications. For the World Bank, poverty has been seen largely in terms of income/consumption and in quantitative terms, although income insecurity is recognised. It shares with most bilateral donors an operational aim to help geographically isolated poor people and indigenous or tribal groups. However there is limited explicit recognition of the social/cultural/political context of poor people and communities, their exclusion and the need for empowerment (Hanmer, 1996). Operationally, therefore, the focus in World Bank operations has been largely on poor regions and areas and broad targeting of the poor to improve productivity, employment and incomes.

For a number of bilateral donors, however, poverty is now seen as a multidimensional concept requiring attention not only to income generation and access to resources but as well on reducing the exclusion of poor groups and to empower them. This has important operational implications in terms of identifying and narrower targeting of the poor in their communities and working on the institutional, participatory and empowerment aspects of their situation. Priority is therefore being increasingly focused on institution-building, participation of the poor and reduced discrimination. Thus, Sweden focuses on local authorities and electoral processes that improve participation of the poor and women; the Netherlands and Denmark support popular participation and decentralisation so that the poor are included; Germany emphasises promotion of self-help groups on a long-term basis, while Canada attaches importance to strengthening the capacities of organisations working with the poor. The United Kingdom has also placed increased emphasis on “stakeholder” approaches

in its interventions. France, which has no PR strategy, now pursues a decentralisation approach (*coopération de proximité*) which has potential for strengthening participation and empowerment.

Fourth, while virtually all donors give prominence to efforts to reduce gender discrimination *per se* there is increasingly stronger emphasis being given to the gender dimensions of poverty e.g. through supporting changes in power relations or income/asset distribution at the community and household level. While the lead among donors has been taken by CIDA, SIDA, DANIDA, and the Netherlands, other donors have followed including Japan, USAID and the World Bank (the latter having recently placed a new emphasis on improving women's access to education, maternal and child health as well as technology, knowledge and credit).

Fifth, there is now wide support for focusing on the basic needs of the poor through services such as primary health care and education, drinking water and sanitation [Denmark, more recently, France (Ministère des Affaires Etrangères, 1997), Germany, the Netherlands, the United Kingdom and USAID)]. Some donors explicitly favour efforts to reorient public expenditure in favour of basic public services through dialogue or financial support. A number focus on Human and Social Development (HSD) but with no obvious pro-poor focus (e.g. Australia, CIDA, EC, Italy). However, the EC, as well as Belgium, Germany, the Netherlands and the Nordic donors have recently adopted the 20:20 principle, which is a better indicator of PR commitment than commitment to human and social development *per se*. While donors provide direct financial support for a range of basic social service interventions, there does not seem to be widespread willingness to provide aid for recurrent as opposed to capital expenditures in poor countries with highly constrained budgets. Unpublished data from the Development Assistance Committee (DAC) on donor commitments to basic education and health suggests a slight upward trend for basic education and, to a lesser extent, for basic health during the 1990s. Although some donors (notably Denmark, Germany, IDA, Spain, the United Kingdom and the United States) raised quite sharply the proportion of their aid going to one or other of these sectors in 1996, the average proportion for donors remains very modest.

Sixth, social safety nets are conceived as publicly or internationally funded income maintenance programmes to protect persons or households against chronic or transient (due to shocks) incapacity to work or earn. The World Bank seems to be the donor most committed to providing support for such programmes. However, a few bilateral donors (Belgium, Finland, Italy and the Netherlands) also support the concept, sometimes in conjunction with UNDP programmes. Other organisations which have funded income maintenance programmes are the ILO (public works and micro-credit) and the WFP (food-for-work and nutrition programmes).

Seventh, there does not seem to be much interest among donors in redistributive fiscal policies (except perhaps DANIDA, Germany and SIDA). The World Bank and most other donors favour higher user charges for tertiary services (such as higher education) which largely benefit the rich. It is accepted in principle that the poor should not be required to pay user charges for basic services.

Eighth, while most donors share the aim of assisting small farmers (not always poor farmers) and sometimes the landless, so far little enthusiasm has been evidenced among most donors to tackle land reform, even though access to land is often a major constraint to improving economic well-being, especially for women (SIDA is the exception). Nor is much emphasis placed on agricultural research, which may be the key to employment creation and improved livelihoods for the rural poor in many regions (some exceptions are SIDA, the United Kingdom and the World Bank).

Finally, those donors with a PR strategy normally subscribe to the view that PR-oriented policies should be “owned” by the domestic authorities. There are some signs of an emerging consensus on considering lack of commitment to, or performance on, PR as one criteria for allocating aid. IDA and the Netherlands take this approach formally, although it is not clear in either case what weight is given to the PR criterion in practice. Since 1996, Denmark has maintained it will select countries of concentration on the basis of constructive dialogue with the recipient on policies and strategies to reach the poor. SIDA’s 1996 guidance makes aid allocation dependent on a country’s capacity to implement a policy against poverty and its willingness to conduct an open dialogue with civil society. DFID (the United Kingdom) has just announced it will enter deeper, long-term partnerships and provide more, and more flexible aid to low-income countries which are committed achieving international targets for eliminating poverty through pro-poor growth and appropriate policies (DFID, 1997).

Is There a Trend Towards Greater Commitment to Poverty Reduction?

The level of commitment is not easy to judge. The EU donors are not particularly accountable for their PR performance. Few have benchmarks for judging the extent to which they are achieving their PR goals. Systematic statistical information or records of donor PR or social sector spending intentions/outcomes are very patchy. They are partially developed for FINIDA, Germany, the Netherlands, Sida and the United Kingdom. The World Bank is fairly unusual in providing some systematic quantitative as well as qualitative account of its performance against its poverty objective.

Nevertheless, our broad judgement is that there has been increased commitment to PR among a group of donors during the 1990s based on the following evidence:

- i) There have been serious major internal reviews and moves toward more effective operationalisation of existing PR goals by DANIDA, SIDA and FINIDA;
- ii) Some donors have recently set out more explicit/emphatic strategic goals for PR, most notably CIDA (1995), DFID (1997) and recent European Council resolutions (1992–96);
- iii) About half the European donors now support the 20:20 principle, though systematic information on how far donors are financing the appropriate social expenditures is not available yet;

- iv) In the case of the World Bank, the strong commitment to PR in 1992 has been disappointing in practice, although there is evidence of renewed efforts more recently. While Italy and Belgium are showing signs of greater commitment to PR, there remains little evidence of a change in the formal position of France or Spain.

Overall, there are indications of higher levels of formal commitment to PR in the mid–1990s. There now exists a group of donors who seem “like-minded” in their commitment to and greater operationalisation of their PR objectives (CIDA, Germany, the Netherlands, all the Nordic donors and the United Kingdom). There is considerable agreement — though not always consensus — on a range of operational aims. At the same time, there are some donors whose commitment remains non-existent (e.g. France, Spain) or weak (e.g. the EC).

Implementation of PR Aims at Country Level

To what extent have donors made progress in more effectively operationalising and implementing their PR strategies and aims?

A “best practice” model suggests that where a donor is “serious” about PR, its country operations should:

- i) be well informed on the nature of poverty and formulate a strategy for its own programme (spending) which prioritises clearly the PR component in relation to other objectives;
- ii) ensure strategy formulation is participative, involving constructive dialogue on PR with the recipient authorities at least at sectoral level;
- iii) identify the precise characteristics of target populations;
- iv) seek greater domestic “ownership” of PR measures and actions;
- v) have some idea of the effectiveness of their interventions in benefiting the target groups;
- vi) engage in wider policy reform and expenditure re-orientation to assist the poor through “consensus building” with like-minded donors and with the domestic authorities.

Insights on *actual* donor practices set out below are drawn largely from the *Comparative European Study of Aid for Poverty Reduction Study of Aid for Poverty Reduction*.

Country Poverty Assessment and Analysis

How well informed are donors about the nature of the poverty situation and the diagnosis for reducing it?

The main source of measurement and assessment of poverty in-country comes from World Bank Poverty Assessments (PAs) in countries where the authorities themselves do not have the capacity to provide them, as well as Public Expenditure Reviews (PERs). Observation suggests that the EU bilateral donors and the EC rarely do much in-depth analysis themselves, although they may sometimes assist in

strengthening local capacity for this purpose. Sometimes — but not always — they use World Bank work (e.g. Zambia was an example where they did not do so although there was a “model” PA).

Despite delays the number of PAs completed and the quality of PAs has improved in the 1990s (World Bank Progress Report, 1996). Participatory analysis (surveys) provide a better picture of the needs of the poor themselves (especially in Africa), and new information has been obtained about which income groups benefit from public expenditure (benefit incidence analysis)².

Nevertheless, marked weaknesses and variability in PA quality seem to persist, according to independent analysts (e.g. Hanmer *et al.*, 1996; Toye and Jackson, 1996). These criticisms relate mainly to sub-Saharan Africa, where the conceptual framework for addressing the poverty problem is considered inadequate. Poverty measurement continues to be dominated by an income/quantitative approach, which masks the personal characteristics of the poor (age, education, sex, destitution), the household as a group (especially in subsistence activities), gender relations and the social context (including ethnicity). Coverage of asset distribution is weak and there is inadequate focus on socio-economic groups and spacial aspects of poverty. These deficiencies result in less operationally relevant conclusions, such as a poor understanding of the markets for land, credit and labour — critical for addressing access to assets for the poor.

The link between description and policy recommendations is considered weak, with a lack of a systematic approach from micro to macro. The analyses lack a historical/cultural context and a penetrating assessment of prevailing political dynamics, which set considerable constraints on structural and policy change.

Despite these criticisms, bilateral donors have done much less than the World Bank in terms of conceptualising or analysing poverty and formulating pro-poor policies and approaches.

Donor Country Strategies and Dialogue on PR

Have Donors Effectively Incorporated PR Objectives into Their Country Strategies?

In 1995 the World Bank Task Force on Africa found considerable weaknesses in Country Assistance Strategies (CAS) for most sub-Saharan African countries. There appears to have been no unique perspective on PR, no clear objectives and strategic vision, and little emphasis on PR *per se* or to specific actions that might benefit the poor. It is not clear whether these criticisms hold as strongly for other regions. Independent analysts have been critical of World Bank country policy and programme conclusions drawn from assessments in sub-Saharan Africa observing that few operational conclusions were drawn and that much poverty content was lost between initial PAs and lending programme implementation. Criticisms centred on a preoccupation with macro policy; lack of clarity about how labour-intensive growth can be achieved; inadequate attention to institutional and market structures; scant attention to policies or programmes to strengthen community networks or to effective safety nets (Hanmer, 1996).

The World Bank is addressing some of those weaknesses through ongoing efforts to strengthen its focus on country strategies and the integration of PAs in them. Country Directors are being located “in country” and can call flexibly on “global” expertise to meet their country (PR) strategic and operational needs.

Some bilateral donors do not use explicit country strategies and programming as a planning instrument (e.g. Australia, France, Spain). European donors which rely on these tools and have a global PR strategy often do not have well-formulated PR content in their country strategies. For Denmark, the EC, Finland, Germany, the Netherlands, Sweden and the United Kingdom, the *Comparative European Study of Aid for Poverty Reduction Study of Aid for Poverty Reduction* revealed the following broad characteristics of country strategies and dialogue processes (see Box 1 for more detail):

- Country strategies are drawn up by donors usually in a “top-down” way, with little consultation within the recipient country;
- Country strategies give little clear prioritisation between the PR objective and other (often conflicting) country objectives;
- Strategies are sometimes too vague to provide operational guidance and they do not provide sufficient benchmarks for assessing performance. There is usually a weak link between interventions and PR objectives;
- There is very limited co-operation — or even exchange of information — on PR among EU donors, although there is some co-operation with the World Bank;
- Bilateral donor dialogue with partners on PR at policy, sector and local levels is variable and generally weak; and
- Although some donors are introducing a sectoral approach instead of *ad hoc* projects (e.g. Denmark), there is mixed evidence as to whether sectoral approaches have incorporated PR objectives (e.g. Burkina Faso, India).

There are some exceptions to these generally rather weak practices and procedures. The Netherlands in Burkina Faso had a PR strategy, identified poor groups and pursued mutual dialogue/participation at all levels (from policy through sector to project level) with targeted groups. Germany had made efforts at targeting in Burkina and the Nordic donors and the Netherlands in Bolivia. In India, Germany (particularly) and other donors pursued PR dialogue and conditionality on self-help/awareness creation initiatives for the poor as well as decentralisation efforts. There are also some important promising signs of change. The European Commission (DG VIII) has recently circulated guidance on how to incorporate PR objectives into national programming (ACP countries). CIDA set itself the task of integrating PR goals into its country programming in 1995. The United Kingdom in its new White Paper points to measures to sharpen its focus on the poor in its country programmes, while Australia may do so following a recent major critical report (AusAID, 1997).

Box 1. EU Donor Country Strategies and Dialogue on Poverty Reduction

Bolivia (EC, Germany, the Netherlands, Denmark, Spain, Sweden)

Denmark, Germany, the Netherlands and Sweden have reasonably clear PR strategies focusing on the poorest regions and sometimes indigenous groups. EC and Spain have no PR strategy, although the EC implemented integrated rural development projects in poor areas and more recently has initiated a large food security programme which is considered promising. Only Germany and Denmark pursue fairly thorough and systematic dialogue concerning PR policies.

Burkina Faso (Belgium, Denmark, France, Germany, the Netherlands)

Germany and the Netherlands had both conducted studies on the poverty context, identified poor groups and formulated PR strategies. This was largely an internal exercise for Germany, but the Netherlands made additional efforts to support Burkinabe policies on PR. There was little dialogue at national level (both presented rather than discussed their own strategies) but considerable dialogue at project levels and, for the Dutch, at sector level. On the other hand, for France (the largest donor), there was no PR strategy or dialogue and virtually no targeting of the poor. The EC performed no poverty analysis and had no poverty objective, no target groups, nor had any dialogue on these issues. Belgium was similar but is now formulating a PR strategy.

India (EC, Denmark, Germany, the Netherlands, Sweden, the United Kingdom)

The PR objective is weakened by the importance of commercial considerations (for example, Denmark and Sweden). The nature and causes of poverty were rarely analysed (though there were some sector reports by DANIDA, some poverty analyses by the Netherlands, and the United Kingdom has begun analytical work). Country strategies were not consultative and thus were entirely top-down and donor-driven. These may become participatory for SIDA, DANIDA (post-review) and the United Kingdom. Strategies did not appear very operational. The link between the donors' PR objective and their current and planned interventions was weak.

It was rare for poverty to be discussed in-depth as a generic issue in any dialogue channel. However, Germany has been most effective in bilateral dialogue with the Indian authorities in gaining their acceptance of the principle of self-help in PR interventions. Donors see themselves generally as having little leverage given the paucity of their resources in the all-India context of poverty, although opportunities may have been missed. Nevertheless, dialogue is opening up at the state level where donors have more clout. EU donors, led by UNDP, also began discussions on social development at the last Consultative Group meeting. Sectoral approaches are increasingly prominent (partly reflecting dissatisfaction with the impact of projects) but were not necessarily linked to PR. Conditionality was often applied with respect to decentralisation of power to local government (particularly the Panchayat Raj) and at project level. Indian partner institutions were encouraged to adopt a participatory approach aimed at demand creation.

Nepal (EC, Denmark, France, Germany, the United Kingdom)

Donors conduct little poverty analysis in Nepal. Only GTZ and the Nordic donors had a relatively comprehensive PR strategy. EC, France and the United Kingdom lacked a poverty focus and there was no donor co-ordination or consensus on PR. No poverty-related conditions were applied to aid. The government of Nepal lacked both commitment and a clear strategy on poverty reduction. Any dialogue at national policy level lacked focus on PR, though far more useful dialogue took place at sectoral level, especially for GTZ and DANIDA who sought to understand local perspectives. There was limited targeting of poor groups, especially indigenous ethnic and low caste groups (targeting has been discouraged until recently by the Nepalese government).

Tanzania (DANIDA, Finland, France, Germany, Italy, the Netherlands, Spain, the United Kingdom)

France, Spain and Italy focus their aid on image, diplomacy and commercial interests, but the other donors promoted PR. DANIDA had the clearest PR strategy. Donors differ in their targeting strategy: some favoured very specific target group identification (for example, the Dutch, Finns, Germans, Irish and the United Kingdom), but others considered targeting a waste of time since “all the people are poor”. The Nordics take part in fairly active dialogue with the authorities on the causes of poverty and best approaches for joint action. The PR agenda is set through dialogue between the World Bank/UNDP and the government.

Zambia (Denmark, EC, Finland, Germany, the Netherlands, Sweden and the United Kingdom)

The process of donor country strategy preparation was largely internal and non-consultative. Although all donors saw poverty reduction as a major (or the major) objective, there was little analysis of poverty context, apart from efforts by Denmark and Sweden. Donors did not identify poor target groups, and were unclear as to what they meant by poverty, although most considered women as a specific target group (Denmark, Finland, the Netherlands and Sweden). Five donors considered support to the economic reform process as a top priority. Next most emphasised were social sectors (with particular attention to urban poor), rural development (smallholders and forestry) and women. The main mode of intervention was through projects, although three donors focused on sector approaches (Denmark particularly strongly, Sweden and the United Kingdom). Any dialogue was at the sectoral level for Denmark, Finland and the Netherlands.

Zimbabwe (Denmark, EC, Germany, the Netherlands, Sweden and the United Kingdom)

Germany and the Netherlands lacked commitment to PR. The four donors with more serious PR intentions (Denmark, EC, Sweden and the United Kingdom) had not undertaken any systematic analysis of the poverty context, except for a special assessment of the problems of women. The United Kingdom and EC did not specify a PR strategy and Sweden was not precise. Target groups had not been identified, except by Denmark. Donor country strategies were usually discussed with government officials, though they tended to be top-down processes. Only Sweden undertook wider consultation and sought consensus-building. For all four, there was limited coherence between PR goals and selected interventions.

Sources: De Boisdeffre (1997); Locquai and Van Hove (1997); Freres and Rhi-Sausi (1997); Cox *et al.* (1997); Gsänger and Voipio (1997); Hoebink and Voipio (1997); Saasa *et al.* (1997); Killick *et al.* (1997).

Country Programmes: Instruments and PR Portfolios

Poverty Targeted Interventions (PTIs)

A number of bilateral donors use *targeting* as an instrument for reaching the poor (DANIDA, DGIS, FINIDA, SIDA and the United Kingdom) along with the World Bank. Others have more recently embraced this instrument (e.g. CIDA, EC). Most donors distinguish between “direct targeting” or “narrow” targeting of the poor as opposed to “indirect PR” or “wider” targeted interventions.

While the “wider” or “indirect” category in practice is the vaguest operationally, “direct” targeting efforts are defined in different ways by donors. “Direct” targeting varies from efforts to identify and reach only poor groups (e.g. the EC), to those where the benefits largely go to poor people (the United Kingdom) (and where, for Germany, 60 per cent are women), to those which involve working with the poor (CIDA) or to those which assist poor groups to participate more in society (Denmark).

However, an important new and valuable feature of targeting recognised by some donors (including IDA, see Carvalho and White, 1996) is not just to supply services which are appropriate for the poor but to help create their awareness of the need and the *demand* for them.

What dictates the choice or the balance between direct targeting and broader-based interventions in a country? The World Bank position is that in those countries where there is widespread poverty and limited institutional capacity, the focus should be on broad-based interventions and policy change for growth. In those countries where poverty is more concentrated and capacity is greater, there is a case for using targeting mechanisms. In practice, the World Bank has undertaken few narrowly targeted projects which may reflect a bias in their poverty assessments or their concern about the intensity of staff inputs and time involved.

The bilateral donors — at least the European ones — do not seem to have a clear strategy on targeting “in-country”, and indeed almost appear to practice the opposite of what the World Bank recommends. Thus in Tanzania and Zambia there was some evidence of targeting being used. Yet in Zimbabwe, a country corresponding to the second category, there was little effective targeting by any of the EU donors [see Killick *et al.* (1997), Hoebink and Voipio (1997) and Saasa *et al.* (1997)]. There was a general weakness among European donors in identifying a clearly defined group of poor or vulnerable people and designing their interventions to focus on their needs.

Sector Approaches

There has been a recent shift from *ad hoc* projects towards more *sectoral approaches* for PR, particularly in the social sectors, although there is little evidence yet of how effective this has been. Among the donors, DANIDA (e.g. the health sector in Tanzania) and the World Bank have gone the furthest. DFID proposes to shift in this direction where governments are committed to PR. There is scope for any donor (and not just the World Bank) to take the lead on PR-oriented sector programmes.

Potentially there are advantages in sector-oriented PR interventions. It requires domestic capacity, of course, but sector interventions are intended to support institutional strengthening and a consistent policy environment for more effective impact on the poor. In addition, it may be easier to achieve domestic ownership within a Ministry (e.g. health, education or agriculture) at sectoral level than at project level, where there is also the risk of creating unsustainable donor enclaves. It should be recognised, however, that there are risks inherent to working on upstream issues may lead to a loss of focus on the service users — and the poor in particular. It is therefore important when setting the reform agenda to trace the links between interventions at different levels of the system and potential benefits (or costs) for primary stakeholders. Otherwise, there are dangers that efforts will be too broad-based with insufficient targeting mechanisms to ensure that the benefits are concentrated on poor areas or groups. For DANIDA see Udsholt (1997) and for India experience see Cox *et al.* (1997).

Most bilateral donors have made increasing use of NGOs – both international and southern – in their poverty strategies. A recent multi-donor major *ex post* evaluation of NGOs suggests that most NGO projects *do* focus on poor people, some reach very poor people and they largely achieve their immediate objectives. Experience in the field, however, suggests that NGOs are not a good channel in some countries and that, overall, NGOs can only play a limited — though important — role in donor PR strategies. [See Killick (1997) on Zimbabwe and Cox *et al.* (1997) on India.]

PR Content of Donor Portfolios

During the period 1992–95 there were some shifts in World Bank lending in a partially pro-poor direction:

- First, the proportion of aid commitments (annual) which were either widely or narrowly targeted on the poor rose from 18 to 24 per cent in the World Bank, although they stagnated at 28 per cent for IDA during the period.
- Second, narrowly targeted interventions (i.e. those which are usually participatory and community-based) have remained the exception (in 1995 narrowly targeted PTIs accounted for only 1 out of 24 PTIs in sub-Saharan Africa and 3 out of 8 PRIs in South Asia).
- Third, in the World Bank as a whole (1993–95) there has been an increase in the proportion of spending committed to education at primary levels, while the proportion of social sector interventions aimed at women and girls rose quite substantially. However, over the same period for sub-Saharan Africa countries, programme composition did not always shift in a pro-poor direction [e.g. agricultural assistance was limited and largely untargeted and there was a decline in rural (compared to urban) spending on water and on rural roads — both of which are inconsistent with the expressed needs of the poor].

For the bilateral community, however, it is difficult to assess funding shifts. Few European donors systematically publish figures on their commitments for poverty-focused projects, and no published evidence is available on individual recipient countries. The difficulty of obtaining an accurate picture is exacerbated by the fact that donors which *do* use a marker system to classify inputs by degree of poverty orientation have non-comparable approaches. The *Comparative Study of European Aid for PR* provides some provisional and incomplete information on the donor project portfolios for a few — not necessarily representative — countries. The authors attempted to discriminate between direct and indirect PR interventions, defining “direct” PR interventions as those where the intention was to target the majority of benefits to the poor, and “indirect” PR projects and sector/policy reform interventions as those where a plausible link had been made between the activity and PR which could be expected to bring substantial benefits to the poor (though others may benefit as well).

In Zambia most donors had few direct PR interventions in their portfolio, although Germany and Finland had made some effort. In Zimbabwe two donors — SIDA and the United Kingdom — had about half their portfolio in the direct and indirect PR category, while Denmark and the EC were significantly lower although the EC had a greater proportion of direct PR interventions. On the other hand, in India there was evidence of an increasing donor focus on PR in the 1990s. Some donors had quite high proportions of PR interventions (e.g. the Dutch, Germany, Sweden, but less so for DANIDA and the United Kingdom). Danish, German and Dutch programmes focused on the rural poor and women in urban areas while Denmark and (more recently) the United Kingdom spent a substantial proportion on basic social services.

An important conclusion that emerges within individual countries is the considerable range of donor involvement in PR activities.

Ownership and Conditionality in Country Interventions for PR

Where national commitment to PR has not been strong, donors have sought pro-poor alliances at the intermediate level of government (e.g. Ministries). However, there have been few cases of donors buying into locally initiated PR schemes in the seven country case studies, although an interesting exception is the national District Primary Education Programme in India (see Cox *et al.*, 1997). In many cases donors continued to take a very “hands-on” management approach (e.g. Denmark and the United Kingdom in India) despite the ownership ideal. Norway provides a good example of a donor being prepared to stand aside and offer budgetary aid and institutional support for PR (e.g. in Tanzania).

Ownership for PR is, of course, more difficult at local level. An interesting development here is that donors have often made decentralisation a condition of aid (e.g. for the Panchayat Raj in India), which can potentially increase aid effectiveness — although decentralisation is not always synonymous with participation of the poor. At the project level, donors commonly make participation of poor groups a requirement and Germany (in particular) has taken a strong line on the acceptance of self-help institutional approaches, a distinctive feature of their aid programme.

Systematic information on the PR effectiveness of donors' micro and meso interventions is scarce because of limited monitoring and evaluation (see below).

Monitoring and Evaluation Systems

Monitoring and evaluation are especially important for interventions designed to reduce poverty given that such interventions tend to be complex, risky and process-oriented. Poverty reduction is often a long and complex process, with many interventions — such as those seeking to improve health or education levels — requiring substantial elapsed time to show an impact. In these circumstances, best practice suggests the need to carry out *ex post* evaluations some time after project completion. The value of such an evaluation is greatly enhanced if attention has been given to carrying out a baseline study at the identification stage, or if a randomised or experimental design is built-in from the start (providing for a “with-without” or other comparisons) (Squire 1994). Self-evaluation may be appropriate in some cases, as it tends to be far less costly than external evaluation and may contribute to building local capacity. Evaluation and monitoring is of only limited utility unless the lessons learnt for poverty reduction are fed back into future programme/project identification, design and implementation.

Donors certainly expect their evaluations to provide insights regarding impact and sustainability, yet in practice the vast majority of evaluations focus on activities and outputs (SIDA, 1997). They provide guidance on operational matters, but it is astonishing how little light they shed on effectiveness in terms of actually reducing poverty. Killick *et al.* (1997) felt that most of the interventions they studied raised welfare, but that lack of clarity about target groups made it hard to assess the extent to which welfare improvements had reduced poverty.

There are individual examples of approaches to project monitoring and evaluation which have provided valuable feedback on poverty reduction effectiveness. One such is provided by the DFID-funded joint forestry management project in India, which worked with the Karnataka Forestry Department to identify qualitative process indicators that were meaningful for the poor. As a result, the Forestry Department is considering including non-timber forest produce in its measure of benefits — produce which typically is of particular value to the poor.

Dialogue and Conditionality on Wider PR Policy Reform

Research suggests that growth is still the most important factor in reducing poverty. World Bank poverty-focused adjustment operations are defined as those which i) eliminate distortions and regulations that limit income-generating opportunities for the poor, ii) support safety nets, iii) assist in data and analytical work on poverty and iv) reallocate public expenditures in favour of the poor. About half of the World Bank's structural adjustment and sector adjustment loans have a PR orientation in accordance with this rather generous definition (24 out of 49 in 1992–3 and 14 out of 27 in 1995).

The World Bank has also increased the number of adjustment loans that require maintenance or increased social sector expenditure to benefit the poor as part of loan conditionality (from 18 per cent in 1988–90 to 42 per cent 1992–95).

The degree of dialogue among EU donors collectively on the poverty strategy of the recipient government is very limited (only Sweden tried to get some participatory consensus on PR in Zimbabwe, for example). Donors do not seem to have sought consistency, division of labour, mutual learning or joint endeavour in the poverty field. There have been co-operation efforts in Consultative Groups or Consortia (mainly in relation to sectors or sub-sectors), as for example in Nepal (led by the UNDP) or Tanzania (in the education sector, led by the Nordic donors). More recently, the UNDP, the EU and other donors collectively introduced a prominent social development focus in the India Aid Consortium dialogue, counteracting the dominance of World Bank-driven macroeconomic policy dialogue.

Effectiveness of PR Policy Reform

Evidence on Reorientation of Public Expenditure in a Pro-poor Direction

It appears from the results of the studies that social expenditures — mainly health and education — have been partially protected from fiscal adjustments, although the situation may have been less favourable in Africa. Nevertheless, important qualifications must be noted. First, there has been a substantial reduction in both *per capita* social spending levels and in the quality of services provided (the poor are particularly sensitive to quality). Second, poor people have had limited ability to use social services generally. The richest quintile of the population are virtually always over-represented among users, while the poorest are under-represented. The same has been true of food subsidies. (See review of recent research and evaluation by Killick, 1997.)

Social services have not been well targeted on the poor. There appears to be little evidence of improved funding of primary services (potentially more accessible by the poor) and the bias towards tertiary education and health has worsened. Some countries in the *Comparative European Study of Aid for Poverty Reduction Study of Aid for Poverty Reduction* indicated little shift towards more social sector spending or, more importantly, towards basic services, despite promises in Zambia, Zimbabwe or Tanzania.

Safety Nets

The evidence is very mixed, but generally safety nets do not seem to have been particularly effective (Killick, 1997). A World Bank OED study (1995) found that the African examples examined tended to be add-ons or afterthoughts, and that they were not successful partly due to weak implementation, although a number of favourable outcomes in non-African countries were cited.

A number of factors are cited as accounting for successes and failures of different programs:

- i) available finance;
- ii) targeting efficiency;
- iii) institutional and administrative capacity;
- iv) political factors.

In general, the more successful programmes were those linked to Social Funds (prevalent in Latin America and sub-Saharan Africa), largely due to their innovative delivery mechanisms — decentralised, participatory, detached from wider bureaucracy and from political influence. Other successful safety nets were nutrition programs based on beneficiaries' participation; self-targeted public works programs; and microcredit programs based on group collateral. Cases of failure are more often linked to general subsidies (on food, housing, and energy) and distortionary cash transfers.

Best Practice Approaches to Reducing Poverty: Evidence from the Field

Although it is not possible to cover all aspects of what could reasonably be termed “best practice”, evidence has been culled from donor experience in five areas: conceptualisation and design of interventions, gender sensitivity, participation, institutional capacity and sustainability, and replicability/scaling-up. In each case the arguments for considering each element to represent best practice will be briefly summarised, and some evidence, positive and negative, from a range of donors will be provided.

The vast majority of donor documents on poverty reduction outline the donors' commitments, policies and strategies rather than analyse evidence on the effectiveness with which these policies or strategies have been implemented or the impact they have actually had. In part this is because of the intrinsic difficulty of answering questions of impact, but in part it must be seen as a real failing. The exercise below, therefore, draws heavily on the preliminary findings of seven teams of European researchers who have examined a sample of donor poverty-oriented projects in Burkina Faso, Bolivia, India, Nepal, Tanzania, Zambia and Zimbabwe. Other evidence is cited where available, including a range of World Bank³ studies.

Conceptualisation of Poverty and Targeting of the Poor

Two aspects of project or sector design which can be considered as good practice are the nature of the conceptualisation of poverty and the type of targeting mechanisms. Leading practitioners agree that poverty is far more than a lack of income or inadequate caloric consumption. Poverty embraces four concepts: livelihoods (from improvement to impoverishment); resources (from access to exclusion); knowledge (from expansion to reduction); and rights (from participation to alienation).

Attention to the relationship between a project and the process of improvement or impoverishment of **livelihoods** helps to ensure that a project directly contributes to reducing poverty. Livelihood represents the current condition of the household and the means by which it sustains itself. It depends not just on financial income but on three essential components — resources, knowledge and rights — which are examined below. Those whose current livelihood do not allow them to meet their basic needs, who may be termed the structurally poor, may be differentiated from the vulnerable, who lack sufficient resources to fall back upon in times of crisis.

Resources, knowledge and rights are more than “inputs” which determine livelihood; the extent to which individuals (men, women, children) or households are excluded from any of the three is also a very real aspect of the poverty that they are experiencing. Practically, an understanding of the formal and informal rules governing access to or exclusion from **resources** (such as credit, knowledge, skills/training, land, water, or labour) may help inform project design in a way which prevents project benefits from being captured by the better off or more powerful (see also *Targeting*, below).

Knowledge (technical, managerial, legal, health or literacy) is clearly a dimension of poverty as well as representing a resource on which a project can build. Project design should seek to take into account the existing knowledge base of the poor and seek to ensure that the project will expand existing knowledge.

The nature of both formal and traditional **rights** possessed by individuals (men’s and women’s rights may differ) or households also constitutes a dimension of poverty. Rights which serve to inform project design and which a project might seek to strengthen include political rights, rights to personal security, and women’s and minority rights.

Finally, good practice requires that the donor should have considered the extent to which it is feasible and desirable for the project to seek to **target** benefits to poor groups. It may be that projects which benefit the better off as well as poorer groups can be implemented more effectively than those which seek to benefit the poor alone. However, a wealth of experiences indicates that unless special efforts are made to address the needs of poorer groups through what can loosely be termed targeting mechanisms, then the poor tend to benefit little. The starting point is a good understanding of who the poor are and their particular social, economic and political characteristics, including occupation, assets, gender, ethnicity or religion. Secondly,

special mechanisms based on the specific characteristics and needs of the poor should be considered, balancing political acceptability and administrative feasibility with narrower targeting of the poor. These should take account of both supply- and demand-side aspects, as there are plenty of examples where emphasis on supplying, say, health services has not been matched by efforts to encourage demand and participation, with the result that utilisation and benefits realised have remained very low. **The key is understanding the constraints on the beneficiaries' involvement in the project.** It may be necessary to try to insulate projects from local influence (of elites) – but bypassing existing political structures may undermine sustainability.

Evidence from Donor Practice

The overwhelming impression from the *Comparative Study of European Aid for Poverty Reduction* is that targeting is an area where donor practices conspicuously fall short of their rhetoric. In *Zimbabwe*, the study of some 15 projects reveals that only one had clearly defined the intended beneficiaries so as to ensure that project benefits were directed to the poor. Indeed, it was rare for a specific social group to be singled out, and when it was, it was usually a group which contained a mix of very poor and fairly well-off, such as “people in rural communities”, “farmers in communal areas” or “women”. Also striking was the failure of project documents to set out any conceptualisation of poverty, making it hard to assess how far activities were tailored towards the needs, capabilities and constraints of poor groups (Killick *et al.*, 1997).

In *Nepal*, a European Commission-funded integrated rural development project (GARDP) illustrates the link between poor conceptualisation of poverty and poor design. Although the project had a clear poverty reduction objective, there is little evidence of a clear understanding of the causes of poverty in the target area, or of the characteristics of the poor in terms of their social, economic, gender or ethnic realities. At the planning stage there was no focus on clearly defined poor groups or appropriate targeting mechanisms proposed or considered. Interviews with beneficiaries revealed that most considered that the project had failed to meet their real needs. Although the programme supports many sectors, including education, drinking water, irrigation, feeder roads, and women's development, none of them were participatory or community-based. There was little or no attention to establish or strengthen local institutional bodies to implement or maintain project activities, with the result that few consider the project to be sustainable. The lack of attention to social mobilisation activities was a general weakness and so, for example, although the project provided school buildings, utilisation was limited and the impact on literacy and knowledge likewise. Each sectoral component was formulated centrally and ownership undoubtedly lay with government ministries rather than with the intended beneficiaries. This further combined to limit enthusiasm and scope for local mobilisation.

Weak conceptualisation of poverty and lack of targeting is reflected in all seven country studies. But there are a number of examples which reflect best practice. One example is the SIDA-supported health scheme for commercial farm workers and their

dependants in *Zimbabwe*. In targeting commercial farm workers, the project is reaching one of the poorest groups in Zimbabwe. The project also addresses poverty in a novel, two-fold way, by seeking to improve the health status of this vulnerable group and by training one or two workers per farm as health workers.

A notable example of poor conceptualisation and faulty targeting is an agricultural training project funded by French co-operation in *Burkina Faso*, viewed by France as an example of its PR projects. The fact that the project was located in one of the least disadvantaged agricultural regions suggests that even broad targeting was not considered. As well, access to training was available only to the literate, representing only 10 per cent of the potential beneficiary population — and typically the less poor. Finally, except for some women-specific components, only men were eligible. This approach to poverty reduction reflects a general lack of awareness of best practice approaches.

There are other donor-supported interventions that performed better. One such is the latest phase of a rural development project in *Burkina Faso*, funded by the Caisse Française de Développement, which included participatory approaches on the Danish model. In point of fact, the Danish approach is solidly anchored on good practice approaches, since DANIDA directives are insistent that the views of target groups must be taken into account whenever possible. Thus, in *Burkina Faso* some 25 per cent of the project budget is expended on participatory activities, and the role of women is given particular attention (de Boisdeffre, 1997). An analysis of two Danish projects confirmed that the villages selected were in disadvantaged areas and that Danish commitment to participation was implemented in practice, eliciting an enthusiastic response from villagers.

The *India* country study revealed that some lessons had been learnt regarding the importance of more precise targeting of poor groups and the need for specific mechanisms to enable disadvantaged groups to share in project benefits. However, a significant proportion of even recent projects make few concessions to good practice. The *India* study suggests that identifying and targeting poor groups is particularly important for interventions in the productive sectors, which tend to be asset-based. Asset-rich project beneficiaries may corner most of the benefits if the poor are not specifically targeted. Targeting should not be unnecessarily cumbersome, and it may be more effective (and politically acceptable) to use proxies, such as social or geographical targeting. In the former, a group which typically consists of a high proportion of poor is selected, such as landless labourers, marginal farmers, scheduled castes/tribes; whereas in the latter, an area is selected which is largely inhabited by poor people, be it at state or, preferably, district, village or hamlet level.

A recent study of Japanese (OECD) support for rural development in *Malaysia* suggests that insufficient attention to targeting is a characteristic of some Japanese aid projects (OECD, 1997). It concluded that clear identification of the target group in terms of their poverty status would have led to greater PR effectiveness. OECD appears not to have given sufficient thought to supporting capacity-building within the

government implementing agency, as its evaluation points to a lack of specialist knowledge or training on poverty issues within the agency. Equally, there appears to have been no attention given to providing incentives to staff to encourage the prioritisation of poverty.

In the case of the World Bank, the majority of PR interventions were “broadly” targeted — providing basic services where the poor are assumed to benefit disproportionately. “Narrow” targeting was fairly limited and only adopted in countries where poverty is rather isolated, geographically concentrated, well understood and the government has the capacity to implement targeting mechanisms, e.g. for social services in unserved and tribal areas and improved sanitation, drainage and water supply in poor urban areas. Targeting mechanisms did not seem to be used explicitly in agricultural and rural development projects.

Gender Sensitivity

Donors need to be sensitive to gender dimensions in their poverty reduction interventions given the key developmental role women play and specific constraints they face. Women are disproportionate among the poor; their access to public services (especially education and health) as well as to credit and market information, is more constrained than men; women lack equal rights and access to productive assets, especially land, and they face widespread discrimination in employment opportunities. Further, women are frequently marginalised in the wider political process and have limited involvement in community decision-making.

Best practice requires donors to be concerned with these issues at the national level (economic and social policy, public expenditure, legal institutions and processes), participation in national political processes, etc.); at the community level and at the intra-household level, where inequality in access to productive resources, expenditure decisions and the division of labour exacerbates poverty (Baden and Milward, 1996). Donors need not only to have a good understanding of the nature of gender inequalities and discrimination at all these levels, but also to seek dialogue on them with national governments and to build these concerns into the identification, design and implementation of their specific interventions.

Evidence from Donor Practice

At the national (macro) level, few donors seem so far to have played a significant role in strengthening the voice and role of women in development. However, at the project level donors have increasingly taken an integrated approach to gender. There is also a measure of gender sensitivity at the sectoral level. Rather than assume that gender inequalities can be adequately dealt with by a project sub-component (which often results in the complete absence of gender analysis in the main thrust of the project), gender relations are now tending to be examined at each stage of the project cycle and in all components of the intervention. A GTZ-funded rural development

project in *Burkina Faso* illustrates this change. In its most recent phase the project has dropped a “gender” component providing credit, training and advice to women and instead engages women to participate at every stage, thus covering land management issues as well as credit and training issues. This integrated approach has fostered far greater gender-sensitivity among all members of the project staff. *Ex poste* interviews suggest that the project has had a positive effect on the income-earning capacities of women and on their ability to express and defend their interests *vis-à-vis* men due to greater participation at the village and household level and increased independence stemming from income-generation activities (Locquai and Van Hove, 1997).

A number of more recent World Bank interventions have successfully targeted women, e.g. a much higher proportion of women farmers have accessed extension services (*Gambia*); the use of women as “link workers” in the delivery of family welfare messages (*India*) and a pilot education project for satellite schools which increased the number of female community teachers and female students (Bangladesh).

Nevertheless, it must be recognised that there are many examples of lip-service having been paid to a gender-specific approach, and few examples of serious efforts being made to actually assess impact in a gender-disaggregated way.

Participation

It is now widely agreed that a “top-down” approach to project design and implementation is less effective than one where beneficiaries, both men and women, participate throughout the planning, design, implementation and evaluation stages. Participation not only increases the effectiveness and sustainability of pro-poor interventions — it is also an end in itself to the extent that it contributes to strengthening the rights or empowers the poor, thus directly addressing a key dimension of poverty. Meaningful participation often requires a large investment of time and staff. Experience has shown that all too often participatory approaches are implemented simultaneously with infrastructure components rather than in advance of them, thereby influencing the design, location, and appropriateness of such physical investments.

Evidence from Donor Practice

Participation is not easily captured by measurement, but it is nonetheless clear that beneficiaries are almost never involved in the initial planning phase when donor projects are identified and the decision to fund is made. That identification should be a central government- or donor-led process is not altogether surprising, since many partner governments retain a strong centralist planning philosophy and often donor commitment to participation is sacrificed on the altar of disbursement rates and expediency⁴. Sometimes the lack of involvement of intended beneficiaries in project identification has compromised the intended poverty focus, as occurred in drinking water projects in India, which did not even target benefits in the broad sense of selecting poorer villages, let alone ensure that specific attention was paid to meeting the needs and providing access for the poorest *within* villages.

Failure to involve beneficiaries in design may have at least as negative an effect on PR effectiveness. A good example is provided by European-funded urban poverty projects in *India*. The Dutch, German and one of the United Kingdom-supported projects focused heavily on housing or resettlement issues, yet various studies have shown that housing by itself is very low on the list of priorities of poor groups, especially the poorest. Greater consultation with the intended beneficiaries at the design stage could have resulted in more emphasis being given to employment opportunities or access to clean water, two issues of prime concern to the urban poor. In contrast, the design of another ODA-funded project at Visakapatnam was more in tune with the immediate needs of poor groups, particularly given its focus on health, education and the provision of basic infrastructure and civic amenities irrespective of the security of beneficiary land rights. Unusually, it sought to involve local government and to “mainstream” the project among other government urban projects, with positive implications for sustainability in the long-run, although this was partly compromised by the strong interventionist role played by ODA. Another positive lesson, again in the ODA programme, is the value of trying to work through existing organisations which represent the poor. While they are far from democratic, these tend to be more effective than trying to set up parallel de-politicised organisations which often end up being concerned with non-critical issues.

A German-funded rural development/self-help project (VARENA) in *Burkina Faso* provides a good example of the benefits of a more participatory and decentralised approach. What does a participatory approach actually mean? In the words of the project beneficiaries:

“The people from VARENA are different, because they listen to us. They don’t tell us what to do. While the government services told us they can only help those who are organised, VARENA realised that we did not know how to organise. They helped us to see our problems more clearly and showed us how to deal with them ourselves.”

While opinions diverged among project participants as to how successful the project had been in improving livelihood security, there was widespread agreement that it had increased their knowledge (partly through training for improving production) and generally bolstered awareness of their rights and strengthened their ability to participate in local political processes (Locquai and van Hove, 1997).

The case of Swedish funding of basic services for farmers in *Bolivia* provides an example of how bilateral donors can promote a more participatory approach through their relationship with other joint-funders (Freres and Rhi-Sausi, 1997). Sida worked with UNICEF to encourage a shift from a rather top-heavy and bureaucratic approach to one more responsive to the needs of the communities in which it was working. A further component has been the recent agreement that from 1998 onwards Sida’s dialogue with UNICEF will also involve the Bolivian government on an equal footing, thus making it more likely that the project can be successfully integrated into national development plans, with potential benefits for sustainability.

A striking counter example is a project for primary education funded by the French Ministry of Co-operation in *Burkina Faso*. France's aid relationship here was first and foremost with the recipient government administrative structures: virtually no emphasis was given to encourage the participation of target groups in project identification, much less to defining target groups with any rigour. Almost no effort has been made to analyse the nature of poverty and the mechanisms by which poverty is perpetuated (de Boisdeffre, 1997). The Burkina Faso project made some commitment to target the disadvantaged (illiterate, girls, women, street children), but left no space for the direct participation of such groups within the project. In the interests of efficiency the project document states that pilot schools should be located where there is greatest demand for education, but almost no effort has been made to understand the factors which may inhibit children from attending (often related to their poverty), or to designing possible mechanisms to counteract them. This lack of concern about participation and demand-side aspects of poverty would appear to be characteristic of the design and management of French aid in general, which places its emphasis, first and foremost, on bilateral relations. On the more positive side, there is evidence, in *Tanzania*, of a shift from a top-down approach towards a more participatory approach since 1992 in a range of rural development projects involving DANIDA, FINIDA, Germany, Ireland and the Netherlands (Hoebink and Voipio, 1997).

The Carvalho and White study of World Bank projects in the early 1990s suggests much more effort was being expended on involving beneficiaries or stakeholders in project design and implementation. In fact, however, the information they provide on the 67 cases suggests that reality is perhaps less convincing. The World Bank *Poverty Reduction Progress Report* in 1996 indicates that 84 out of 208 projects approved in 1995 (roughly 40 per cent) involved the direct participation of poor people and an additional 29 projects (6 per cent) included participation by NGOs or other interest groups.

Institutional Strengthening and Sustainability

Achieving sustainable benefits for poor groups is one of the greatest challenges of development. In particularly difficult contexts, donors accept that it is not feasible for interventions to be financially self-sustaining without continued donor support, and they may concentrate instead on strengthening organisational and institutional capacity.

Evidence from Donor Practice

The GTZ-funded rural development/self-help project in *Burkina Faso* provides an interesting example of one approach to institutional strengthening and sustainability. The project organisation, VARENA, was transferred from the government Land Management office to the Ministry of Agriculture, which GTZ hoped would be more committed to a bottom-up approach. The result has been successful in the sense that the Ministry has implemented the national decentralisation policy and genuinely delegated implementation responsibility to VARENA, granting it considerable financial

autonomy and ample scope to work closely with the target group. The result is that, as German funding draws to a close, project staff are considering transforming the project into an NGO. While it would remain dependent on donor or government funding, the commitment to decentralise decision-making and implementation by both the donor and government has created the conditions for organisational and institutional sustainability (Locquai and van Hove, 1997).

A different but very positive example of sustainability is that of the District Primary Education Programme (DPEP) in *India*, supported by the World Bank, the European Commission, the Netherlands and the United Kingdom. DPEP exemplifies the shift away from the “project mode” of thinking to a national “programme mode” which inherently has a greater capacity to respond more efficiently to national needs. It is also likely to be more sustainable than the project approach since it becomes an integral part of the government’s educational machinery at central, state and district level. The DPEP framework specifically identifies building institutional capacities at all levels as the *sine qua non* for ensuring sustainability. It has sought to strengthen and augment the existing state and district level research and training institutes, and created new organisational and professional support organisations which are designed to become an integral part of state and district level administration. A fundamental factor determining DPEP’s likely success will be the extent of its achievements in decentralising planning authority down to the district level.

Although DPEP’s newness renders any definitive judgement on impact premature, there are grounds for optimism. Particularly impressive is the high level of Indian ownership. DPEP provides a rare example of effective donor co-ordination in the OECD/DAC sense, whereby donors are required to sign up to a nationally-devised programme ensuring effective Indian-led co-ordination and avoiding duplication. The National DPEP Bureau has even turned donors away if they have been reluctant to work within the DPEP framework. This occurred with respect to Germany, for instance, which wished to have a field office to support implementation in a particular state, an approach which has in the past been found to reinforce donor ownership at the expense of Indian ownership and to undermine decentralisation efforts. Indeed, many donors, despite their rhetoric about ownership, have had difficulty in adjusting to an Indian-led programmatic approach, particularly those donors (e.g. DFID) that are used to taking a more “hands-on” approach.

With respect to the World Bank, IDA has changed its strategy from providing short-term technical co-operation (including local consultants) to providing long-term training to build local capacity in a more sustainable fashion. The Bank and others have also used cost-sharing as a route towards greater sustainability in some projects, in which the community is expected to contribute funds, local materials or labour, although there are risks that the poorest will be excluded (Carvalho and White, 1996).

Innovation, Replicability, and Scaling Up

Donor resources are often small relative to the overall budgets of individual developing countries (less so in sub-Saharan Africa), and it is by supporting innovative approaches to poverty reduction that they can hope to make their largest impact. Innovation is likely to fail and prove unsustainable unless it resonates with decision-makers in government. Donors may help to accelerate change or to tilt the balance slightly in favour of change, since they are able to take risks — financially, politically or in terms of career security — which cannot be taken by government officials. It should be borne in mind that supporting innovative approaches is not necessarily pro-poor, and some approaches (such as the introduction of user fees) are contentious.

Innovative approaches cannot be endorsed uncritically, and it is particularly important to consider how donor interventions may be successfully replicated or scaled up. Often, innovative approaches to poverty reduction can be very costly in terms of staff, time, and effort, and may only be justifiable (apart from as sources of learning) if they can subsequently be replicated or scaled up at far lower cost. Although replicability and scaling up can never be guaranteed, prospects are improved where donors consider institutional capacity, cost effectiveness and project context.

Evidence from Donor Practice

Given the range and size of donor programmes to India and the considerable sophistication of its bureaucracy it is hardly surprising that India should provide further insights into the issues of innovation and replicability. The United Kingdom support of a watershed programme in *Karnataka* is widely recognised as being highly innovative, particularly in terms of its emphasis on community participation and attention to the needs of the poorest. It is seen by DFID as having influenced the approach to watershed management at a state-level. However, it should be noted that it required very lengthy and involved inputs from the Indian and the United Kingdom side, and these costs and other costs, such as training, may limit its replicability.

Greater success can be expected where donors support a successful government-led programme in partnership, thus affording greater ownership and sustainability. Indeed, this appears to be precisely what has occurred in *India* with respect to the District Primary Education Project (DPEP). The prospects for its sustainable and replicable impact on literacy levels appear very good, though its very success brings with it dangers. There is considerable concern among some in government and donor circles that the recent huge inflow of World Bank funding, attracted by success, is undermining one of DPEP's premises for that success – local capacity-building and decentralisation. There is also some evidence of creeping centralisation and of a lowering of standards in order that district plans, for example, are approved and further disbursements (which remain of key concern to donor agencies) authorised.

These examples underline the complexity of the issues surrounding innovation, replicability and sustainability. Although there are important positive examples, these should not obscure the fact that successful scaling up and replication has to date been the exception and not the rule. Recently the United Kingdom has underscored that supporting innovation is a vital element of its rationale for aiding India. In *Nepal* the picture is far more gloomy, where no examples of successful replication on a nation-wide basis of donor pilot projects have been found. World Bank documents provide relatively little insight on this point, though one or two successful pilot programmes have been replicated by the domestic government.

Organisation and Management: What's Holding Donors Back?

This paper highlights a shift in the 1990s towards greater commitment to poverty reduction objectives and a growing consensus among “committed” donors on approaches for addressing poverty reduction. Yet it also reveals surprisingly little knowledge of best practice approaches being realised by these donors in their own poverty assessments, in their country strategies and dialogue processes, or in direct poverty interventions on the ground. A clear analysis of what poverty means, who the poor are (including gender dimensions), and what type of interventions are most likely to benefit the poor is often strangely lacking. Even where poverty has been well-conceptualised at headquarters level, as is the case for Denmark, Germany, Sweden, or the World Bank, donor country strategies remain disappointingly limited in a strategic sense. Part of the explanation for this lies in the organisational structure and management systems of donor agencies themselves.

Are Donors Organised for Poverty Reduction?

It is difficult to prove a direct link between particular donor organisational structures and the level of poverty reduction impact the donor may achieve, particularly since there are many powerful determinants, such as local context. Nonetheless, *a priori* there are grounds for arguing that greater decentralisation of donor staff resources to the country level may increase scope to reach the poor.

Decentralisation: Reaching the poor is a highly ambitious enterprise which is associated with developing innovative, appropriate and replicable approaches to poverty. This requires the careful nurturing of relations with government and project partners, and often the participation of intended beneficiaries, over a period of time. It also necessitates a thorough understanding of the social, political, economic and institutional context and knowledge of what has been tried before. All these factors, we would argue, are associated with having a sufficient level and range of expertise, ideally at the country level, and empowered to take decisions swiftly and flexibly.

Most donors are physically concentrated at headquarters level, such as AusAID with 90 per cent of its staff in Australia or BMZ, which is one of the most centralised donors. This lack of staff in-country is compounded by the often limited range of **specialist skills** which can be drawn upon. There are very few donors with significant numbers of social development advisers, and even fewer with institutional development skills, though to some extent the United Kingdom is an exception to this (while the European Commission, France, Japan, Spain, or Australia clearly are not). The United Kingdom's experience in India suggests that increasing the numbers of cross-cutting advisers working to ensure that social, institutional and economic aspects are systematically integrated at the design and implementation phases, and locating them in the programme country itself, has indeed increased effectiveness. Such an organisational structure would also seem likely to address a number of the weaknesses outlined earlier, notably with respect to gender and deepening the conceptualisation and understanding of poverty.

Even where there is representation on the ground, often little **decision-making authority** is devolved to country-based staff. In the case of the European Commission's aid programme, this lack of delegated authority is particularly true for the Asia, Latin America and Mediterranean (ALA, MED) programmes. The World Bank, which has been a centralised organisation, is now locating its Country Directors "in-country" to make them more client-centred.

Field evidence confirms that **co-ordination** between donors, even at the most basic level of information exchange, is given a low priority (with a few exceptions, such as UNDP). In part this is related to donor levels of decentralisation and devolution, since co-ordination is likely to be meaningful only when it reflects and influences ground realities, and is thus essentially a country-based activity. Since many donors have low staffing levels in-country or lack particular specialist skills, they may simply not have sufficient time, or the right kind of knowledge, to engage in constructive co-ordination. Also they often require greater delegated authority than they have for this purpose.

There are three obvious areas where greater co-ordination could help address some of the shortcomings identified in this paper. The first is with respect to improving the **understanding by donors of the nature and causes of poverty** within a particular country. This was a weak point for virtually all donors, yet there is remarkably little joint work undertaken. A few donors have worked with the World Bank or UNDP, either providing funding or staff for poverty assessments, but this happens all too rarely. Carrying out such assessments or building up government capacity to do so is a large task that may well require a range of skills over a sustained period that are beyond the scope of an individual donor — and where shared efforts would benefit all parties. Working together to better understand a given country's poverty "problematic" remains a prime candidate for greater co-ordination efforts.

A second potential area for better co-ordination is work among donors towards a **consensus** on a "single" locally owned strategy for PR supported by donors, especially in sub-Saharan Africa.

The third valuable area for co-operation relates to **sector support**. Here there are a greater number of positive examples of donors co-operating on design and funding of health, education and other sector reform programmes. It is in sector reform programmes, for example, that a few partner governments themselves are doing the co-ordinating, insisting that donors fall in behind a common framework. Nevertheless, a great deal more could — and should — be done to improve the “big picture” rather than pursue discrete, *ad hoc* projects and programmes.

Having sufficient numbers of well-qualified staff in-country is perceived by many donors as very useful. Evidence from in-country research suggests that recipient governments value being able to draw upon donor sectoral expertise, particularly if provided in the form of specialists permanently located in the country rather than visiting experts who may change from one year to the next.

Can Aid for Poverty Reduction be Better Managed?

Guidance from the Top — Improving the Transmission Mechanisms

Even among donors which have explicit poverty reduction objectives, there are few which seem to drive these objectives *operationally* from the top of their organisations. The mechanisms for transmitting to the field the poverty reduction objective need strengthening. Having poverty reduction as the ultimate goal of all activities (e.g. Denmark, Japan, Sweden and more recently the United Kingdom) may have a certain logic, but still provides only a weak basis for directing managers, who can claim that all aid – whatever its immediate objective – will assist poverty reduction. Part of the problem is a lack of **central directives** providing clear guidelines for operationalising the poverty reduction objective. In the absence of clear guidance, or even handbooks to draw upon, the concept of poverty reduction is not meaningful for managers. Australia, the European Commission, Denmark, Sweden, and the United Kingdom are, surprisingly, among those donors which provide weak operational guidance to personnel, though most are making improvements. Spain, Italy and France provide none. The World Bank is different in providing many directives and best practice guidance to its programme managers [although some observers consider that they are swamped and confused by them (Wade, 1997)].

Donor country strategies could become far more effective instruments for transmitting the poverty reduction objective through process and content changes. These are drawn up, almost always, in a “top-down” and rather bureaucratic way. A step forward would be to open up the process to outside knowledge by involving local stakeholders such as governments, local NGOs and the private sector. There are examples of donors commissioning background papers, such as poverty assessments, or state, sector or gender analyses, but this happens rarely. In terms of content, a fundamental weakness is that the country strategy papers usually provide little information on the various opportunities and constraints for effective poverty reduction and the pros and cons, in PR terms, of different geographical or sectoral concentrations.

Getting the Incentives Right

The extent to which poverty reduction is prioritised in practice is likely to be a function of agency incentives for programme managers and their staff. Incentive systems in general are poorly adapted to encourage managers to grapple with the difficult problems of designing interventions which are likely to provide genuine benefits for poor people, both male and female. First, donors seem to lack a set of benchmarks for judging the PR performance of their managers, so that those who make a more serious attempt to concentrate on increasing poverty impact rather than on outputs are unlikely to be recognised or rewarded for their efforts. Further, the personnel performance appraisal system does not seem to be closely related to a judgement on the quality of their work. The World Bank now makes its Country Directors accountable for an effective (PR) strategy to a central PR review group, as well as to the Board of Performance whereby the Country Assistance Strategy (CAS) is part of staff appraisal.

Second, an effective approach to poverty reduction is usually a highly participatory one, often benefiting from an extended preparation phase and a strong “software” component. Yet, since participatory approaches tend to be time-consuming, this runs directly counter to another incentive characteristic of donor agencies – the need to spend aid allocations within an allotted timeframe. This has been a key problem for the World Bank, although less stress is now being placed on meeting lending objectives.

Several senior bilateral aid officials have expressed frustration at having to cut corners or compromise the poverty focus in order to satisfy disbursement schedules from headquarters. As long as promotion opportunities are rather closely linked to disbursement rates without a commensurate emphasis on quality and impact, then the poverty reduction objective is likely to be squeezed, or be unduly dependent on the personality of individual managers. This argument is less important for some donors where disbursement pressures are lower, leaving more management time for PR.

Buying into Local Anti-poverty Schemes

Donors who have difficulty finding sufficient pro-poor programmes to fund or insufficient staff resources to manage them could consider “buying into” anti-poverty schemes devised locally by national and local government. So far there has been an apparent reluctance among donors to finance local government poverty-focused programmes (e.g. Zimbabwe). Donors have sometimes argued that “home-grown” schemes are seriously flawed, but greater donor support and participation could surely help remedy weaknesses. In addition, this option would also address some of the concerns expressed above by increasing the level of ownership by government agencies, and perhaps among the beneficiaries themselves. One implication might be a greater willingness among donors to finance recurrent costs than they have shown in the past.

Notes

1. This collaborative European research project, co-ordinated by ODI, involves 10 research institutes from across Europe (listed, along with research collaborators, at the end of the bibliography). The study is producing a series of Working Papers comprising 10 donor studies and 7 country studies. References in the text are to the authors of these working papers.
2. For example, the World Bank records that the six priorities expressed by the poor in African PAs were the following; sense of rural isolation from markets and services; isolation from remote government institutions; access to water in dry areas; maintenance of livelihoods (especially in crisis situations); access to effective curative health in rural and urban areas; and in urban areas, access to education, training and credit.
3. The World Bank entries below are drawn largely from World Bank Progress Reports and OED Annual Evaluation Reports for projects which were approved mainly during the mid-1980s. The conclusions from Carvalho, S. and H. White, *Implementing Projects for the Poor, 1996*, are based on 67 IDA poverty-oriented projects approved between 1988 and 1990.
4. Cox *et al.* (1997) found in India that projects were typically identified and, to a slightly lesser degree, designed by donors or by central government. Some donor staff felt that more could be done to build in a participatory phase ahead of construction activities. Experience was similar in Zimbabwe.

Abbreviations

ACP	African, Caribbean and Pacific Countries
ALA	Asia and Latin America
BMZ	Federal Ministry of Economic Co-operation and Development, Germany
CG	Consultative Group
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
DANIDA	Danish International Development Assistance
DFID	Department for International Development, United Kingdom
DGIS	Directorate General for International Co-operation, Netherlands
DPEP	District Primary Education Programme
EC	European Commission
EU	European Union
FINIDA	Finnish International Development Agency
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Co-operation Agency)
HSD	Human and Social Development
IDA	International Development Association (World Bank)
ILO	International Labour Organisation
MED	European Community Mediterranean Programme
NGO	Non-governmental Organisation
ODI	Overseas Development Institute
OECF	Overseas Economic Co-operation Fund
PA	Poverty Assessments
PER	Public Expenditure Review
PR	Poverty Reduction
PTI	Poverty Targeted Intervention
SPA	Special Programme for Africa
SIDA	Swedish International Development Co-operation Agency
UNDP	United Nations Development Programme
WB	World Bank
WFP	World Food Programme

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Are Poverty and Social Goals for the 21st Century Attainable?

Lionel Demery and Michael Walton¹

Introduction

In the past few decades there have been astonishing social gains for some poor groups in the world, but much weaker gains and even retrogression for others. Consider the following:

- In East Asia the numbers of people in poverty fell by half between the mid-1970s and the mid-1990s, and the proportion living on less than a dollar a day (at 1985 Purchasing Power Parity exchange rates) fell from six out of ten to two out of ten people. In sub-Saharan Africa, there is simply not enough information to even make an empirically based statement along the same lines, but there is a high probability that both the proportion and the absolute numbers in poverty increased in this period. More recently, in all regions outside East Asia, the numbers of poor increased between 1987 and 1993.
- Infant mortality in 1970 was about the same — at 140 per thousand live births — in the three high-mortality regions of the Middle East and North Africa, South Asia and sub-Saharan Africa, but by 1995 had fallen, at very different rates, respectively to 54, 75 and 92 in these three regions.
- Almost everywhere primary and secondary school enrolment rates have steadily risen, even in periods of stagnation and decline. Sub-Saharan Africa is the exception, with the gross primary enrolment rate actually falling from 80 per cent in 1980 to 72 per cent in 1993.

The Development Assistance Committee of the OECD has set goals for future social progress, building on the results of the 1995 Social Summit in Copenhagen. These reflect the priorities established by the international community in recent years. We shall refer to them as the “*Strategy 21*” goals. The core goals are as follows²:

Economic well-being: “The proportion of people living in extreme poverty in developing countries should be reduced by at least one-half by 2015.”

Social Development:

- “There should be universal primary enrolment in all countries by 2015.”
- “Progress toward gender equality and the empowerment of women should be demonstrated by eliminating gender disparity in primary and secondary education by 2005.”
- “The death rate for infants and children under the age of five years should be reduced in each developing country by two thirds the 1990 level by 2015. The rate of maternal mortality should be reduced by three fourths during the same period.”
- “Access should be available through the primary health care system to reproductive health services for all individuals of appropriate ages, including safe and reliable family planning methods, as soon as possible and no later than the year 2015.”

Environmental sustainability and regeneration: “There should be a current national *Strategy* for sustainable development, in the process of implementation, in every country by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.”

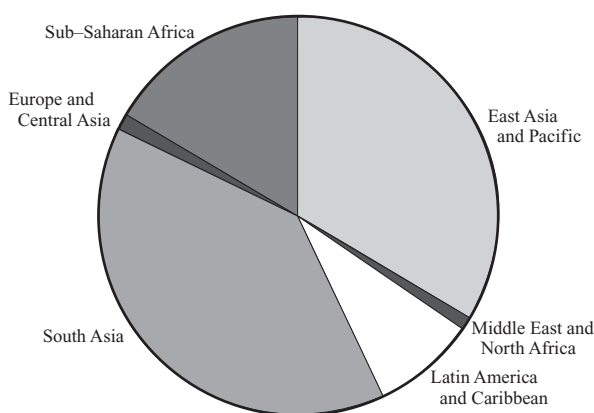
Will these goals be achieved? What is the role of overall economic growth, policy choices and institutional factors in determining this? These are immensely complicated questions. In this paper we explore some of the quantitative dimensions of the task of reaching two important goals: reducing by half the incidence of extreme poverty and by two thirds the rate of child mortality, both by 2015. We find that the evidence is mixed. Recent history and predicted growth imply that many countries will indeed halve their poverty rates by 2015. But many will not (most of the countries in sub-Saharan Africa, for example). The goal for child mortality is found to be even less attainable. We conclude that for both goals to be substantially achieved, considerable more effort is needed today — in improved economic management, and in increased public and private efforts to improve the social conditions of the population at large.

The paper is organised as follows. First, we outline the nature and (multiple) dimensions of poverty in the developing world today. Second, we explore the required growth to achieve poverty reduction targets, under alternative assumptions for the distribution of income or consumption. Third, we look at the relationship between incomes and social indicators, focusing especially on child mortality. And fourth, we discuss the advantages and disadvantages of an approach that emphasises government spending targets on social spending, as a means of reaching targets for outcomes.

Poverty and Inequality: Dimensions and Trends³

In the early 1990s some 1.3 billion people lived on less than one dollar a day, equivalent to almost 30 per cent of the developing world's population⁴. The bulk of these people lived in South and East Asia, the two most populous regions of the world (see Figure 1). But sub-Saharan Africa and South Asia have the greatest incidence of poverty by this yardstick. Both have about two-fifths of their population living on less than a dollar a day (in 1985 Purchasing Power Parity terms), and both have large poverty "gaps" — the average distance between the consumption of the poor and the poverty line, expressed as a percentage of the poverty line (see Table 1).

Figure 1. The World's Poor by Region, 1993



Source: World Bank, 1996.

Table 1. Population Living on Less than One Dollar a Day in Developing Economies, 1987 and 1993

Region	Millions		Share of Population (%)		Poverty Gap (%)
	1987	1993	1987	1993	1993
East Asia and Pacific	464.0	445.8	28.8	26.0	7.8
Europe and Central Asia	2.2	14.5	0.6	3.5	1.1
Latin America and Caribbean	91.2	109.6	22.0	23.5	9.1
Middle East and North Africa	10.3	10.7	4.7	4.1	0.6
South Asia	479.9	514.7	45.4	43.1	12.6
Sub-Saharan Africa	179.6	218.6	38.5	39.1	15.3
Total	1 227.1	1 313.9	30.1	29.4	9.2

Source: World Bank (1996).

The number of people living in extreme poverty has increased in the developing world (Table 1). East Asia, however, is a notable exception. Its success in reducing poverty has been dramatic, and has continued into the mid-1990s⁵. The proportion of the population living on less than a dollar a day fell from 60 per cent in the mid-1970s to only 20 per cent in the mid-1990s, with a sharp fall between 1993 and 1995, notably in China. The numbers of the poor in East Asia fell from over 700 million to less than 350 million over just two decades. Such a reduction in absolute poverty must be unprecedented in history. Although recent events and financial turbulence have undoubtedly stalled progress in the region, they are unlikely to undo the substantial gains that have been achieved over recent decades.

These figures on the extent of world poverty represent only a very partial account of poverty. Apart from issues of data quality and coverage⁶, there are two features of the concept of poverty that need to be emphasised. First, poverty has to be related to societal norms of the levels of consumption, services and other features of living that are considered the minimum necessary for decent participation in society. While in poor societies the minimum consumption used to calculate a poverty line is frequently based on estimates of consumption required to meet minimum nutritional requirements (with allowance for non-food spending), such a line is always to some degree linked to societal norms. Norms vary considerably across societies, and in particular tend to be higher the greater is the overall level of material well-being. In a recent analysis in Britain, in which a poverty line was developed from surveying the views of individuals on what was necessary for normal living, “necessities” included an inside toilet, a refrigerator, carpets, a washing machine and insurance of home contents (Gordon and Pantazis, 1997). These would be considered features of affluence in most African and Asian societies. But that should not in any way be taken to invalidate the concept of poverty for Britain, even if, in some sense, it is true that poverty is much worse in Africa or Asia than in materially richer societies, such as Britain.

“International” poverty lines, such as the commonly used dollar a day, are customarily used only to make *international comparisons or aggregations* of consumption-based poverty. Country analysis always makes use of poverty lines relevant to the country, and frequently uses a range of poverty lines to reflect the varying degrees of poverty — and a range of measures of the depth and severity of poverty. For middle income countries poverty lines are frequently closer to about two dollars a day. If this is applied to the world’s population, some 2.8 billion people lived in poverty in the early 1990s — including a majority of those in most of South Asia and sub-Saharan Africa.

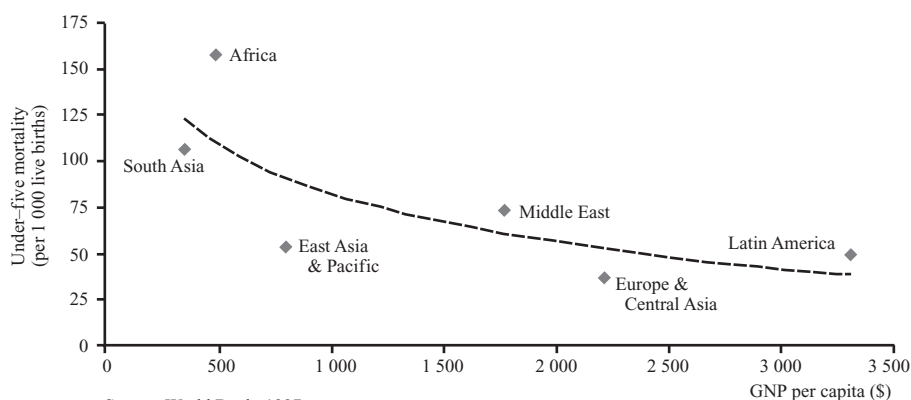
Second, poverty has many dimensions. Inadequate consumption is a core dimension, but many other features can be important, including ill-health, illiteracy, lack of access to basic services, insecurity, powerlessness, social or physical isolation, and vulnerability to violence. We take measures of two of these dimensions — mortality and educational status — to illustrate the global situation (Table 2).

Table 2. **Indicators of Education and Mortality**

Region	GNP per capita (\$)	Secondary school enrolment (gross %)	Under-5 mortality rate (per 1 000 births)	Infant mortality rate (per 1 000 births)			
	1995	1993	1995	1970	1980	1990	1995
East Asia and Pacific	800	55	53	80	56	45	40
Europe and Central Asia	2 220	86	35	71	50	30	26
Latin America and Caribbean	3 320	51	47	85	62	43	37
Middle East and North Africa	1 780	59	72	137	99	62	54
South Asia	350	n.a.	116	140	122	90	75
Sub-Saharan Africa	490	24	157	138	115	99	92
High Income	24 930	97	9	26	13	8	7

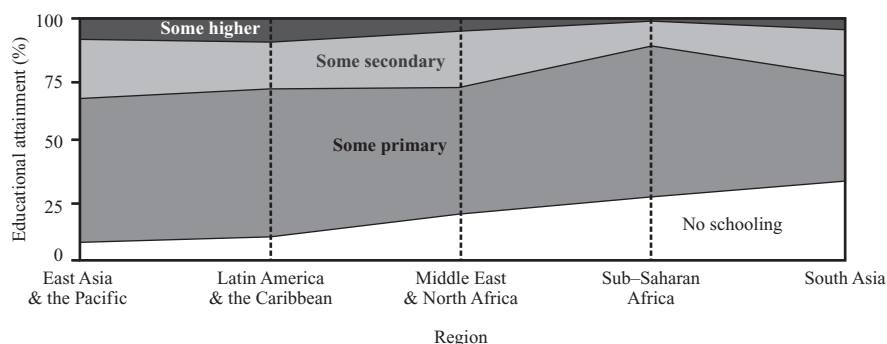
Source: World Bank (1997).

Mortality of children is particularly sensitive to overall well-being. There are vast differences across countries: on average 157 out of 1 000 children die in sub-Saharan Africa before the age of five (92 before the age of one) ⁷. In many African countries, including Angola, Guinea, Malawi, Rwanda, Sierra Leone, the under five-mortality rate exceeds 200. This compares with an under-five mortality of 53 in East Asia and 9 in high income countries (6 in Japan and Singapore, but 10 in the United States). If we take the high income mortality rate as an achievable benchmark, then some nine million children die each year before the age of five from avoidable deaths. Mortality is related to national income (this is further discussed later) but with regional and country-specific variations — as a general statement South and East Asia have relatively low mortality rates, and sub-Saharan Africa and the Middle East relatively high mortality rates for their levels of income (Figure 2). Over the past two and a half decades every region has experienced large reductions in infant mortality (information on under-five mortality is less generally available), despite, in some cases, stagnant incomes. But the pace of decline has varied, with relatively rapid progress in East Asia, Latin America and the Middle East and North Africa, and slower gains in South Asia and (especially) sub-Saharan Africa.

Figure 2. **Regional Under-five Mortality by GNP per capita (\$)**

Outside sub-Saharan Africa, the bulk of the developing world has now achieved close to universal primary education enrolment, though with significant drop-out rates even before completing primary school. Sub-Saharan Africa on average went backwards between 1980, when the gross primary enrolment rate was 80 per cent, and 1993, when it had fallen to 72 per cent. Most of the developing world has far from universal secondary enrolment (Table 2). As a consequence of past education, many adults in the developing world have little or no education: some 25 per cent of those in South Asia and sub-Saharan Africa have had no schooling, over 75 per cent at most some primary (Figure 3). But there are even larger differences in the dynamics, with many East Asian and Latin American countries in the middle of a swift, upward transformation in the educational structure of the adult population, owing to past schooling efforts. This will have an important influence on other social goals, such as child mortality, and on the capacity of economies to move into more sophisticated patterns of production of goods and services.

Figure 3. **Educational Attainment of the Adult Population in the Developing World, 1995**



Inequality between and within societies is both an influence on poverty and, for many, a concern in its own right. With the major exception of East Asia, differences between nations have been rising over the long term. By one estimate the ratio of income per person between the richest and poorest country has increased from eleven in 1870 to thirty eight in 1960 and to fifty-two in 1985 (Pritchett, 1997). This is associated with huge differences between different groups. In terms of wage incomes, the ratio of earnings of engineers in Frankfurt, Germany were fifty-six times those of female unskilled textile workers in Nairobi in 1994 — after allowing for differences in purchasing power (World Bank, 1995). And even unskilled textile workers in Nairobi were almost certainly living in households significantly above the poverty line — in 1992 some 42 per cent of Kenyans were estimated to be living below the national poverty line, but these were mostly dependent on rural or urban informal sources of livelihood.

Inequality within societies is both lower and more stable over time than international inequality, but concerns over inequality are clearly on the agenda in many countries in the late 1990s. There are major differences in the degree of inequality between countries. In South Africa, the top 10 per cent of households account for

almost 50 per cent of total household consumption spending, while the bottom 10 per cent accounts for just over one per cent. By contrast, in Hungary the top 10 per cent of households account for 23 per cent of total spending, and the bottom 10 per cent for 4 per cent of the total. On the basis of one commonly used index of overall inequality, the Gini coefficient, Eastern European, high income and South Asian countries are relatively equal, while Latin American and sub-Saharan African countries relatively unequal (though with wide variations within sub-Saharan Africa); East Asia and the Middle East fall in between (Table 3).

Table 3. Inequality in Various Regions in the 1990s
(average Gini coefficient)

Region	Index of inequality
Eastern Europe	28.94
South Asia	31.88
High-income countries	33.75
East Asia and the Pacific	38.09
Middle East and North Africa	38.03
Sub-Saharan Africa	46.95
Latin America and the Caribbean	49.31

Source: Deininger and Squire (1996).

Are countries becoming more unequal? In general the distribution of income (or spending) changes slowly. Brazil has been extraordinarily unequal for decades (probably much longer); India and Indonesia are relatively equal and have experienced little change in the overall distribution of consumption across households, i.e., most groups have gained from overall growth roughly in proportion to their initial share in the national pie. (Everything is relative, of course, and in India and Indonesia, as in all developing countries, there are still major differences in consumption and wealth, in part associated with social structures and regional differences). While there have been shifts in inequality in some countries, it is hard to discern an overall pattern to changes. But there are some changes occurring that are of particular interest. In rich countries the rise in earnings inequality in a few countries, including the United States, the United Kingdom and New Zealand, has been a major source of debate; though there is little sign of widening inequality in most other countries⁸. In Eastern Europe and the former Soviet Union some countries are experiencing rises in income differences from initially low levels. There are strikingly large increases in the case of Russia. In Latin America, Chile experienced worsening inequality in the 1970s, Mexico experienced widening income differences in the 1980s, and even Brazil suffered a further increase in inequality between 1980 and 1995. But perhaps of greatest interest are developments in East Asia, that has in the past been heralded as a model of growth with equity⁹. In some economies, including China, Hong Kong, Malaysia and Thailand, there have been significant increases in inequality, especially in the past ten or fifteen years; in Malaysia's case this comes after a period of significantly falling inequality between 1973 and 1989. A full analysis of the causes of these changes has not yet been undertaken, but the current evidence indicates that it is associated with rising differences between high and low-skilled groups, between rural and urban areas, and between richer and poorer regions (Ahuja, *et al.* 1997).

Growth Requirements for Future Poverty Reduction

What will be required to reduce poverty significantly in the future, and to achieve the goals set by *Strategy 21*? We explore the relationship between future poverty declines, future economic growth and inequality. It should be emphasised, however, that there are significant relationships between overall national income, the incomes of the poor, and *social* outcomes, to which we return below.

Income poverty outcomes are a function of the overall level of economic growth and the extent to which the poor participate in growth. In other words, forecasting poverty is a product of forecasting overall growth and changes in inequality. Both are hazardous undertakings. Growth forecasts are notoriously unreliable. And while there have been some recent changes in inequality that are of great interest, there is no basis for predicting any general rise or fall in inequality. In most communities the poor have participated in economic growth roughly in proportion to their initial share in national income or spending. Accordingly we adopt the following approach. First, we present estimates of the growth rate in average consumption per person that would be required to achieve the *Strategy 21* goal. This exercise is done using two “international” poverty lines of one and two dollars a day (in 1985 PPP terms) that span most national poverty lines commonly used in low- and middle-income countries. This is achieved assuming no change in the distribution of expenditure or income. We then compare this with various economic growth forecasts. Finally, we explore the implications of rises or falls in inequality for a few countries, to illustrate the potential influence of this factor.

While the DAC *21st Century Initiative* speaks of halving the extreme poverty by 2015, it does not specify the base year. Assuming that the goal is to halve the 1990 incidence of extreme poverty, *Strategy 21* is to be achieved over 25 years. Therefore, for each country, we estimate what is the required growth in consumption per capita to halve poverty over a 25 year period¹⁰. The starting points for each country vary, since the surveys used to derive the base line were conducted at different points in time (though generally centring on 1990/91). This experiment is consistent with the spirit of the *Strategy 21* poverty goal, even though the target date will not be 2015 for every country.

There is no simple relationship between per capita growth requirements, initial poverty and the pattern of income distribution. However, in general the higher the initial poverty rate, and the greater the initial inequality, the higher will be the per capita growth required to cut poverty incidence in half over 25 years¹¹. Take two middle income countries — Brazil and Tunisia. Brazil is slightly richer but much more unequal. It would require a growth rate (in per capita consumption) of 2.5 per cent per annum to reduce by half the proportion living on less than one dollar a day, and 3 per cent for the proportion living below two dollars a day (Table 4). Tunisia is more equal and so has a lower initial poverty rate, and would require a much lower rate of per capita growth of 0.8 and 1.3 per cent per annum respectively to achieve these targets. India, which is much poorer but more equal than Brazil, would require an annual per capita growth rate of 1.4 per cent to reach the target at one dollar a day, but 5 per cent at two dollars a day. Zambia, even poorer and more unequal than India, would require even higher growth rates.

Table 4. Growth in Per Capita Consumption Required to Halve Poverty Incidence over 25 Years, Selected Countries

Country	Average spending per capita (1985 PPP \$)	Gini	Population under \$1/day (percent)	Annual per capita growth required to halve poverty (per cent)	Population under \$2/day (per cent)	Annual per capita growth required to halve poverty (per cent)
Brazil	151	61.5	23.6	2.5	43.5	3.1
India	38	37.7	52.5	1.4	88.8	5.0
Tunisia	138	40.2	3.9	0.8	22.7	1.3
Zambia	16	46.2	84.6	4.9	98.1	7.1

Source: Ravallion and Chen (1998).

If we compare these required growth rates with recent growth experience we get a generally pessimistic, but highly varied result across countries. In Figures 4 and 5 the required growth in per capita consumption is plotted against recent historical growth during 1990–95 for all the countries for which we have satisfactory household survey (and national accounts) data. Those above the diagonal line had faster growth than required, those below slower. While some were growing much faster than the rate required to reach *Strategy 21* goals (most East Asian countries), the majority were not growing fast enough, and many were experiencing negative per capita growth and consequently increases in poverty incidence.

Two other interesting points emerge from these data. First, at a poverty line of PPP\$1 per person per day, recent growth rates indicate that the *Strategy 21* goal would indeed be met in the “big three” Asian countries — China, India, and Indonesia (countries with the largest numbers in poverty). It would also be just within reach of Brazil (another country with large numbers in poverty), if recent growth is a guide to the future. From the perspective of the world’s *population* in poverty, the *Strategy 21* poverty reduction goal would certainly be achieved if future growth followed recent trends. But a different picture emerges if the concern is with the number of *countries* which achieve the goal. More than half the countries are shown (in Figure 4) to fall short of the goal at a poverty line of PPP\$1/day. Second, the choice of poverty line matters in assessing the achievement of the *Strategy 21* poverty goal. At PPP\$2 per person per day past growth in India and Brazil is no longer sufficient to halve poverty over twenty–five years¹².

In terms of regional averages the situation is particularly difficult in sub-Saharan Africa (Table 5), where the required growth is relatively high, and experience worse than elsewhere. Note that required growth rates in aggregate GDP are higher than in per capita consumption owing to population growth, and can be higher where investment rates need to be increased to achieve higher growth¹³. All of these effects are particularly important for sub-Saharan Africa.

Taking growth in per capita incomes over the recent past, however, may not be a reliable guide to future prospects. For some countries recent growth rates will not be sustainable over the longer term, either because of favourable temporary shocks (improvement in terms of trade or external transfers), or because policies (such as fiscal and monetary policy) are not sustainable. For others, recent growth rates may

Figure 4. Average Annual Per Capita Private Consumption Growth Rate in 1990–95 and Annual Per Capita Growth Rate Required to Halve Poverty Incidence (\$1/day) over a 25 year period

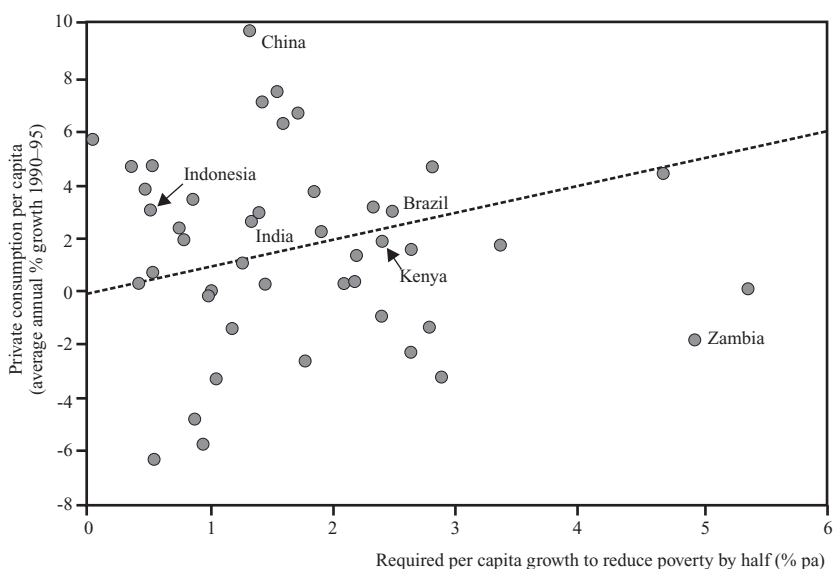
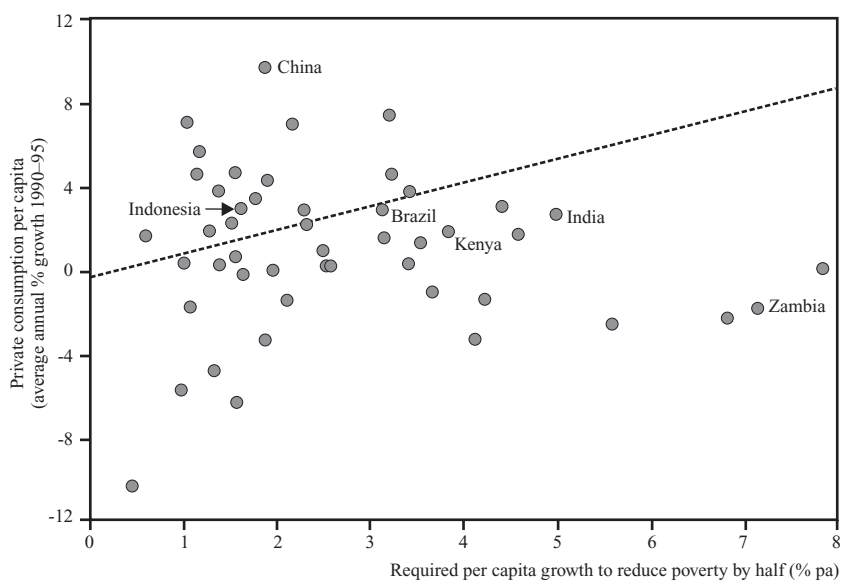


Figure 5. Average Annual Per Capita Private Consumption Growth Rate in 1990–95 and Annual Per Capita Growth Rate Required to Halve Poverty Incidence (\$2/day) over a 25 year period



be untypically low, because of unfavourable shocks, or the effects of policy transition (e.g. India). How can we best approximate the longer-run growth potential of these countries to make judgments about the attainability of *Strategy 21*? One approach is to compare the required growth in per capita consumption with the latest *projections* of regional growth prepared by the World Bank (see the last two columns of Table 5). These projections differ from recent growth experience, being significantly higher in some cases (Europe and Central Asia, South Asia and Africa), but more pessimistic in others (notably in East Asia where the forecast for 1997–2000 reflects the impact of the current financial crisis). If these can be reached — and this is a big if — the situation is much better, with most regions projected to grow faster than the rate required to cut poverty in half¹⁴. But even the projected acceleration in sub-Saharan African per capita growth will be insufficient to achieve the poverty goal.

Table 5. Actual and Projected Regional Per Capita Growth Rates

Region	Per capita growth rate required to reduce poverty by half (%)		Real consumption per capita growth rate (%)	
	(\$1/day)	(\$2/day)	Actual	Projected
			1991–1995	1997–2000
East Asia	1.2	1.9	6.9	2.7
Europe and Central Asia	0.8	1.2	0.7	2.4
Latin America	1.8	2.7	2.0	1.9
Middle East and North Africa	0.3	1.2	1.1	1.3
South Asia	1.3	4.5	1.9	3.5
Sub-Saharan Africa	1.9	3.3	-1.3	1.1

Source: Ravallion and Chen (1998); World Bank staff projections as of early 1998.

Recent events in East Asia serve as a reminder of the limits of such projections, which are subject to margins of error and the influence of unforeseen events. An alternative approach is to base our predictions on those factors which past experience suggests are significantly related to economic growth. For this, we make use of a growing body of literature which seeks to explain economic growth using cross-section evidence. Typically, explanations for variations in real per capita income growth rates across countries are found largely in differences in the *initial conditions* and *policy choices* of countries. Those with more favourable initial conditions achieve higher growth rates. Are current “initial” conditions and policy choices in the developing world conducive to accelerated growth, and to a large reduction in income poverty? While considerable caution is necessary in interpreting causative processes — and even more caution is needed in using these results for projections? They at least provide an illustration of how the future may look.

Our exploration of plausible per capita growth prospects of 36 developing countries for which data were available is based on the work by Barro (1991), and a more recent extension by Sachs and Warner (1995). The latter use a very simple classification of economies in terms of a “good” and “poor” economic policy stance and political conditions to “explain” variations in per capita growth. The very simplicity of their approach is useful for the present purpose, that is essentially illustrative. By taking *current* levels of the right-hand-side variables used by Sachs and Warner (1995)

(including the dummy variable they used — 0 for good policy and 1 for bad policy), and applying them to the cross-section relationship they estimate, predicted values of GDP per capita growth can be generated for the period 1990–2015. Details of how these predictions were made are given in the Annex.

Figures 6 and 7 compare annual growth in real GDP per capita as predicted by the Sachs–Warner equation (assuming the right-hand-side variables described in the Annex) with the growth rate (in real consumption per capita) required to halve poverty over 25 years¹⁵. Figure 6 is based on the economic situation in each country which existed in 1990 (as reported in the Barro–Lee 1994 data base)¹⁶. This gives predicted per capita growth assuming a continuation of the existing economic policy stance. Under this scenario, only *half* of the 36 countries are predicted to achieve the growth required to achieve the *Strategy 21* poverty goal. This would be an overestimate if real consumption growth lags behind real GDP growth (which will occur if investment ratios must rise to raise growth rates or to restore external balances). Note, the “big three” of Asia (China, India and Indonesia)¹⁷ are predicted to grow sufficiently to achieve the *Strategy 21* poverty goal, but Brazil is now shown as unlikely to do so.

Figure 6. Comparison between Required and Predicted Per Capita Growth under Existing Policies

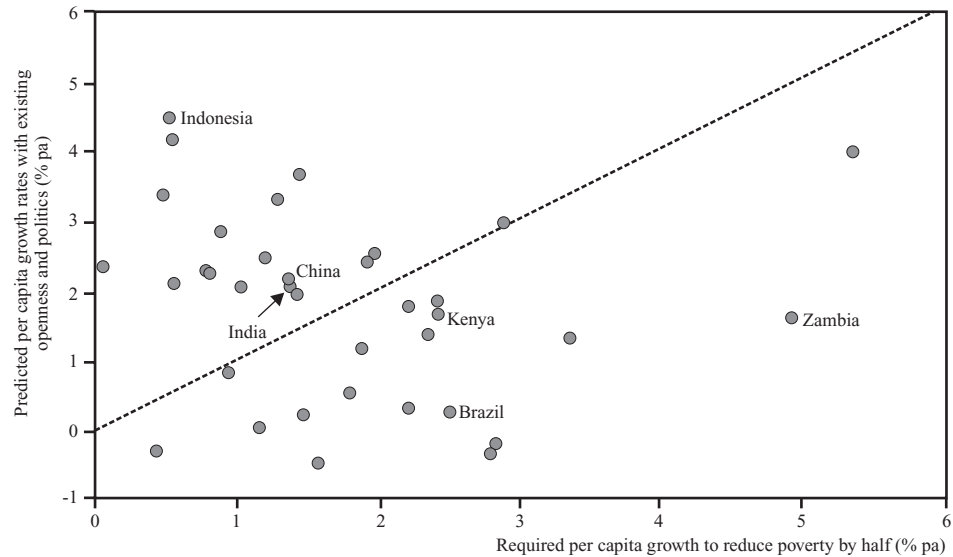


Figure 7 then assumes that governments improve economic policies during the projection period (essentially switching the policy variable from “poor” to “good” policy for all countries). Under this assumption, as many as 28 of the 36 countries are now predicted to meet the target. Interestingly, these include a number of African countries (such as Kenya, Tanzania and Zimbabwe). The message is clear. Whether or not poverty incidence will be halved by 2015 depends in part on how well economies are managed. The evidence from the cross country regressions is that improved economic policy enhances growth prospects and the attainability of *Strategy 21* goals. Interestingly enough, only three (out of sixteen) countries identified in the Barro and Lee 1994 data base as having “good” economic policies are predicted not to grow sufficiently quickly to halve the incidence of poverty. And only four of the twenty countries characterised by “bad” policies are predicted to achieve the *Strategy 21* goal. Some countries (including, significantly, Brazil and a number of African countries — for example, Uganda and Zambia — where poverty is particularly severe) would not reach the target even if they enjoyed the average effects of “good” policies, either because of disadvantageous initial conditions or high required per capita growth (see Table 6).

Figure 7. Comparison between Required and Predicted Per Capita Growth with Improved Policies

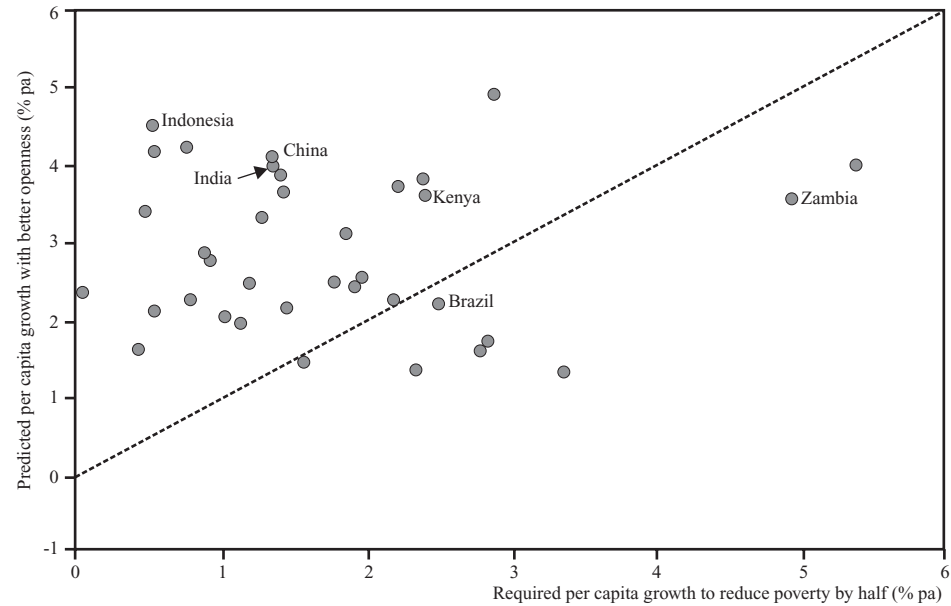


Table 6. **Countries that Reach the Poverty Reduction Target Under Different Scenarios**

Countries that reach target on:	Average per capita growth rate			Population (millions)	Countries (number)
	Required	Lower	Higher		
Existing policies	1.14	2.74	3.28	2 743	18
Improved policies	1.68	0.79	2.73	186	10
Neither	3.21	0.90	2.12	231	8

Source: Author calculations.

The predicted growth scenarios therefore suggest that under existing policies, the *Strategy 21* goal will be reached in countries representing 86 per cent of the world's population. If policies are improved, this figure increases to only just over 90 per cent. Of course, the increase in the number of *countries* achieving the goal is much greater (from 18 to 28).

These predictions are only as robust as the underlying regression model. They are conditioned on a host of factors: on income distributions remaining unchanged; on an unchanging investment to GDP ratio; on the parameters estimated by Sachs and Warner being stable over time. And no single equation will be able to capture the complex interactions involved in determining growth outcomes in the variety of countries we have covered. But the experiment is a worthwhile one. It gives some order of magnitude on the effect of good policies in enhancing growth, and in making the *Strategy 21* poverty reduction goal that much easier to attain.

So far all the predictions assumed that income distributions will not change over the prediction period. While distributions tend to be stable, when they do shift this can have significant effects on poverty. In the late 1980s, China was growing fast with little or no effects on poverty, owing to rises in inequality. To explore the consequences of changes, we report in Table 7 the results of an exercise that assumes the distribution of a few countries' shifts to the pattern observed in other countries¹⁸. (This is preferable to making arbitrary changes in the pattern of income distribution.) If China experienced a further increase in inequality to the level and structure prevailing in Malaysia (in 1989), the required per capita growth rate to reduce poverty by half would rise by almost half a percentage point at one dollar a day, and almost one percentage point at two dollars a day. A similar result is found for Nigeria, if it were to become as unequal as South Africa. The fact that the relationship is not simple is illustrated by exploring the effects of India becoming as unequal as Ecuador: this would require a faster growth rate at one dollar a day, but actually slower at two dollars a day. Finally, we explore the benefits of reduced inequality in two of the most unequal countries in the world: Brazil and South Africa, assuming the degree of inequality shifted to that prevailing in Colombia and Thailand respectively (both also quite unequal, but much less so). In both cases the required growth rate in consumption per head is significantly reduced (Table 7).

Table 7. Effects of Change in Inequality on Required Growth Rates to Halve Poverty over 25 years, Selected Experiments

Country	Gini	No change Required per capita growth rate		Level prevailing in	Gini	Change in inequality to Required per capita growth rate	
		\$1/day	\$2/day			\$1/day	\$2/day
China	41.5	1.4	1.9	<i>Malaysia</i>	48.4	1.8	2.8
India	33.8	1.4	5.0	<i>Ecuador</i>	46.6	2.4	4.1
Nigeria	45.0	2.2	3.0	<i>South Africa</i>	58.4	2.5	4.0
Brazil	61.5	2.5	3.1	<i>Colombia</i>	51.3	1.4	2.2
South Africa	58.4	1.4	2.7	<i>Thailand</i>	46.2	0.3	1.5

Source: Ravallion and Chen (1998).

These results clearly show that both growth and distribution matter for the pace of poverty decline — and the achievability of the *Strategy 21* goals for poverty reduction. Policies to support efficient redistribution are clearly of great interest — along with policies that promote growth — but are relatively poorly understood. Strategies that involve priority to rural development, integration of lagging regions, inclusive education systems, rapid growth in labour demand, and relatively pro-poor overall tax and spending structures will all tend to support redistribution (and growth), but there is much more work to be done in this area.

Social Goals and Income Growth

The core social targets relate to mortality, education and gender gaps in school enrolment. Achieving these targets are important ends in themselves. The capacity to live a healthy life and to read and write represents an enhancement of human capabilities, while eliminating differences in education between men and women improves social justice (though it may sometimes be in conflict with cultural norms). There are also two-way relationships between human capabilities and social and economic change. Economic advance can cause social progress, notably through increased public and private spending out of rising income on factors that improve social conditions. Better health and education can also raise productivity. Finally, there are important inter-relationships between social conditions: most importantly better education for women has a powerful influence on improving child health and reducing fertility, independent of income (Caldwell, 1986).

Because of the inter-relationship between social and economic advance, it is important to explore the links between the various targets. We undertake an initial, exploratory exercise on this with respect to *child mortality*, though a similar approach could be applied to other social targets. The target for child mortality is for a two-thirds reduction by 2015 (relative to 1990 levels). Mortality rates are country-wide averages, and the mortality of the poor is systematically higher than the average — i.e. poverty and mortality, as well as other social indicators, are significantly related to each other within countries. However, under most conditions, reductions in overall mortality are highly correlated with reductions in mortality among the poor.

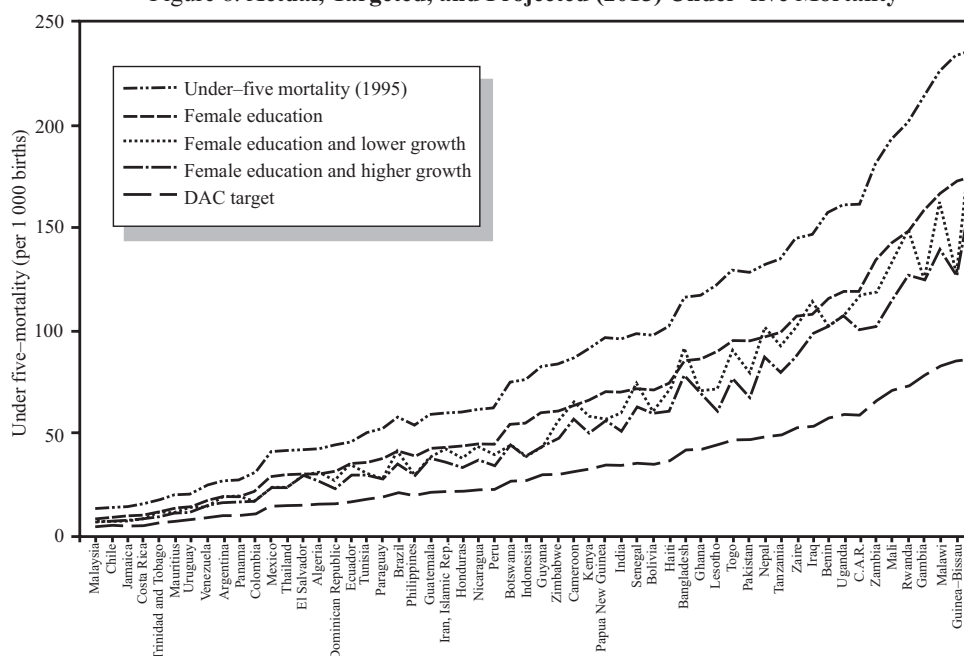
To explore the future we use the following results from analysis of the past:

- There is a well-established relationship between national income (as measured by GDP per capita) and infant and child mortality, with an elasticity of about 0.6 from cross-sectional results and from analysis of very long time series (Filmer and Pritchett, 1997; Pritchett, 1997). Shorter time series results find lower elasticities: Pritchett and Summers (1996) obtain an elasticity of about 0.2 of infant mortality with respect to income for five year periods, rising to about 0.4 for periods of three decades (with little evidence that the elasticity is different for different initial starting points of mortality and incomes).
- Other development-related factors also affect mortality, with greater female education lowering child mortality, and more unequal income distribution, whether a country is predominantly Muslim and greater ethnolinguistic fractionalisation, tending to raise child mortality (Filmer and Pritchett, 1997)¹⁹.
- Mortality has been steadily improving in all countries, even after controlling for incomes and education, and there is some evidence that this has accelerated since 1960 to a rate of about 1.5 per cent per annum (Pritchett, 1997).

The results of a simple, illustrative projection exercise are shown in Figure 8. The top line gives the 1995 under-five child mortality rate for a number of countries, ranked in order of rising mortality. The bottom gives the *Strategy 21* goal for 2015 (of a two-thirds reduction from the estimated 1990 levels). We then project the levels of child mortality for the countries in a series of steps. First we project the effects of the underlying trend reduction of mortality of 1.5 per cent per annum before accounting for income or other effects. This is assumed to be the same for all countries, since there does not appear to be evidence of systematic differences in this trend in the recent past — for example, across richer and poorer, lower or higher mortality countries. (Obviously there have been differences in the past, and will be in the future, but we do not now have much basis for getting behind this underlying trend to project differences.) We then introduce the additional effects of the projected rise in female education, using the coefficient from the cross sectional analysis in Filmer and Pritchett (1997). Other variables, such as inequality, are assumed not to change or influence the pace of change in this projection. As it happens the incremental effect of rising female education on the projected country average is small — an issue that differs from some of the micro results, that will require further exploration. This net result of both the time trend and increased female education (implicitly assuming zero growth in per capita income) is shown in the second line from the top. This gives the first result:

- on the basis of the past underlying trend and projected rises in education (but before per capita income growth) child mortality will fall significantly but only to a level of about double that of the *Strategy 21* goal by 2015²⁰.

Figure 8. Actual, Targeted, and Projected (2015) Under-five Mortality



Next we add in the effects of the growth in per capita income, using the medium-term elasticity of 0.4 and the two growth scenarios developed in the previous section. These are shown in the final two lines of Figure 8. Note that in some cases the mortality rate under the lower-growth scenario is actually higher than under the simple trend projection, owing to negative projected real per capita income growth under this scenario. This gives the second result:

- growing incomes are a significant source of mortality decline, over and above the trend growth and effects of rising female education, but even under the higher growth scenario projected mortality in 2015 is, on average, over 60 per cent above the *Strategy 21* goal.

Specific results for selected countries are shown in Table 8. For the countries shown, the time trend (plus increased female education) reduces the child mortality rate to a level that is about 100 per cent higher than the *Strategy 21* goal. Further reductions occur under the alternative growth scenarios: for the higher growth case this ranges from reducing to a level of 68 per cent above the *Strategy 21* goal for Brazil, to 40 per cent above for Indonesia.

Table 8. Under Five Mortality Rates: Actual and Projected under Alternative Scenarios

Country	Under-five Mortality 1995	Strategy 21 Goal	Projected Under-five Mortality in 2015 (per 1 000 live births)			Ratio to Strategy 21 Goal (per cent)		
			Time trend plus effect of increased female education	Lower- income growth scenario	Higher- income growth scenario	Time trend plus effect of increased female education	Lower- income growth scenario	Higher- income growth scenario
Brazil	57	20	41	40	34	101	97	68
India	95	34	69	59	50	103	72	47
Indonesia	75	27	54	38	38	102	40	40
Kenya	90	32	66	58	49	103	78	52
Zambia	180	65	132	117	100	105	81	55

These scenarios are illustrative of what might occur based on past experience. They do not make any specific assumptions on actions, but they do implicitly capture the effects of underlying changes, in public and private action, that lie behind both the time trend and income effects in the past. While they are the product of a very simple aggregate projection methodology, they do at least illustrate the scale of the overall task, that there is a lot we do not know about aggregate changes (caught in the time trend), and the importance of income growth for mortality. This initial exercise suggests that achieving the *Strategy 21* goals for child mortality would either require significantly faster income growth, or actions that would cause an independent acceleration of the pace of mortality improvement. We turn next to the issue of direct public action.

Public Action and Public Spending to Reach the Social Goals

What can governments and donors do to help reach the social targets? The last section used three results from the past to look at the future course for the decline in child mortality: an underlying time trend, rising female education and rising incomes. A comparable exercise could have been done for education. How does this relate to direct public action, and in particular to public spending? Public spending is centre stage in the 20/20 initiative, for example, that proposes that at least 20 per cent of government spending and donor support should go to spending on basic services (such as primary health, primary education, clean water). Part of the answer is that both public and private action are hidden behind the projection. Rising incomes underpin increased public and private spending on education and health. Increased education for women increases household investments in children. But there is surely a case for increased discretionary spending by governments (and donors). While most practitioners believe this, the evidence is more ambiguous: the nature of public (and societal) action can make a major difference to social outcomes; but the answer does not lie in increased spending alone. Improving the policy and institutional framework for social service delivery and use is often of equal or greater importance.

Two types of evidence, again focusing on health, frame the issue.

First, despite the robust overall relationship between incomes and health (used in the above projections), there are some societies that have experienced unusually good or poor outcomes for their level of income. For example, China, Jamaica, Sri Lanka, Costa Rica and Kerala State in India, are all frequently cited as having unusually low mortality rates for their income levels (see, for example, Dreze and Sen, 1996; World Bank, 1990). Indeed, the mortality of African-Americans in the US is comparable with that of Chinese and Keralans, despite hugely higher mean incomes. This is clear evidence for the effectiveness of different societies in improving social outcomes through public or private behaviour at very different income levels. And since average mortality rates would be expected to be particularly sensitive to those of the poor, the average results also suggest much better outcomes for the poor.

Second, however, there is mixed (cross-section) evidence that *public spending* on overall health, or on primary health services is associated with better health outcomes. On the one hand, some studies find evidence of a positive association between public spending on health and better health outcomes (Anand and Ravallion, 1993), and that outcomes for the poor are also favourably affected (Bidani and Ravallion, 1997). Although not based on direct evidence of health conditions for the poor²¹, these studies do suggest that public health spending under certain conditions can improve health outcomes. On the other hand, Filmer and Pritchett (1997) find that incomes alone “explain” 84 per cent of mortality differences between countries, incomes plus a set of socio-economic variables “explain” 95 per cent, while differences in public spending alone explain only an additional 0.15 per cent. The socio-economic variables include female education (which reduces child mortality), inequality, ethno-linguistic fractionalisation, and whether a country is predominantly Muslim (all of which increase mortality). The differences in these empirical results are likely to be due to the inclusion of this set of socio-economic variables in Filmer and Pritchett (1997), and their exclusion in Anand and Ravallion (1997) and Bidani and Ravallion (1997). Once these factors are included, the statistical role of public spending appears to be weak.

Filmer and Pritchett find countries that have unusually good or bad outcomes for their income level — including those noted above. Sometimes, as in the case of China, a good outcome is associated with favourable conditions with respect to the other socio-economic variables: China has high female education, low inequality, and low ethno-linguistic diversity. There remain significant good and bad outcomes, even after controlling for all these variables, but there is no clear relationship with public spending on health. Indeed the average spending of the top ten performers (after controlling for incomes and socio-economic variables) at 2.0 per cent of GDP, is very similar to that of the worst ten performers, at 1.8 per cent of GDP. Brazil has unusually high child mortality for its income level, at 83 per thousand, and spends 3 per cent of GDP of public money on health. Sri Lanka has an unusually good outcome of 35 per thousand and spends just 1.7 per cent of GDP. There is large variation amongst good and bad performers.

The result that public spending is a poor predictor of good health is a common one (see Musgrove, 1996). Is it because governments have failed to heed the advice of advocates of primary health care, and redistribute resources to preventive, and basic curative services? This is probably true in some cases. And it is a standard result of analyses of the distributional incidence of services that public spending on the primary health services (e.g. rural clinics) and primary schooling, are much more equally distributed than those on secondary and tertiary services, that are characteristically skewed to better off households. But unfortunately there is little evidence that increased spending on primary health, or proximity to basic health services is associated with better health outcomes²².

How can this be interpreted? There are indeed wide differences in the efficacy of public action. But these are only weakly, if at all, associated with different levels or patterns of public spending. Much more important is the effectiveness of public — and private — actions. Kerala has highly effective public action with public services that have significant benefits for the poor, combined with effective household action. High levels of education, especially of women, have direct impacts on household behaviour, and are probably associated with more effective community and state action. Uttar Pradesh has public services of very low quality with little impact on the poor, exacerbated by low levels of education, in part a product of weak action in the education sector (Drèze and Sen, 1996). Ceará, in the North East Brazil, that generally has a dismal child mortality record — succeeded in bringing about a sharp reduction in mortality through a highly effective campaign (Tendler and Freedheim, 1994).

Analogous results are found of extraordinary variations in quality in education. And just as primary health care has been advocated for decades in health, so have increasing non-teacher inputs been advocated in education. It is well established that increased books and blackboards are more efficacious than increased spending on teachers in raising quality. Yet few countries do this. One interpretation is that this is because it is in the interest of teachers to maintain their salaries even at the cost of spending on other inputs. (Of course, in some cases teachers salaries are indeed abysmally low, for example, in many anglophone African countries, but the issue is that the public sector is often picking a mix of inputs that is not conducive to raising standards.)

The issue of the effectiveness of public services is also shown in the behaviour of the poor. For both health and education, the poor will bypass low quality public services and pay for higher quality. This is common in the health sector (Filmer *et al.*, 1997), and has also been observed in education (World Bank Pakistan education report). And the poor will respond to reforms that raise quality (Alderman and Lavy, 1996). One study of reform of primary (largely curative) health services that introduced change which raised quality and user charges, found that it was the poor that had the largest response in increased use of services. (Litvack and Bodart, 1993) This is in spite of the fact that it is well-established that the poor are more price sensitive because of the lower incomes: the increase in price was more than offset by the improvement in quality.

What this implies is that an over-preoccupation with public spending can be misleading. There is some, if limited, evidence that public spending on basic education and health is good for the poor and, as noted, most incidence studies find that spending on primary schools and primary health facilities are much more pro-poor (though rarely fully egalitarian) than spending at secondary and tertiary levels (that can be very regressive). But this will often be of second-order importance to institutional and policy reforms to increase the overall effectiveness and coverage of services. How to do that is a highly complex question, and will vary greatly from society to society. In particular some have the overall societal conditions that generate highly effective public services, while others do not. Nevertheless, at the risk of over-simplification a few points can be made:

- it makes eminent sense to finance basic education and those health activities that the private sector would under-provide (for example, vector control and infectious diseases) that tend to hit the poor disproportionately);
- in both education and health there is a case for allowing multiple providers, whether from the private sector or NGOs;
- in both, there is a case for increasing the influence of parents, communities or individuals who use the services, for example through giving parents a greater say in spending choices and hiring decisions (as is occurring, for example, in parts of Pakistan); and
- in many areas, it is important to develop mechanisms for participatory design and monitoring, as well as objective mechanisms for assessing the actual impact of interventions on poor households that will allow the continual re-design of activities.

Conclusion

The answer to whether the poverty and social goals in *Shaping the 21st Century* can be achieved is, not surprisingly, “It depends”. But evidence from the past provides guidance on the way in which it depends. The principal results were as follows:

- reaching the goal of cutting poverty by half by 2015 depends on the initial poverty level, the initial distribution of income and changes in distribution over time. Even with distributional neutral growth, there are wide variations in per capita growth rates required to reach the target — in general the more initially unequal, and the higher the poverty incidence, the higher the required growth;
- if countries grow at rates prevailing in the early 1990s, or if we project performance on the basis of current policy and structural conditions, many will not achieve the poverty reduction goal; and if there are increases in inequality the situation is likely to be made worse;

- if, however, poor-performing countries were to achieve the overall policy and institutional performance of fast-growing countries, then the majority are predicted to achieve the required growth;
- the achievement of social goals is intimately linked with poverty goals — there is evidence of two-way causation between incomes and social outcomes and from social conditions to income growth; however, even with high growth, past levels of progress would lead to child mortality rates still substantially above the *Strategy 21* goal for 2015;
- incomes and other socio-economic factors — notably women's education — are generally much more important than public spending in explaining differences in mortality; in both education and health variations in outcomes are more importantly explained by differences in the efficacy of public action than in levels of public spending. In addition to ensuring sufficient budgetary provision is made for good quality basic services, increasing attention must be paid to other critical factors which govern outcomes. It will often be as important (if not more so) to focus on the policy and institutional reforms necessary to get well-functioning social sectors.

Notes

1. Principal Economist, and Director, Poverty Reduction Division, Poverty Reduction and Economic Management Network, The World Bank. We are grateful to Shaohua Chen and Martin Ravallion for the development of projections of the relationship between growth and poverty, Lant Pritchett for advice on the projections, and to Kalpana Mehra and Alex Arenas for research assistance. We also appreciated comments on an early draft from John Langmore, Jesko Hentschel, and participants at the OECD Development Assistance Committee/Development Centre *Forum On Key Elements for Poverty Reduction Strategies*, Paris, 4–5 December 1997.
2. OECD Development Assistance Committee (1996).
3. This section draws heavily on Walton (1998).
4. World Bank (1996).
5. See Ahuja, *et al.* (1997).
6. The original data for the estimates are from nationally representative household surveys. These are not available for all countries in the world, and vary in quality.
7. These and other data (unless otherwise referenced) come from World Bank (1997).
8. OECD (1997).
9. See, for example, World Bank (1993).
10. This analysis is based on Ravallion and Chen (1998).
11. There is a positive and significant relationship between initial poverty incidence and required growth for both the one and two dollar a day lines; while the relationship is positive with inequality, it is only significant for the two dollar a day line.
12. The *Strategy 21* goal refers to “extreme poverty”, which suggests that the \$1 a day benchmark would be the more appropriate.
13. Investment rates would also have to increase if the balance of payments current account is unsustainably in deficit.

14. It is interesting to note that despite the downward revision in growth in East Asia (from a previously projected growth in per capita consumption of over 7 per cent per annum in 1997–2000 to just under 3 per cent), the more pessimistic scenario still suggests that the region as a whole will remain on track in terms of the *Strategy 21* goal.
15. The growth requirements reported in Figures 6 and 7 refer to halving poverty at PPP\$1 per person per day.
16. Updated values for the PNQ (political) dummy were not available, so we assumed the latest values available from the Barro–Lee 1994 data base (1980–85).
17. The recent financial crisis in Indonesia might call into question its ability to halve the incidence in poverty. From a 1995 base, per capita consumption needs to grow at just 0.5 per cent per annum to reduce poverty incidence by a half 25 years later. Depending how short and sharp the current crisis and recession becomes, it is would appear still likely that between now and 2015, pre capita consumption will grow on average by more than half a per cent per annum, given that the basic initial conditions remain conducive to strong growth over the medium to long term.
18. These results are obtained from Ravallion and Chen (1998).
19. With respect to mean incomes and inequality, Anand and Ravallion (1993) conclude that it is only the incomes of the poor that have a significant effect on infant and child mortality.
20. This is an unweighted average of child mortality rate in the projections and the *Strategy 21* goal.
21. Bidani and Ravallion (1997) adopt an interesting procedure for estimating the mortality of the poor on the basis of variations in mortality and poverty rates across countries.
22. See Filmer *et al.* (1997).

Annex

Growth Predictions Based on Cross-Country Regressions

The predictions of real per capita GDP growth used above are based on a recent study by Sachs and Warner (1995), who explain variations in per capita growth across countries over a 19-year period (1970–89). Real GDP per capita growth is seen as depending on both conditions existing at the start of the period, and trends in certain key variables. The equation they estimate is given by:

$$\begin{aligned} (\ln \text{GDPpc89} - \ln \text{GDPpc70})/19 = & -12.186 - 1.941 \text{ ONQ} - 1.038 \text{ PNQ} - 1.361 \ln \text{GDPpc70} \\ & + 2.149 \text{ SEC70} + 0.272 \text{ PRI70} - 6.456 \text{ G/GDP} + 0.840 \text{ REV} \\ & - 1.354 \text{ AS} - 0.909 \text{ D-PI} + 7.769 \text{ I/GDP.} \end{aligned}$$

where,

- ⇒ GDPpcXX denotes real GDP per capita in 19XX.
- ⇒ SEC70 is the share of population having attained secondary schooling in 1970.
- ⇒ PRI70 is the share of population having attained primary schooling in 1970.
- ⇒ G/GDP is the ratio of government consumption (less military and education spending) to GDP, 1970–89.
- ⇒ REV denotes the annual average number of revolutions and coups, 1970–85.
- ⇒ AS is the average number of assassinations per million of the population, 1970–85.
- ⇒ D-PI denotes deviations from the mean in the price of investment in 1970.
- ⇒ I/GDP is the average total investment (private and public) to GDP ratio, 1970–89.
- ⇒ ONQ is an *economic policy* dummy, which takes the value of 1 if (in 1970) the country was characterised by either import restrictions, state export monopolies, a socialist structure, or a high black market premium in the foreign exchange market. The dummy is 0 for countries not having any of these characteristics.

⇒ And PNQ is a *political* dummy, taking the value 1 if (in 1970) a country is characterised by either a socialist economic structure, extreme domestic unrest, or extreme deprivation of civil or political rights. For countries not having any of these characteristics, the dummy is set at 0.

Per capita growth depends in part on initial conditions (GDP, educational attainment, the price of investment, and the country's economic and political stance), as well as concurrent factors (government consumption spending, political and social unrest, and investment). Our predictions of per capita GDP growth are based on the above Sachs–Warner equation. To derive growth predictions for 1990–2015 we take the values of the right-hand side variables for the following years: initial GDPpc –1990; SEC –1990; PRI –1990; G/GDP –1980–84 (latest readily available); REV and AS –1980–84 (latest available); D–PI –1990; I/GDP –1990–92; and ONQ –1990 and PNQ for 1980 (latest available). Two observations are in order. First, some variables (G/GDP, REV, AS and PNQ) could not be obtained readily, which meant we were obliged to use the series used originally in Sachs and Warner. Second, ideally GDP predictions would require some assumption about the trends in the investment to GDP ratio (I/GDP). For simplicity we take the average investment ratios for 1990–92 in predicting per capita growth. In part, the impact of a more favourable investment climate is captured by the ONQ and PNQ dummies.

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The IMF and the Poor

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The Poor and the IMF's Mandate

The mandate of the IMF, as laid out in its Articles of Agreement, is to promote international monetary co-operation, balanced growth of international trade, and a stable system of exchange rates³. Since the late 1970s, some elements of the IMF's operational policy advice have evolved significantly.

In earlier periods, the IMF's policy advice emphasised the management of aggregate demand with the aim of creating conditions for macroeconomic stability. In recent years, the focus and the scope of the IMF's work have broadened, and the structural and social aspects of fiscal policy have become increasingly important, both in programmes that the IMF supports in members undertaking reforms (IMF-supported programmes) and in its general policy advice (Tanzi, 1997). A major element of this advice now is how to facilitate "high-quality growth" (IMF, 1995). High-quality growth can be defined as growth that *i*) can be sustained and does not collapse in the face of the slightest external shock; *ii*) is accompanied by appropriate domestic and external balances as well as by adequate investment, including in human capital, so as to lay the foundation for future growth; *iii*) is accompanied by policies that protect the environment; and *iv*) is accompanied by policies that attempt to reduce poverty and improve the equality of opportunity (Camdessus, 1990). This paper focuses on the last component of high-quality growth — reducing poverty and improving equity — and describes how the IMF works to achieve these objectives in its three core activities of surveillance over member countries' economic policies, financial support for adjustment programmes, and technical assistance.

IMF Policy Advice and the Poor

IMF policy advice can benefit the poor by influencing a country's macroeconomic policies, design of social safety nets, and public expenditures.

Sound Macroeconomic Policies

Through its policy advice, the IMF seeks to promote sound monetary, fiscal, and exchange rate policies to help countries achieve macroeconomic stability. Even in the short term, such macroeconomic stability directly benefits the poor because it implies low inflation and realistic exchange rates. More important, a sustainable macroeconomic framework is critical for achieving broad-based growth over the long term, which is necessary for alleviating poverty (Squire, 1993; Ravallion and Chen, 1996).

A country that fails to correct serious macroeconomic imbalances often suffers serious social costs. When inflation is high and variable, the poor and those in middle-income groups are affected the most because they usually have limited access to mechanisms that can protect consumption levels, such as interest-bearing checking accounts or other deposit accounts in stable foreign currencies, and a limited ability to purchase goods on credit. High inflation can also erode the tax base — and consequently affect the government's ability to maintain social expenditures — and has an adverse impact on investment decisions. Increasing evidence shows that countries with high inflation rates have lower investment ratios and slower economic growth. Even intermediate levels of inflation (10–40 per cent) have been shown to hamper growth (IMF, 1997a).

The source of inflation in many countries is excessive borrowing from banks by government to finance its spending. An important element of IMF policy advice, particularly in the context of IMF-supported programmes, is therefore to limit the government's access to bank credit while ensuring that the private sector receives an adequate share of total credit. The quality of fiscal adjustment is also critical: changes in government spending or tax policy should be sustainable and have a lasting impact on the fiscal balance over the medium term.

Exchange rate policy is an important element of the policy mix designed to achieve macroeconomic stability. An overvalued exchange rate is likely to negatively affect the incomes of the rural poor, whose livelihood is often dependent on agricultural exports. Correcting exchange rate overvaluation should eventually lead to an increase in output and employment in the export sector. However, the reallocation of resources induced by changes in the prices of goods and services that are internationally traded relative to those that are not takes time and is often accompanied by employment and welfare losses in sectors that the government had previously protected.

Sound macroeconomic policies and a stable macroeconomic framework alone will not create the conditions necessary for economic growth. Usually, structural reforms — designed to ensure continued growth by promoting efficient resource use and providing incentives for competition and private initiative — are also needed. These reforms include eliminating distortions in tax and expenditure policies and their management; liberalising prices and interest rates; restructuring public enterprises to foster conditions for sustainable growth and job creation in the medium-term; reforming

financial institutions to make it easier for people in rural areas to obtain credit; changing labour market policies to enhance competitiveness and increase employment; limiting administrative intervention in the economy; and reducing opportunities for corruption (IMF, 1997b).

Social Safety Nets to Protect the Poor in the Short-Term

Some reforms that are designed to achieve macroeconomic stability and remove impediments to long-term sustainable growth may hurt some of the poor in the short-term. Examples are the removal of generalised price subsidies on basic products; an exchange rate devaluation, which typically hurts urban consumers of imported goods; the reduction of budgetary subsidies to state enterprises; civil service reform; and the lowering of protection associated with trade liberalisation. These reforms can cause a decline in the real incomes of the poor and losses in employment. To mitigate these adverse short-term effects on the poor and other vulnerable groups, many IMF-supported programmes incorporate budgetary outlays on temporary social safety nets to transfer income or protect consumption (Chu and Gupta, 1998).

Safety nets can enhance the political support for reforms. In helping governments design safety nets, the IMF considers their cost-effectiveness and financial viability. Safety nets may include subsidies directed at particular groups or cash compensation in lieu of subsidies; an improved distribution of essential commodities, such as medicine; temporary price controls on some essential commodities; severance pay and retraining for public sector employees who have lost their jobs; and employment through public works programmes. Many of these elements can be found in the recent reform programmes in Asia (see, for example, Gupta *et al.*, 1998b). When possible, existing social security arrangements, such as unemployment insurance and pensions, are modified to protect vulnerable groups from the adverse effects of economic reform. This was the case in countries making the transition from a centrally planned to a market economy (see, for example, Chu and Gupta, 1998).

Improved Composition of Public Expenditures

A reallocation of public expenditures can benefit the poor in the long-term by shifting resources to *i*) activities that promote growth (for example, productive investment spending) from expenditures that do not contribute to the goals of government policy (for example, untargeted, generalised subsidies and excessive military outlays); *ii*) basic education and health care, which build human capital and thus enhance growth and equity; and, of course, *iii*) targeted poverty alleviation programmes.

A key step in reallocating expenditures towards growth-enhancing outlays is to reduce “unproductive” public expenditures — those that can be reduced without affecting the achievement of government’s outputs or objectives, such as the provision of law and order or basic education and health care. Often, when the government pursues multiple objectives in its public expenditure programmes — such as using the public sector as the employer of last resort — and when weak institutions or corruption exist, unproductive expenditures result (Chu *et al.*, 1995).

In reorienting budgetary expenditures towards capital outlays, IMF-supported programmes are intended to reflect realistic expectations of a country’s ability to implement capital projects and the availability, on appropriate terms, of external financing during the program period. The objective is to ensure that capital projects add to the productive capacity of the economy and that adequate resources are allocated to operations and maintenance. Given that capital spending can also be affected by revenue shortfalls, IMF-supported programmes recognise the importance of protecting critical public investment programmes from budget cuts.

A shift in public expenditures to education and health care can increase growth, improve equity, and reduce poverty over the long run through the beneficial effects of these outlays on the accumulation of human capital (Harberger, 1998). Because the productivity and benefit incidence of these expenditures are highly dependent on their intrasectoral distribution, IMF policy advice increasingly emphasises shifting the pattern of expenditures to accommodate higher spending on basic education and primary health care. In its work in these areas, the IMF staff relies heavily on the expertise of other institutions. These include the World Bank, regional development banks, the United Nations Development Program, the International Labor Office, and other UN agencies.

IMF-Supported Programmes and the Poor: The Experiences of Low-Income Countries

In 1987, the IMF established the Enhanced Structural Adjustment Facility (ESAF) to provide resources to low-income countries for longer periods on concessional terms (see Box). Like its precursor, the Structural Adjustment Facility (SAF), the ESAF was created in response to a need to better address the macroeconomic and structural problems of low-income countries. In a review of 36 countries (IMF, 1997*a*; see Table 1) that have implemented structural adjustment policies under SAF/ESAF-supported programmes during 1986–95, the IMF found that these countries have made substantial progress in creating the conditions for a stable macroeconomic environment and sustainable growth and in improving the composition of their public expenditures. An even more recent analysis of data for 66 countries (Gupta *et al.*, 1998*c*; Table 2), of which 32 had SAF/ESAF programmes, shows an increase in social spending since the mid-1980s⁴. What has been the impact of such IMF-supported programmes on the poor? The following section reviews the experiences of these countries and changes in key variables that affect the poor — inflation, growth, and the composition of public expenditure.

Inflation

Overall, IMF-supported programmes have been most successful in ending episodes of high inflation — when the rate is over 40 per cent — which strongly correlates with slow growth. However, countries have been less successful in achieving low (single-digit) inflation (IMF, 1997*a*). The countries with high initial inflation rates experienced a sharp reduction in inflation, and the vast majority of them managed to exit these high-inflation situations. Countries with intermediate inflation (the largest group) showed a mixed record. Many countries saw some disinflation, although in some cases it amounted to a reversal of a run-up of inflation before the programme began. By the third year of the programme, only about one-fourth of the countries with intermediate initial inflation had managed to reduce it to low rates. In one-third of the countries with low initial inflation rates, inflation rose to the intermediate level of about 16 per cent. However, the rest of the group, on average, experienced slightly reduced inflation.

Box. SAF/ESAF: A Concessional Facility to Assist Poorer Countries

The IMF's Executive Board established the Enhanced Structural Adjustment Facility (ESAF) in 1987 to better address the macroeconomic and structural problems faced by low-income countries. It offers loans with lower interest rates and for longer terms than the typical IMF market-related arrangements. The principal objectives are to promote balance-of-payments viability and foster sustainable long-term growth. Although the objectives and features of the ESAF are similar to those of its predecessor, the Structural Adjustment Facility (SAF), set up in 1986, the ESAF was expected to be more ambitious with regard to macroeconomic policy and structural reform measures. The IMF no longer makes disbursements under the SAF. ESAF loans are disbursed semi-annually (as against quarterly for regular IMF stand-by arrangements), initially upon approval of an annual arrangement and subsequently on the observance of performance criteria and after completion of a mid-term review.

ESAF loans are repaid in 10 equal semi-annual instalments, beginning 5/2 years and ending 10 years after the date of each disbursement. The interest on ESAF loans is 0.5 per cent a year. By contrast, charges for stand-by arrangements are linked to the IMF's SDR market-determined interest rate, and repayments are made within 3/4 to 5 years of each drawing. A three-year access under the ESAF is up to 190 per cent of a member's quota. The access limits of stand-by arrangements are 100 per cent of quota annually and 300 per cent cumulatively.

An eligible member seeking to use ESAF resources develops, with the assistance of the IMF and the World Bank, a policy framework paper (PFP) for a three-year adjustment programme. The PFP, updated annually, sets out the authorities' macroeconomic and structural policy objectives and the measures that they intend to adopt during the three years. The PFP also lays out the associated external financing needs of the programme, a process that is meant to catalyse and help co-ordinate financial and technical assistance from donors in support of the adjustment programme.

Table 1. **Sample of 36 SAF/ESAF Countries**

Albania	Guyana	Nepal
Bangladesh	Honduras	Nicaragua
Benin	Kenya	Niger
Bolivia	Kyrgyz Republic	Pakistan
Burkina Faso	Lao People's Dem. Rep.	Senegal
Burundi	Lesotho	Sierra Leone
Cambodia	Madagascar	Sri Lanka
Côte d'Ivoire	Malawi	Tanzania
Equatorial Guinea	Mali	Togo
Gambia, The	Mauritania	Uganda
Ghana	Mongolia	Vietnam
Guinea	Mozambique	Zimbabwe

Growth

During the early 1980s, developing countries, on average, experienced virtual stagnation in per capita real GDP. In the 36 programme countries reviewed, the picture was even bleaker, as real GDP declined by 1.4 per cent a year on average in the first half of the 1980s. In the 10 years thereafter (1986–95), growth picked up in the developing countries as a group, but was faster in the sample of programme countries, leading to the elimination by 1995 of the gap between their growth rates and the average of other developing countries. However, this improvement varied among regions. Western Hemisphere countries experienced the sharpest turnaround in growth rates, whereas those of African countries with a SAF or an ESAF in place turned negative in the early 1990s, so that per capita GDP growth rates, on average, remained close to zero.

A comparison of growth in the three years after the start of such programmes, relative to their growth in the three years preceding the programmes, shows the following picture: all 36 programme countries reviewed, on average, were able to increase real per capita GDP growth. The turnaround was most dramatic in African countries outside the CFA franc zone⁵ and in countries in the Western Hemisphere.

The results of a standard empirical model (IMF, 1997a) used to examine the determinants of economic growth suggest that part of the marked narrowing of the growth gap between developing countries with programmes and those without is attributable to stronger macroeconomic policies. These policies were designed to reduce both inflation and budget deficits and were reinforced by structural reforms in key areas. Other factors were more benign exogenous influences, particularly trends in the terms of trade and the weather. However, policies fell short in several areas — most notably by not opening up to international trade and not reducing the size of government.

Table 2. **Sample of 66 Countries with IMF–Supported Programmes**

Albania*	El Salvador	Niger*
Argentina	Ethiopia*	Nigeria
Bangladesh*	Georgia*	Panama
Barbados	Guatemala	Papua New Guinea
Belarus	Guinea–Bissau*	Peru
Benin*	Honduras*	Philippines
Bolivia*	India	Romania
Brazil	Jordan	Russia
Bulgaria	Kazakhstan	Rwanda*
Burkina Faso*	Kenya*	São Tomé and Príncipe*
Burundi*	Korea	Sierra Leone*
Cambodia*	Kyrgyz Republic*	Sri Lanka*
Chile	Lesotho*	Tajikistan
China	Madagascar*	Tanzania*
Comoros*	Mali*	Thailand
Congo, Republic of*	Mexico	Turkey
Costa Rica	Moldova	Ukraine
Côte d’Ivoire*	Mongolia*	Uruguay
Croatia	Morocco	Uzbekistan
Czech Republic	Mozambique*	Venezuela
Dominica*	Nepal*	Zambia*
Egypt	Nicaragua*	Zimbabwe*

* Countries with SAF/ESAF–supported programmes.

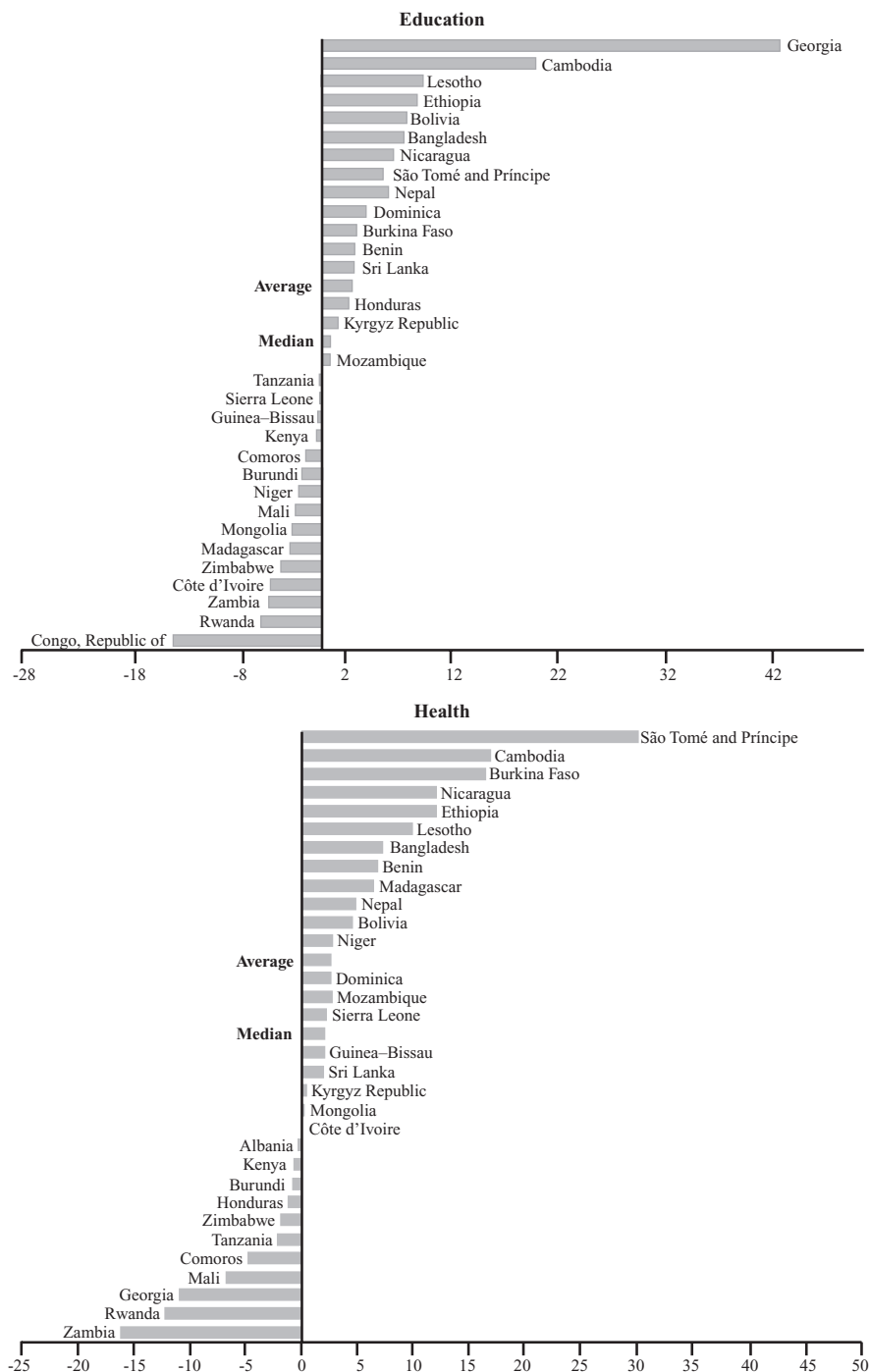
Composition of Expenditures

Social Expenditures

On the basis of evidence for the 66 countries with IMF–supported programmes for which data are available during 1986–96, spending on education and health, on average, fared reasonably well. Changes in such spending were larger in the 32 countries supported by a SAF or an ESAF programme. While changes in social indicators varied among countries, the indicators did, in general, improve. The data reported here do not include education and health spending by the private sector, which can be sizeable⁶.

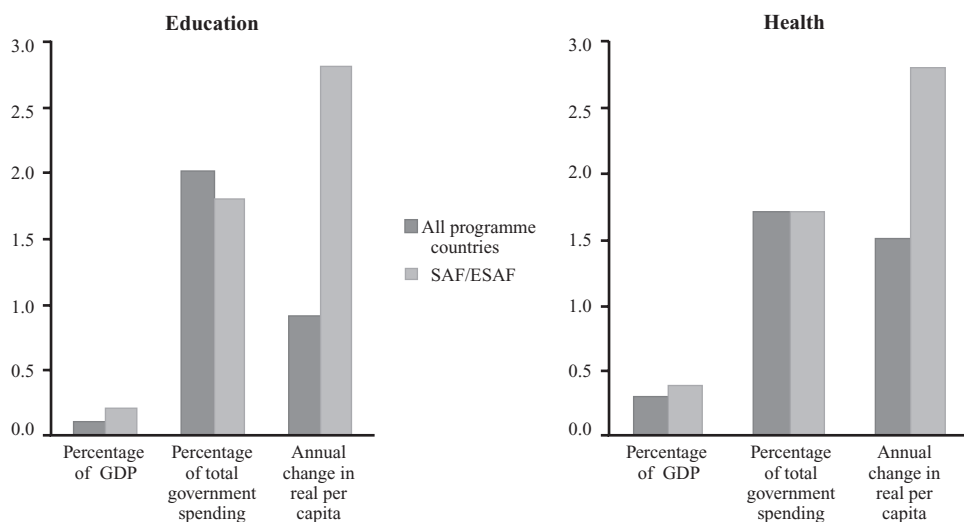
Many countries included in the sample sought real increases in education and health expenditures as well as improvements in expenditure efficiency. A comparison of the last year for which data are available and the pre–programme year (defined as the year preceding the first IMF–supported programme for each country) shows that real public spending on education increased by 44 per cent (43 per cent in SAF/ESAF countries). Real per capita spending increased on average by 0.9 per cent a year in the 66 countries and 2.8 per cent a year in countries with a SAF/ESAF programme (Figures 1 and 2). However, this increase in education spending varied substantially across regions. African countries increased spending by less than the others in the sample: education spending rose only 2 per cent in real terms a year, compared with 11 per cent a year in other SAF/ESAF countries. Because of the small increase in such spending and the high population growth in Africa, per capita education spending actually declined by 0.7 per cent a year, on average, compared with a rise of 9 per cent

Figure 1. Annual Change in Real Per Capita Education and Health Spending Under SAFE/EASF-Supported Programmes (per cent)



Sources: Country authorities and IMF staff estimates.

**Figure 2. Government Social Spending
Under IMF-Supported Programmes, 1986–96 (mean changes)**

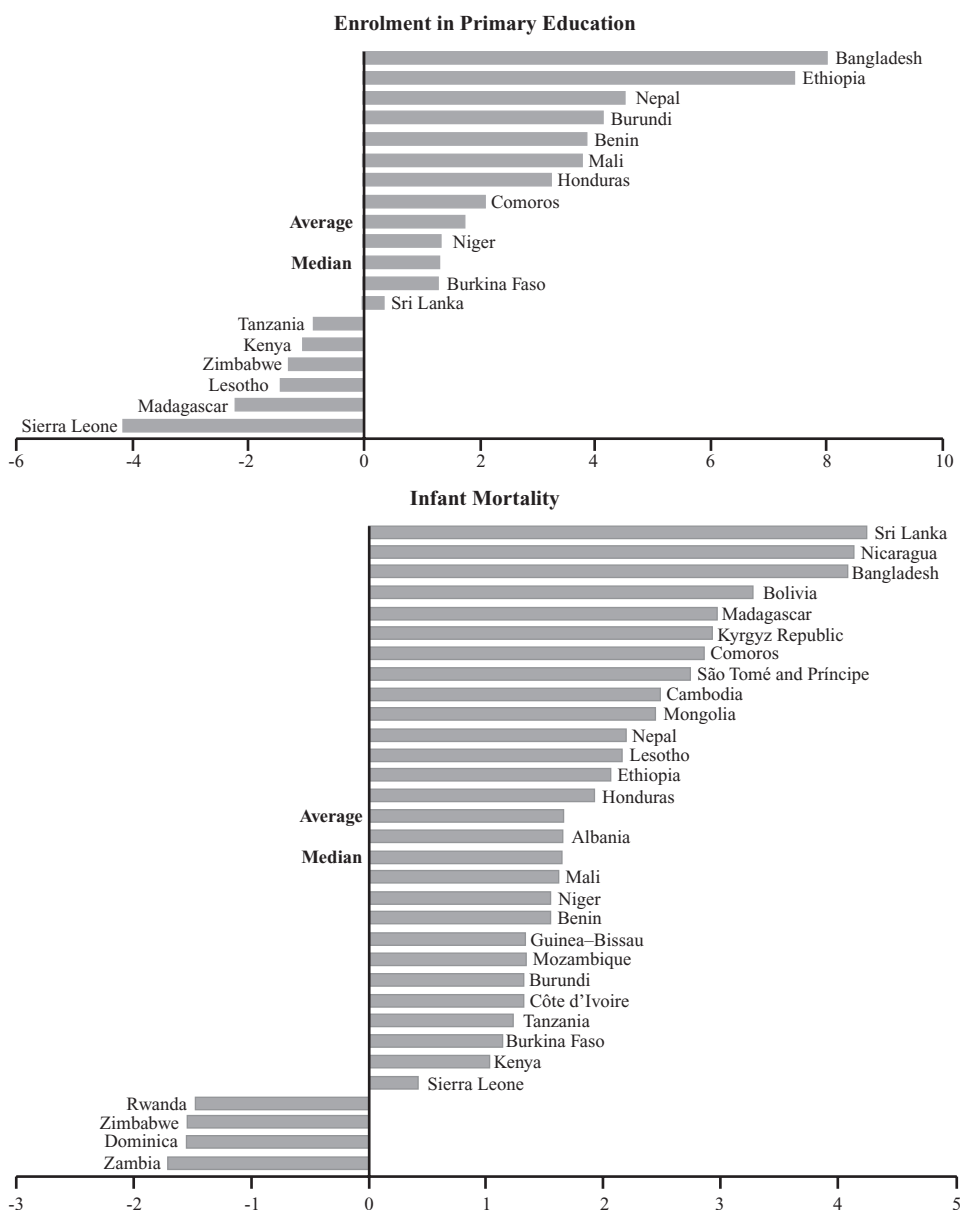


Note: The mean changes are between the pre-programme year and the latest year for which data are available.
Sources: Country authorities and IMF staff estimates.

a year in the other SAF/ESAF countries⁷. In the 66 countries, real public health expenditures increased by 61 per cent (79 per cent in SAF/ESAF countries). Health expenditures increased in real terms in all but eight countries with a SAF or an ESAF programme, with per capita spending increasing, on average, by 2.8 per cent a year (Figures 1 and 2). As with education expenditures, African countries with SAF or ESAF programmes increased their spending by less, with their real per capita outlays on health increasing by only 2.5 per cent per year, compared with 3.3 per cent elsewhere in the sample of SAF/ESAF countries. For both education and health, their shares in total expenditures increased, indicating that these sectors became higher priorities under IMF-supported programmes.

While many factors can potentially affect the link between government expenditures and social indicators, the increased spending on education and health care coincided with improvements in both education and health indicators. The illiteracy rate has declined by 2.4 per cent a year since the start of the first IMF-supported programme, with comparable improvement in SAF/ESAF countries. Gross primary and secondary enrolment rates rose more sharply in SAF/ESAF countries (about 12 per cent on average between the last year for which data are available and the pre-programme year) compared with the overall sample of 66 countries (about 6–9 per cent on average for the same period). Again, gains in literacy were comparatively lower in the African SAF/ESAF countries, with the increase in gross primary enrolment rates being typically lower than in other countries (Figure 3).

Figure 3. Average Annual Change in Primary Education Enrolment and Infant Mortality Under SAF/ESAF-Supported Programmes



Note: An improvement in infant mortality rates is indicated by an increase.

Source: World Bank, World Development Indicators database and *UNESCO Statistical Yearbook*, various issues.

In the health sector, access to health care increased on average to 79 per cent of the population from 69 per cent, with a sharper rise (60–74 per cent) in SAF/ESAF countries. Immunisation rates and access to safe water and sanitation also increased, with some SAF/ESAF countries experiencing greater improvements. At the same time, life expectancy increased by 0.3 per cent a year (0.2 per cent in SAF/ESAF countries), and infant mortality fell by 1.8 per cent a year (1.7 per cent in SAF/ESAF countries). Improvements in health in the African countries were smaller than in other countries in the sample.

As mentioned above, the poverty-reducing impact of social expenditures depends largely on the intrasectoral allocation of these outlays. In the earlier review of SAF/ESAF countries for 1986–95, Abed *et al.* (1998) showed that the distribution of benefits from social spending disproportionately favoured higher-income groups. The ability of upper-income groups to capture a disproportionate share of the benefits of this spending may have reflected an urban bias in the provision of social services⁸. In the education sector, the poorest 20 per cent of the population in a group of eight countries received 13 per cent of the benefits on average, compared with 32 per cent for the richest 20 per cent. To improve the benefit incidence, government should spend more on primary education and impose user charges for tertiary education, in combination with a system of financial aid for poorer students. For the five SAF/ESAF countries for which health data are available, the poorest 20 per cent received an average of just 12 per cent of the benefits of total health care spending, compared with 30 per cent for the richest 20 per cent (see Abed *et al.*, 1998). Again, countries could improve the benefit incidence by emphasising primary and preventive health care services and focusing less on curative and hospital care.

The findings of Abed *et al.* (1998) are supported by a more recent analysis by Gupta *et al.* (1998c). In a sample of 46 countries, the average share of education spending allocated to tertiary education was found to be 21 per cent, with Asian countries allocating the lowest share. While it is difficult to determine the appropriate sectoral shares of education expenditures, it is noteworthy that Asian countries with IMF-supported programmes have experienced the sharpest improvements in education indicators. This same study found that, in a sample of 33 countries, 60 per cent of health spending is absorbed by high-cost curative care, with sub-Saharan African countries allocating the largest share. This finding may partly explain why improvements in overall health indicators among programme countries have been more modest in African countries.

The Managing Director of the IMF has recently called on IMF staff to improve the collection of data on health and education expenditure and to monitor developments in basic social indicators in developing and transition economies. The Executive Board has requested that the staff pay particular attention to social spending and social indicators in the most heavily indebted poor countries (see IMF, 1997c), which are receiving assistance under an initiative instituted by the IMF and the World Bank.

Military expenditures

Excessive military spending can crowd out private investment or more productive public expenditures, with a potentially adverse effect on growth (Knight *et al.*, 1996). Recent research also confirms that in countries where large increases in military expenditures have occurred, the budget deficit has increased and public investment has declined (Gupta *et al.*, 1996). The IMF therefore often advises countries to review military expenditures to identify potential fiscal savings.

Progress has been encouraging in recent years (Gupta *et al.*, 1997, 1998d). In developing countries with IMF-supported programmes, the declines in worldwide military outlays have been even more rapid, although one should be cautious in attributing these declines purely to the programmes. In these countries, military expenditures fell, on average, by 2.5 percentage points of GDP between 1990 and 1997, compared with 1.3 percentage points in developing countries without an IMF-supported programme. This larger decline in programme countries is due mainly to the relatively more rapid reduction in military expenditures in the transition economies (former centrally planned countries making the transition to market economies). The decline in military expenditures has allowed social expenditures to expand. For the 52 countries for which consistent data are available for 1990–96, military spending fell by an average of 3.1 percentage points of total expenditures, while social expenditures increased, on average, by 1.2 percentage points.

Other Aspects of Expenditure Composition

The review of the 36 countries' performance during 1986–95 showed that SAF/ESAF-supported programmes aimed, on average, to maintain roughly the level of total expenditures as a share of GDP (see Table 3 and Figure 4) while shifting expenditures from current to capital. Relative to the three-year pre-programme average, an increase in capital expenditures and net lending of about 1.4 percentage points of GDP was targeted. This increase in capital expenditures was to be facilitated by an average reduction in current spending of 2.2 percentage points, with budgetary savings anticipated to come from reductions in excessive public sector employment and in inefficient subsidies and transfers. In practice, these countries did make significant progress in changing the composition of expenditures in favour of capital outlays, although by less than programmed. Compared with the three-year pre-programme average and the last year for which data are available, the share of outlays devoted to capital and net lending rose by about 2.6 percentage points, whereas the portion of expenditures absorbed by wages and salaries as well as by subsidies and transfers declined (Table 3 and Figure 4).

Table 3. Summary of Expenditures by Economic Classification in SAF/ESAF Countries

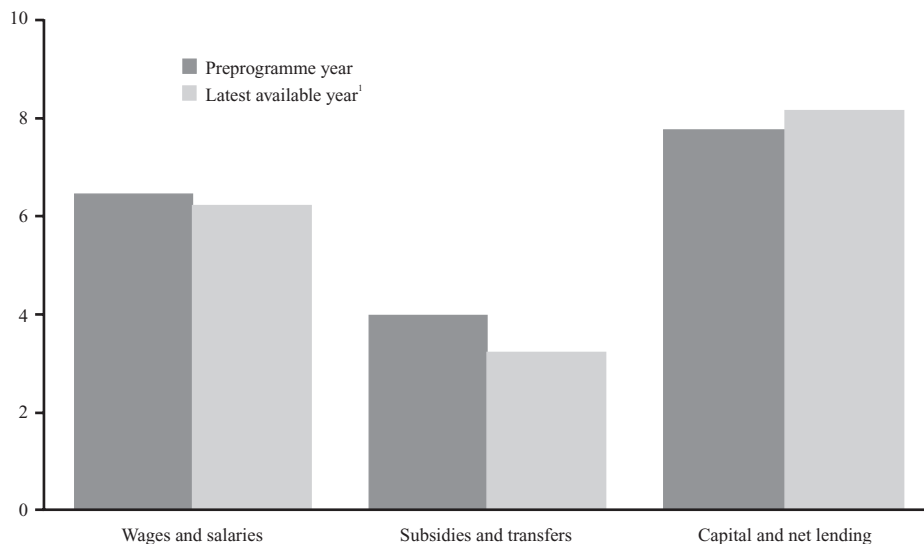
	Three-Year Pre-programme Average	Pre-programme Year	Average Programme Target	Last Year (1994 or 1995)	Last Year Minus Three-Year Pre-programme Average	Last year Minus Pre-programme Year	Sample Size ^a
Per cent of GDP ^b							
Total expenditures and net lending	29.0	27.6	28.2	26.2	-2.8	-1.4	36
Current expenditures	20.9	19.7	18.7	17.9	-3.0	-1.8	36
Goods and services	13.6	12.6	11.9	11.1	-2.5	-1.5	28
Wages and salaries	7.1	6.5	6.1	6.2	-0.9	-0.3	33
Other	6.3	5.8	6.0	4.9	-1.4	-0.9	28
Interest	4.0	3.9	4.0	3.6	-0.4	-0.3	35
Subsidies and transfers	4.4	3.9	3.2	3.2	-1.2	-0.7	29
Other	3.9	3.9	5.1	3.6	0.3	-0.3	21
Capital expenditures and net lending	7.9	7.7	9.3	8.1	0.2	0.4	36
Per cent of total expenditures and net lending							
Current expenditures	70.5	69.6	65.4	67.8	-2.7	-1.8	36
Goods and services	44.4	43.4	40.5	40.9	-3.5	-2.5	28
Wages and salaries	24.9	23.7	22.4	23.5	-1.4	-0.2	33
Other	19.7	19.9	19.5	18.0	-1.7	-1.9	29
Interest	12.3	12.5	13.5	13.5	1.2	1.0	35
Subsidies and transfers	12.4	12.6	9.6	11.4	-1.0	-1.2	31
Other	16.1	15.9	17.9	15.3	-0.8	-0.6	20
Capital expenditures and net lending	28.9	29.7	34.0	31.5	2.6	1.8	36

a. Number of countries for which data are available for a given expenditure category. If the sample size varies for different columns, then the maximum figure is given.

b. The sum of the expenditure components may differ from the totals because of differences in sample size.

Sources: Country authorities; and IMF staff estimates.

Figure 4. Government Spending Under SAF/ESAF-Supported Programmes
(percentage of GDP)



1. Either 1994, 1995 or 1996.

Source: Abed *et al.* 1998 and Table 3.

Social Safety Nets

Although data problems make it difficult to distinguish subsidies designed to help the poor from those designed for other policy purposes, several countries improved the efficiency of outlays on subsidies and transfers by reducing generalised subsidies and increasing spending on targeted social safety nets during 1986–95. Partly as a result of such reductions (particularly in transition economies), spending on subsidies and transfers by the group of 36 SAF/ESAF countries declined by about 1 per cent of total expenditures between the last year for which data were available and the three-year pre-programme average. Some countries temporarily froze prices on key staples after major exchange rate devaluations, whereas others instituted programmes to transfer income to the poor during the reform period.

When civil service reform involved cutting staff, most countries included severance packages for the newly unemployed and made it easier for small enterprises to obtain credit, often with the support of donor financing. Public works or “food-for-work” programmes were also implemented to provide income support to the unemployed, those adversely affected by reduced employment opportunities, and soldiers rendered unemployed by military demobilisation programmes. In some other countries, a part of the privatisation proceeds was used to compensate workers who were made redundant in privatised enterprises.

Countries that have attempted to reform existing social assistance programmes and implement new social safety nets have faced several difficulties, and the results have often been uneven. First, weak administrative structures and the lack of appropriate social policy instruments have constrained the implementation of cost-effective social safety nets, especially when the poor are located in geographically isolated areas. Furthermore, because of a lack of data, it has sometimes been difficult to assess a social safety net's effectiveness in reaching its intended beneficiaries. In some countries, political support for establishing and reforming social safety nets has at times been insufficient, so that social safety nets continue to have unintended beneficiaries. Finally, the weakening of the revenue base has dried up sources of financing for social benefits in some transition countries (Chu and Gupta, 1996).

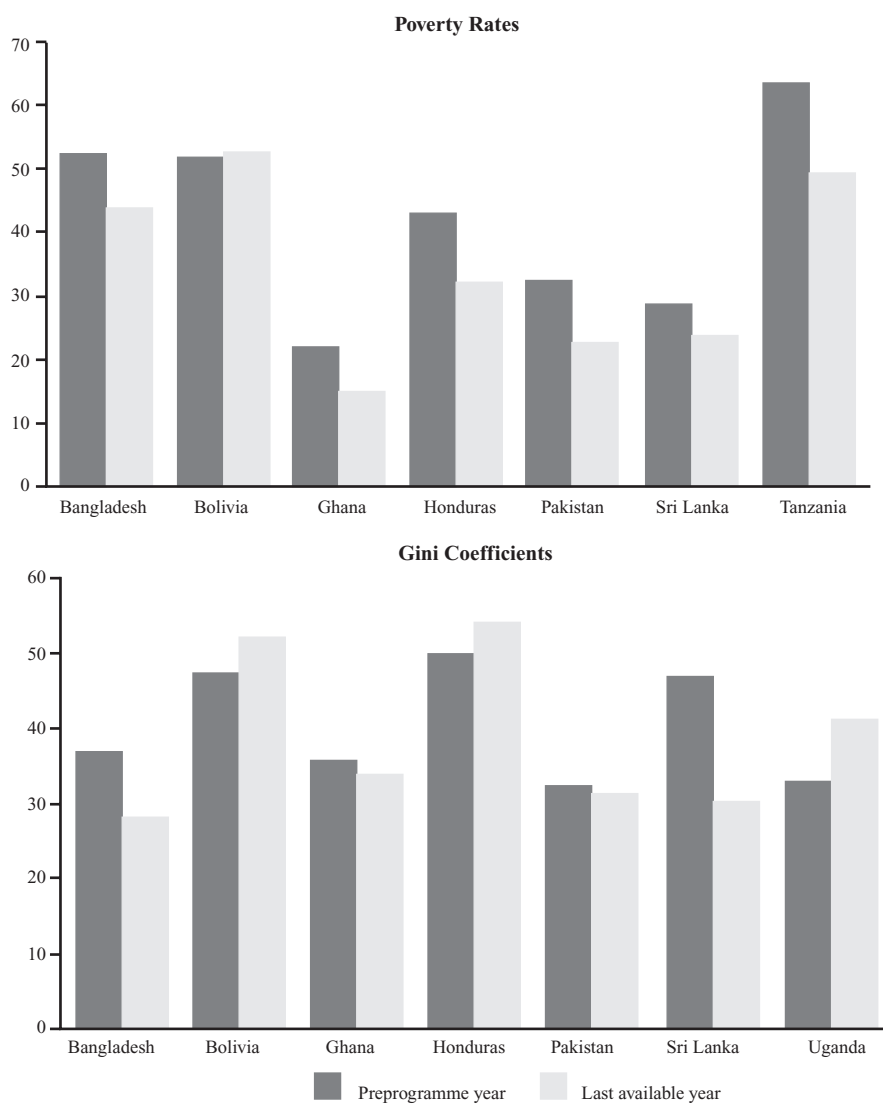
Changes in Poverty and Income Inequality Under IMF-Supported Programmes

Have countries with IMF-supported programmes reduced poverty and income inequality? This question is important not only in itself, but also because recent research suggests that inequality can hinder growth.

In 1986, the IMF's Fiscal Affairs Department studied how adjustment programmes affected the distribution of income in 94 countries (IMF, 1986). The study concluded that, although there was no evidence that IMF-supported programmes worsened income inequality, different policy measures had different effects on different income groups. Measures that made the distribution of income more equal included devaluation of the exchange rate in countries where small farmers depended on agricultural exports, elimination of exchange controls, expansion of access to credit markets, expansion of the tax base for property and income taxes, and reallocation of expenditures toward basic education and health care. Measures with adverse distributional effects included increase in indirect taxes (for example, customs duties and the value-added tax). A follow-up study (Heller *et al.*, 1988) that focused on seven countries concluded that the distributive effect of IMF-supported programmes depended on the policy mix used to achieve fiscal adjustment.

In seven SAF/ESAF countries for which data are available, poverty rates declined by an average of 20 per cent under IMF-supported adjustment programmes, implying an average annual reduction of 5.3 per cent (Figure 5). The reduction for the two SAF/ESAF countries in Africa (Ghana and Tanzania) was somewhat greater, at 6.3 per cent each year. Poverty rates declined significantly in Asia (Bangladesh, Pakistan, and Sri Lanka); in Latin America, urban poverty increased in Bolivia — mainly because of the migration of rural poor to urban areas — while poverty declined at the national level in Honduras.

**Figure 5. Poverty Rates and Gini Coefficients
Under SAF/ESAF-Supported Programmes**



Sources: Deininger and Squire (1996); Jayarajah, Branson and Binayak (1996); and World Bank (1996a and 1996b).

For income inequality, the data indicate that, on average, the distribution of income improved in countries with SAF/ESAF-supported programmes (Figure 5). The decline in the average Gini coefficient — a measure of the inequality of income distribution — was nearly 1 per cent each year, from 0.41 to 0.39. For the two SAF/ESAF countries in Africa for which data are available (Ghana and Uganda), income inequality increased in Uganda and fell in Ghana. For the three Asian countries, poverty reduction was, on average, accompanied by a more equal distribution of income, with especially sharp declines in the Gini coefficient in Bangladesh and Sri Lanka. In contrast, for the two Latin American countries — Bolivia and Honduras — income inequality increased. Similar trends can be observed for the evolution of the income share of the richest 20 per cent of the population relative to that of the poorest 20 per cent. However, given the small sample, it is difficult to generalise these results for other SAF/ESAF countries with IMF-supported adjustment programmes during that period.

The IMF's deepening interest in income distribution issues reflects the belief that, as a matter of social justice, all members of society should share in the benefits of economic growth. Adjustment programmes that are equitable and growth that is equitable are more likely to be sustainable (Camdessus, 1998; Fischer, 1998; IMF, 1998). As a result of these considerations, the IMF hosted a major conference on income distribution and sustainable development in 1995 and a conference on economic policy and equity in June 1998. The 1998 conference focused on operational aspects in addressing equity⁹.

Addressing Poverty Concerns in Other Core IMF Activities

The increased focus on high-quality growth has been incorporated not only in programme design but also in the other core activities of surveillance and technical assistance. With respect to surveillance, the IMF's policy advice has focused on a wide range of current economic policies, including structural policies and the reforms needed to improve the quality of growth and economic performance. For example, policy advice to some European countries has stressed the importance of labour market reforms to reduce unemployment. To address the social effects of these labour market reforms, policy advice has focused on appropriate adjustments in tax and expenditure policies.

In many industrial countries, demographic trends indicate that the rapid ageing of the population may raise expenditures on health and social security to unsustainable levels (Chand and Jaeger, 1996; and Heller, 1997). In these countries, IMF advice on reforms has focused on the long-term viability of health and social security spending.

The IMF's technical assistance has included advice on efficient and equitable tax and expenditure policies, which is a necessary adjunct to programme design if the objectives for growth and poverty reduction are to be achieved. Some of the areas in which such assistance has been provided are public expenditure management, tax policy, tax administration, public expenditure policy, and social safety nets. Since 1991, the IMF has fielded about thirty technical assistance missions to help member countries design cost-effective and financially sustainable social safety nets.

Summary and Conclusions

The focus of the IMF's policy advice is to help member countries achieve a sustainable macroeconomic framework that creates the conditions for growth and the reduction of poverty. The aim is to devise macroeconomic policies that foster sustainable growth while reforming expenditures and tax policies to reinforce this process, thus ultimately improving income distribution and reducing poverty. Through this process, the IMF's approach to fiscal policy, particularly its social aspects, has evolved so that it is no longer viewed solely as a macroeconomic tool. The IMF is paying more attention to the distributional implications of fiscal policy and its role in fostering long-term growth, particularly during adjustment. Nevertheless, further research is needed on the linkages between social expenditures and social output indicators, with a view to providing guidance for better targeting of social expenditures.

Through the programmes it supports, the IMF is continuing its efforts to better protect the poor. Guidelines have recently been issued to IMF staff for improving the monitoring of social expenditures and social output indicators as a further step in this process. IMF-supported programmes can be made more effective, in general, if the analysis of the distributive effects of policy measures and economic developments is improved. They can also be strengthened through a more systematic evaluation of the effectiveness of social safety nets and of the composition of expenditures. With the increased emphasis on second-generation reforms to foster high-quality growth — such as the reform of the labour market — there is likely to be an even greater impact on the poor than in the past, which underscores the need for more work in this area. The IMF Board has recently received an assessment by external evaluators of the social aspects of adjustment programmes in low-income countries. This will further guide the IMF's policy advice and co-operation with the World Bank on poverty reduction.

Notes

1. Staff of the Fiscal Affairs Department of the IMF. This is a revised version of a paper prepared for the Joint Development Assistance Committee/Development Centre Forum on “Key Elements for Poverty Reduction Strategies”, held in Paris on December 4–5, 1997. The authors would like to thank Peter S. Heller and Louis Dicks-Mireaux for their very helpful comments on an earlier draft. Elisa Diehl of the IMF’s External Relations Department edited the paper and co-ordinated its production.
2. The term “country”, as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.
3. The purposes of the IMF, as laid out in its Articles of Agreement, are “i) to promote international monetary co-operation . . . ; ii) to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income . . . ; iii) to promote exchange stability, to maintain orderly exchange arrangements among members . . . ; iv) to assist in the establishment of a multilateral system of payments . . . ; and v) to give confidence to members by providing temporary financial resources to help them correct balance of payments disequilibria.”
4. The findings in the sample of 66 countries largely confirm an earlier analysis of developments in social spending in 23 countries supported by SAF or ESAF programmes (see Abed and others, 1998).
5. The 14 countries that make up the CFA franc zone are Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Republic of Congo, Côte d’Ivoire, Equatorial Guinea, Gabon, Guinea-Bissau, Mali, Niger, Senegal, and Togo.
6. In 1990, for example, the private sector accounted on average for 45 per cent of health outlays in Africa and for 60 per cent of such outlays in Asia (see Psacharopoulos and Nguyen, 1997).
7. The performance in Africa was influenced by the drop in spending in CFA franc zone countries in the aftermath of the 1994 currency devaluation and by the repatriation of expatriate teachers. In some African countries, such as Burkina Faso, Ghana, and Lesotho, real per capita education expenditures increased significantly.

8. See Schwartz and Ter-Minassian (1995) for a recent review of the literature on the distributive incidence of public expenditures.
9. The IMF's interest in this area is also reflected in studies that have recently been undertaken (see, for example, Clements, 1997; Tanzi and Chu, 1998). Clements's recent study on Brazil found ample evidence in the literature that income inequality is largely explained by the extreme disparity in educational attainment levels. Since the Real Plan of July 1994, inequality in Brazil has been lessened, although the distribution of income in that country remains one of the most unequal in the world.

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PART TWO

DEVELOPING COUNTRY EXPERIENCES

Poverty Reduction Strategies: The Experience of Bolivia

Albrecht von Gleich

Introduction and Background

In spite of its rich endowment with natural resources, mainly minerals and energy, and an enormous agricultural potential Bolivia has been one of the poorest if not the poorest country in South America. According to practically all economic and social indicators, it is placed at the end of the welfare scale of the South American countries, except Haiti, the worst case of them all. Its main economic activity, mineral exports, did not produce any trickle down effects to those parts of the population that were not directly involved in the mining sector. The Revolution of 1952, intended to improve the situation of peasants and small land owners by enforcing a land reform changed neither the economic structure of the country nor the social conditions of its 7.4 million inhabitants (1995).

In 1985 the economy almost collapsed. Per capita GDP had fallen by more than 20 per cent since 1980, the hyperinflation had reached 24 000 per cent, and the public deficit had climbed to about 25 per cent of GDP.

The impressive results of the efforts made by the new democratic governments since 1985 in order to overcome the crisis have to be measured against this historical experience and structural background. Under the *New Economic Policy* a comprehensive stabilisation and structural adjustment programme was launched that already in 1986 gained substantial support from the IMF and the World Bank. As in other reform countries the *New Economic Policy* included liberalisation of most prices, deregulation of the labour market and of foreign trade, establishment of a single exchange rate, reducing public deficits by cutting expenditures mainly in the government sector and in state-owned enterprises and a tax reform aimed at improving public finance with a long-term perspective and on all levels.

In the centre of the new policy was the reform of the state, moving away from the traditional paternalistic state as the “owner” of the country towards a state that is to provide basic public services and a just and stable framework for private sector activities. Participation and decentralisation were to replace the old principles that governed the state and public administration. The most visible measure was the dismantling of COMIBOL, the state-owned tin-mining conglomerate. About 23 000 of its employees, more than 75 per cent, were laid off. Other reforms, affecting the number and the salaries of public employees, were to follow.

The government placed great emphasis on easing the social costs of the new policy, since a further worsening of living conditions could not be tolerated, and social unrest could threaten the political stability and the democratisation process of the country.

The results of the first generation of stabilisation and adjustment measures of 1985 became visible almost immediately. Inflation fell sharply after 1986, public sector deficits were brought under control as well as the current account deficit, largely due to the resuming inflow of capital and development funds from abroad. Growth became positive in 1987 and has from that year on averaged about 4 per cent. However, in spite of these achievements and many political and institutional efforts to improve the living conditions of the urban and rural poor, the *New Economic Policy* contributed little to an effective reduction of poverty and to improve the income distribution. To the contrary, the respective indices tended to worsen, at least during the first years of economic recovery.

In 1993, a second generation of reforms was initiated including: *i)* constitutional and administrative reforms (including land reform) needed to secure the structural reforms; *ii)* privatisation of the big state enterprises by means of the so called *Capitalisation*; *iii)* participation of the people and decentralisation of the public administration and *iv)* education reform.

These new reform efforts have been complemented by reducing debt and the debt service burden, among others through concessional rescheduling with bilateral creditors. In spite of a series of political challenges and economic set backs, the government of President Sanchez de Lozada throughout its period in office remained firmly committed to maintaining economic stability through sound fiscal and monetary policies thus providing for a solid basis of a comprehensive poverty reduction strategy. The government of President Banzer that took office in August 1997 has confirmed that it will follow the same path and has already taken institutional steps indicating that poverty reduction and particularly education and health will be the main concerns of the Bolivian policy over the years to come.

Visibility of Poverty

Measuring Poverty

This paper uses the poverty quantifiers elaborated and applied the Bolivian census and household surveys¹ which have also informed the poverty reports on Bolivia by the World Bank in 1990 and 1996, namely:

- The Unsatisfied Basic Needs Index (NBI) and
- The Headcount Index, based on income/consumption levels with respect to a specific poverty line.

The **NBI** captures the degree of satisfaction of basic needs with regard to minimum standards, such as food, quality of and access to housing, water supply, sanitation, energy, education and health. It measures poverty as the share of households with unsatisfied nutrition requirements and other basic necessities.

The **Headcount Index** measures the proportion of households with income levels below the consumption-based poverty line, which reflects the expenditure necessary to buy a “minimum food basket” and other necessities such as housing, education, public transportation, etc. A distinction is made between urban and rural poverty lines according to the prevailing average consumption and sometimes also considering cost differentials. Poverty lines are expressed at current prices in units of the national currency.

Extreme poverty is defined as the proportion of households with income below the level required to purchase the minimum food basket (cf. formula in Appendix 1.1. to World Bank 1996).

The **Poverty Gap** quantifies the *depth of poverty* by measuring the difference between the poverty lines and the mean income of the poor, expressed as percentage of the given poverty line.

An even more sensitive poverty indicator is the **FGT** (Foster Greer Thorbecke) index, which measures the *severity of poverty* among those who are poor. In addition to the Poverty Gap it takes into account the distribution among those who are poor. The value of this index will increase whenever there is, however small, some transfer of income among the poor population from a poor person to the less poor. (For methodological details see Annex 1.1.31/32 to World Bank 1996.)

The **PRA** (*participatory rural appraisal*) techniques, based on the perceptions of the poor themselves, are increasingly recommended to complement or replace the traditional ones, as it is well known that poor people’s views and priorities are sometimes very different from those of planners and policy makers. But PRA techniques include also the risk to represent local leadership views where women may be “muted” by dominant discourse².

It should be mentioned that the *Human Development Index* (HDI) introduced in the 1990 Human Development Report by UNDP, incorporates three components: longevity, knowledge (adult literacy and mean years of schooling) and standard of living (real GDP per capita in terms of purchasing power parity). In 1991, a “gender disparity adjusted” version was introduced. At present, a gender differentiated HDI is available only for 43 countries among which only 18 developing countries. Bolivia is not yet included.

The selected social dimensions presented and discussed in this paper with regard to the poverty profile of Bolivia are as follows: differentiation between urban and rural (Table 1), regional distribution, distribution of the different poverty types, ethnic differences, gender impact, components of the basic social demand (health, education, housing) in relation to the different social groups. We will refer to these basic poverty data and, data permitting, show whether adequate strategies were designed and implemented to reduce poverty.

The poverty line cited by UDAPSO (1995) is probably the only one based on a basic food basket and seems to have problems of inconsistency, with the rural poverty line being based on the urban poverty line as defined by the World Bank.

Table 1. Poverty Lines and Average Per Capita Consumption, 1989 and 1995^a

	Extreme Poverty Line	Poverty Line		Average Per Capita Consumption	
		Current Prices	1995 Prices	Current Prices	1995 Prices
<i>Urban areas^b</i>					
October 1989	73.0	132.7	270.9 (100)	167.0	341.7(100)
August 1993	121.0	219.9	270.9 (100)	283.1	348.7(102)
<i>Rural areas^c</i>					
May 1995					
World Bank	119.2	158.9	158.9 (59)	82.2	82.2 (24)
UDAPSO	72.3	96.4	96.4 (36)	82.2	82.2 (24)

a. Sub-regional poverty line averages have been calculated using sub-regional sample shares as weights.

b. Analysis of the 1989 and 1995 EIH consumption data indicates that urban households in the lower three consumption deciles spend 52 to 57 per cent of their income on food items. Therefore, an Engel coefficient of 0.55 was used to derive the urban poverty lines. In rural areas, the food budget share among the poor is approximately 75 per cent.

c. The World Bank rural poverty line uses the same food bundle as does the urban one, but assumes an urban/rural price differential of 20 per cent

Source: Bolivia IHS (1989) and Bolivia: (1995): Limited Rural Household Survey, and UDAPSO (1995).

Key Figures of Urban and Rural Poverty

Table 2 shows that about 60 per cent of the urban population live in poverty, and of those almost half in extreme poverty whereas the proportion is considerably higher in rural areas.

Table 2. **The Development of Poverty over Time**

	Extreme Poor (A)	Poor (B)	Sub Total (A+B)	Non-Poor (C)	Overall (A+B+C)	Population 1995 (million)
Distribution by poverty group						
Overall (estimate) ⁱ	50.1	22.4	72.5	27.5	100.0	–
Urban 1989	28.1	32.0	60.1	39.9	100.0	–
Urban 1993	29.3	32.3	61.6	38.4	100.0	–
Rural 1995	79.1	8.6	87.7	12.3	100.0	–
Distribution within each poverty group (1995)						
Overall	100.0	100.0	100.0	100.0	100.0	6.7
Urban	45.2	84.2	40.7	81.3	58.0	3.9
Rural	54.8	16.0	59.3	18.7	42.0	2.8

a. Assumptions for the purpose of this estimate: *i*) the poverty rates in urban areas are identical in 1995 and 1993; *ii*) the surveyed rural sub-areas are representative of the entire area; and *iii*) the projected urban and rural population for 1995 is the same as the 1992 Census.

Source: Bolivia, Integrated Household Survey 1989 and 1993, and Bolivia (1995): Limited Rural Household Survey.

Moreover, Table 2 indicates that during the period 1989–93 urban poverty has slightly increased, and that the proportion of the population below the extreme poverty line has also grown. This is the result of the large migration into the cities of the rural poor and of displaced miners as a consequence of the closing down of mines in the context of economic adjustment.

The most recent statistical information on urban poverty development, provided by UDAPSO in July 1997, however, suggests that both poverty and extreme poverty in urban areas have decreased between 1990 and 1995 from 53.3 per cent to 47.8 per cent and from 26.2 per cent to 20.8 per cent respectively. Poverty ratios by departments show significant deviations from the national average highly influenced by the relatively better performance by Santa Cruz, the third largest city.

In 1995 about 88 per cent of the rural population were still affected by poverty with 90 per cent of them being below the extreme poverty line. While the rural population is only 42 per cent of the total, rural areas include almost 60 per cent of the poor and 55 per cent of the extreme poor. Moreover, the depth of poverty in rural areas is extremely high, showing a poverty gap index of almost 55 per cent. Finally, a FGT index of approximately 40 per cent as compared to 14 per cent in urban areas is a clear indication how severe the degree of poverty is in rural areas.

Poverty Key Groups by Ethnic Affiliation, Gender and Education

The ethnic distribution of poverty between *indigenous* and *non-indigenous* population is more pronounced in urban than in rural areas. The poverty rate of indigenous families in urban zones is about 10–15 per cent points higher than that of their non-indigenous counterparts, (Table 3). In rural areas, where up to 90 per cent of the population surveyed are indigenous, there is no statistically significant difference between indigenous and non-indigenous poverty.

Table 3. Incidence of Poverty among Key Groups, 1989, 1993 and 1995

	Proportion of Population Below Poverty Line		
	Urban Areas		Rural Areas
	1989 (% distribution)	1993 (% distribution)	1995 (% distribution)
Proportion of population below extreme poverty line	28.1 (100)	29.3 (100)	79.1 (100.0)
Indigenous	37.3 (27.7)	35.7 (36.2)	79.9 (91.6)
Monolingual	51.7 (1.3)	44.3 (1.2)	—
Bilingual	37.1 (26.4)	35.4 (35.0)	—
Non-indigenous	22.2 (72.3)	23.7 (63.8)	71.5 (8.4)
<i>Female-headed households</i>	<i>25.6 (13.1.)</i>	<i>23.7 (14.4)</i>	<i>68.1 (5.3)</i>
<i>Male-headed households</i>	<i>28.5 (86.9)</i>	<i>30.3 (85.6)</i>	<i>79.6 (94.7)</i>
Proportion of population below poverty line	60.1 (100)	61.6 (100.0)	87.7 (100.0)
Indigenous	72.1 (27.7)	68.0 (36.2)	87.7 (91.6)
Monolingual	81.7 (1.3)	78.8 (1.2)	—
Bilingual	71.6 (26.4)	67.7 (35.0)	—
Non-indigenous	53.0 (72.3)	56.0 (63.8)	88.3. (8.4)
<i>Female-headed households</i>	<i>54.9 (13.1)</i>	<i>54.4 (14.4)</i>	<i>92.3 (5.3)</i>
<i>Male-headed households</i>	<i>60.9 (86.9)</i>	<i>62.9 (85.6)</i>	<i>87.4 (94.7)</i>

Source: Bolivia (1989 and 1993), Bolivia (1995).

Gender and ethnic-based poverty can be illustrated as follows: a female indigenous household head, over 30 years old, living in rural or urban areas, illiterate and monolingual or functionally bilingual with some years of primary education, is the person who will most likely belong to the extreme poverty group. With increasing formal knowledge and acquisition of the dominant national language, however, these women can rapidly pass to the “normal” poverty group.

Another criterion within the indigenous population which is a clear indicator for poverty is knowledge of the dominant language, Spanish. All vernacular monolingual indigenous have a substantially higher poverty rate than the bilinguals and the latter are also significantly poorer than the non-indigenous poor *Mestizo* population.

There is also clear evidence for *gender differentiation* related to urban and rural income raising chances. Female-headed households in urban areas are normally better off than male-headed households. There are two explanations for this: female household heads are better “managers of scarcity” and women raise additional income in various informal activities (working part time in homes, restaurants or other services or as traders).

When looking at the incidence of education levels on poverty (Table 4), the following should be noted: no formal education or uncompleted primary schooling among household heads is a salient indicator of poverty, and poor people can only afford public schools for primary education. Note also that the transition rate to public secondary school drops drastically. Poor education (quantity and quality) perpetuates poverty and poverty does not permit better education: the vicious circle is closed.

Table 4. **Distribution of Urban Education Characteristics by Poverty Group, 1993**

	Poverty Groups			
	Extreme Poor	Poor	Non-Poor	Overall
Years of schooling by household head	7.0	8.3	11.1	9.3
Education level of household head:				
No education or primary incomplete (%)	58.0	49.0	21.0	41.0
Years of schooling among those 18 and older	7.8	9.0	11.4	9.8
Net primary enrolment (age 7–11)	83.2	87.4	88.4	86.1
in public schools	81.4	77.6	40.7	68.1
in private schools	1.8	9.8	47.7	18.0
Net secondary enrolment (age 12–18)	53.7	67.3	75.1	65.4
in public schools	51.0	53.6	28.9	44.6
in private schools	1.3	12.0	43.1	9.1
Repeat primary school grades (age 12–18)	13.3	7.3	6.8	9.1
Attendance in tertiary institutions (age 19–24)	8.7	15.4	28.0	18.9

Source: Bolivia (1993).

The Commitment and Vision of the Government

First Attempts: The Emergency Social Fund

Genuine poverty reduction policies and strategies were first defined and implemented step by step in 1985/1986 following the *New Economic Policy* of President Paz Estenssoro. The *Emergency Social Fund* was created in 1986 as a development institution attached to the Presidency and independent from the ministries responsible for social affairs — Health, Education and Housing and Urban Development. The ESF depended entirely upon external resources (mainly from the World Bank), and was viewed as a test case of how to deal effectively with social costs of adjustment.

The primary objective of the ESF was to fund as quickly as possible technically simple and feasible small projects that were proposed, designed and carried out by regional and local organisations in the public, private and voluntary (NGO) sectors. Suitable types of projects were: economic and social infrastructure improvement; social assistance (education, health etc.); production support, especially in the informal sector, to micro enterprises and to co-operatives in agriculture and mining. As to the way it operated, the ESF was:

- Designed to create income among its target groups by offering jobs, at least temporarily;
- Demand driven, i.e. the projects were determined by the requests from suitable organisations all over the country;
- Primarily a financial intermediary depending on the active participation of the private and voluntary sector.

Over its relatively short life span of about three years the ESF approved approximately 3 000 projects valued at about \$180 million. About 20 000 persons were employed in ESF-financed projects. Moreover it provided a stimulus and a tool for channelling large amounts of foreign and central government funds to many small projects implemented by decentralised agencies, municipalities, NGOs etc., and finally helped to establish government-NGO relations. The ESF suffered from a series of shortcomings, partly due to its characteristics as an *emergency* programme with a limited life span. From the perspective of a poverty reduction strategy, the most important deficiencies included the following ones:

- Because of the demand-driven approach and the dependence on organised executing institutions the fund in most cases did not target the poorest groups, i.e those that are lacking the organisational structures required to run projects;
- The ESF had difficulties in becoming integrated into the national and regional planning processes and associated with the existing government institutions;
- The ESF had done little to provide for the sustainability of the projects beyond the period during which it received support from abroad.

Nevertheless the ESF has helped in building the new poverty reduction strategies in Bolivia characterised by elements such as selectivity; decentralisation; reliance on NGOs, regional, local and ethnical communities; targeting the most needy groups and sustainability.

The Succeeding Social Investment Fund

The *Social Investment Fund*, FIS, replacing the ESF in early 1990, follows a different path, aiming specifically at:

- Health, education, water and sanitation services to reach the poor;
- Providing a co-ordinating link between the many agencies active in the social sector;
- Increasing external assistance to the social sector by providing an efficient and transparent mechanism for donors that wish to contribute to priority programmes.

Moreover, the SIF has tried to correct some of the shortcomings of its predecessor, among others by:

- Improving poverty targeting, for example by giving priority to populations with infant mortality rates greater than 170 and adults' illiteracy rates higher than 40 per cent;
- Improving project selection;
- Aiming at sustainability;
- Improving inter-agency co-ordination.

By the end of 1995, FIS had approved about 2 150 projects, totalling \$160 million, and had about 1 250 sub-projects (\$59 million) in operation. Distribution by sectors: 47 per cent education, mainly school building and teachers' training; 20 per cent basic sanitation, mainly water supply; 22 per cent health services. About 75 per cent of the projects are in rural areas, the remainder in peri-urban zones. Over 80 per cent of the FIS commitments refer to areas where the inhabitants belong to the poorest 50 per cent of the population and more than half of all funds are targeted at the poorest 25 per cent. In 1995, a preliminary evaluation of the FIS-promoted projects evidenced a significant improvement of the use of health facilities and also some impact on school attendance.

The Plan “Change for All” (“Cambio para Todos”)

The government of president Sánchez de Lozada, who came into office in August 1993, marked a new era for the Bolivian poverty reduction policies. Based on the results of ample surveys and studies, accomplished with technical and financial assistance from abroad and inspired by the new concept of sustainable development, a comprehensive and integrated programme was approved in October 1994 as *Plan General de Desarrollo Económico y Social— El Cambio para Todos*.

For the implementation of the cross-sector guidelines of this General Plan for Economic and Social Development — Change for All — a new Ministry for Sustainable Development and Environment (MDSMA) was created with the following objectives to be pursued simultaneously and in an interdependent way:

- Economic growth based on structural and technological change aiming at competitiveness;
- Social equity, reducing extreme imbalances of conditions of life, participation, acknowledging cultural diversity, abolishing any form of discrimination;
- Use of natural resources in a way that respects the environment;
- Strengthening the legitimacy and good governance of the state.

The following synopsis tries to give an overview of the institutional and strategic framework of the Bolivian poverty reduction policies under the guidelines of the General Development Plan.

Land Reform Policies and Legislation

In contrast to other Latin American economies, characterised by a continuously decreasing importance of agriculture, this sector is still an important element of the Bolivian economy. Agriculture and forestry contribute about 16 per cent to GDP, and about 40 per cent of the population are making their living in rural areas, mostly in conditions of poverty.

Table 5. **Institutions Intervening in Poverty Reduction Strategies in Bolivia**

Institution/Programme	Objectives/Implementing bodies	Activities / Target groups
Ministry of Human Development (1993–1997 when its functions were reintegrated into sectoral ministries)	Design and implementation of an integrated human development programme, secretariats: Education; Health; Ethnic, Gender, Generational Affairs and Social Assistance; Culture; Sports; Popular Participation.	Supervision of independent development funds: FIS; National Fund for Regional Development (FNDR); Fund for Peasants' Development (FDC).
National Council of Social Policy (CONAPSO)	Representatives of ministries with responsibilities in social fields; sets up social policies aimed at overcoming poverty.	Co-ordination of policies and special programmes. Targets: rural and urban groups in poor areas, women.
Technical Secretariat of CONAPSO	Co-ordination, evaluation of the distribution of resources for the execution of policies.	
ONAMFA, National Agency for Youth, Women and the Family	Originally <i>Junta Nacional de Solidaridad y Desarrollo</i> , restructured 1993, representatives from ministries, COB and NGOs, incorporated into CONAPSO.	Protection and social assistance to children and the elderly, including supervision of the implementation of the child protection law, execution of PIDI (Proyecto Integral de Desarrollo Infantil).
National Fund for Regional Development (FNDR)	Financing of urban and regional investment projects to local governments and agencies, to regional development corporations, municipalities, public and private local utilities and service enterprises, universities.	Basic sanitation – potable water, sewerage, solid waste and drainage; transport – urban roads and transportation terminals; urban lighting, markets, municipal and service buildings; energy generation and distribution.
Investment Programme for Small–Farmer Development (PIDC)	Financing small–scale projects on a grant basis, providing up to \$250 000 per project.	Basic infrastructure; agricultural technical and financial support services, revolving funds; reclamation projects (reforestation etc.); institutional strengthening of executing and target communities. Beneficiaries contribute 10–20% in labour, kind or cash.

Reforming and modernising agriculture has been given high priority by the new development strategy *Cambio para Todos* considering that in this field economic reforms can contribute more than in other areas to obtaining social balance and sustainable development. The *Strategy for the Productive Transformation of the Farmland* (ETPA) was presented by the Bolivian Government to international donors in March 1996 and accepted as a basis for long–term support. It has the following objectives:

- Improving the use of existing and new technologies in production, research, education and training;
- Increasing investments in rural education and health systems;
- Enhancing the rational use of natural resources, modernising the management of land;
- Giving priority to investments in road construction and irrigation.

The ETPA tries to embrace other reform programmes targeting rural sectors, such as the National Irrigation Programme (PRONAR), the Rural Basic Health Programme (PRONAR), the Programme for Children in Rural Areas (PIDI) and others. In addition it tries to operate under the umbrella of the *Participación Popular*, the new, and all embracing policy of decentralisation and redistribution.

Recognising that without a reform of rural legislation any attempt to reform agriculture would be in vain, the government set out to reform the *Land Reform of 1952*. Reforming the existing legislation became necessary because of two developments threatening the social peace of Bolivia: the tendency to develop ever larger and less productive *Latifundios* in the Eastern lowlands and the accelerating reduction in size of the *Minifundios* in the *Altiplano* of the Andean mountains. Both tendencies endanger the survival of numerous peasants' and indigenous communities.

After controversial discussions and protests by large land owners, coca growers etc., the *Law INRA*, creating the *National Institute of Agrarian Reform* was finally approved in 1997. By introducing a tax on large land holdings and other reforms the new legislation has laid the foundations for a structural reform of the Bolivian agriculture, paramount for the reduction of structural poverty still prevailing in all rural areas.

The new land policy of the government will be carried out by two institutions: the *National Administration of Land* (PNAT) and INRA.

A new settlement policy covering about 500 000 hectares is expected to benefit around 10 000 families of migrants and other land-seeking people.

There is, however, a basic obstacle, typical for the Bolivian reform process in general, namely the institutional deficiencies and weaknesses. The Ministry for Agriculture had been dissolved already in 1993, its functions being distributed among the new ministries for Sustainable Development, Human Development and the Fund for Agricultural Development. This has not been helpful for effectively implementing and administrating the reforms. Recognising this problem, the ministry of Agriculture was re-established by the new government under President Banzer, in power since August 1997.

Economic Policies Favouring Growth

Following the recovery from a deep recession in 1987 that had interrupted the successful first steps of the Bolivian adjustment and reform process, the economy experienced moderate growth in the late 1980s and early 1990s, with rates slightly below the Latin American average. Between 1990 and 1995 the annual growth rate was 4.2 per cent, still insufficient to increase GDP per capita above the levels of 1980.

Though overall investment has risen since the introduction of structural reforms from about 10 per cent GDP in 1985 to 15 per cent in 1993 and 17 per cent in 1995, the rates are still below those of other countries such as Chile and insufficient to compensate for the enormous deterioration of physical capital stock during the 1980s. Moreover, investment growth is largely due to a large inflow of capital from abroad. Private investment accounts for only a third of the total. Among the reasons for this poor performance are: very low domestic savings, high real interest rates, lack of profitable projects and until recently an unstable, restrictive investment climate.

The outlook for future development of the Bolivian economy, at least at the macro level, is certainly better. Foreign investment in the privatised state companies will be on the order of about \$850 million over the next years, not including the capitalisation of the YPFB that should attract another billion dollars. Foreign direct investments (FDI) seem to have responded favourably to the new opportunities and to the incentives offered. In 1994 and 1995 net inflows of FDI amounted to \$128 million and \$372 million, respectively, compared to barely \$26 million in 1990. If the overall favourable political and economic framework remains stable, it can be expected that such dynamism will foster further investment with increased growth trickling down also to the poorer segments of the population.

However, two important issues have to be born in mind: the distribution of income and the importance of the informal sector. Income distribution is still unequal in Bolivia, in terms of social as well as regional inequality. The richest 20 per cent of Bolivians account for almost half of all income while the bottom 20 per cent receive less than 6 per cent.

About two-thirds of the Bolivian working population are making their living in the informal sector. In addition to the traditional informal sector activities, reaching from street vendors to micro enterprises, coca production and drug trafficking is by far the most important informal and illegal economic sector in Bolivia.

Coca production is concentrated in the two poverty regions Los Yungas and Chapare in the eastern lowlands and rainforest areas of the country, where infrastructure and alternative options for subsistence are particularly scarce. Therefore the government and foreign donors have concentrated their efforts to create alternative opportunities for the rural population in these regions.

Policy Environment of Good Governance

Participation in Decision Making

Since its introduction in 1995 *Participación Popular* has produced considerable change in the distribution of political and financial power between the central government and the authorities at the municipal and local level. Municipalities and local communities, local organisations and NGOs are increasingly put in charge of administering, maintaining and renewing the physical infrastructure in sectors such as the local road system, irrigation, health and education. This is beginning to be reflected

by important changes in the distribution of government funds. Before the reform, 86 per cent of the federal funds were distributed among the four biggest cities: La Paz, El Alto, Cochabamba and Santa Cruz. In 1995, when the first new measures were implemented, rural populations received about 40 per cent of federal funds. It is estimated that in 1996, in terms of per capita allocations, the biggest recipients have been provinces which are among the poorest of the country, with the central government administering only 33 per cent, the nine departments 43 per cent and the municipalities 24 per cent of overall public investment.

The principle to entrust local target groups with the management and full responsibility of projects was introduced by the SEF, the FIS and other development funds. Thousands of vicinity groups, indigenous and non-indigenous communities in rural as well as urban areas are now actively participating in improving their own economic and social conditions.

Changes of that magnitude in a society historically not accustomed to self-government are exposed to opposition from various quarters and face many operational problems: lack of clarity with regard to the functions and responsibilities of the entrusted entities, lack of experience, of the necessary training; doubts regarding the trustworthiness of the new managers were also to be heard.

It is widely recognised that the credibility of the policies and measures aimed at reducing poverty is closely related to the trustworthiness of the implementing institutions and of their leaders. This is particularly relevant for groups of the indigenous population who over centuries have been betrayed and deprived of their rights by the ruling classes and now find it difficult to regain new faith in the authorities.

It has been an historical achievement and an important contribution to social stability in Bolivia when a member of the Aymara-people was named Vice President of the Republic.

Access to Formal Credit

Traditionally, the effort to expand access to formal credit to the poor has focused on government-administered credit lines, channelled through commercial lenders and partly also through NGO lending programmes. The state-owned Agricultural Bank (BAB) and the Mining Bank (BAMIN) used to make socially important loans that the private banks would refuse to make due to risk and collateral problems. Consequently the two state banks accumulated high portfolios of loans that did not cover their costs and were non-collectable.

But the paternalistic Bolivian state had also established numerous laws and regulations which *de facto* restricted access to formal credit for the poor.

In the context of legal and administrative reforms, the government has taken a number of steps to improve the formal credit system in order to make it more accessible to the poor. The various development funds and regional development agencies

contribute to these efforts. In addition, associations of small and micro-enterprises, co-operatives and self-help organisations in the informal sector, mostly with financial and technical assistance from abroad, have been developing small credit programmes, mutual guarantee funds and other financial instruments aimed at integrating the informal credit systems by and large into the formal one.

Regulation of the Labour Market

Employment creation by developing and deregulating the labour market is an essential part of the Bolivian poverty reduction strategy.

Traditionally the formal labour market in Bolivia was over-regulated, thanks to powerful labour unions. Labour laws, comprising thousands of regulations, produced uncertainty and obstacles rather than chances of employment. Moreover, pay roll taxes and a great variety of additional wage related costs and payments raised total wage costs by more than 50 per cent above the basic wage.

Among the first measures taken by the New Economic Policy was the liberalisation of the labour markets in order to increase employment in the formal sector, even at the risk of a fall in real wages. The reform measures included:

- Freedom for the private sector to conclude work contracts;
- Consolidation of the wage structure, reducing the bonus system;
- Abstention of the government from wage negotiations;
- Reduction of the payroll taxes.

Unemployment is a serious problem in Bolivia, having many facets. As an indicator of poverty, however, official unemployment rates are not very meaningful. Official statistics indicate that the unemployment rate has fallen since 1989 from over 10 per cent to 5 per cent in 1993, but labour registers are incomplete. This is no surprise in a country where less than 15 per cent of the work force are part of the social security system and where there are practically no unemployment benefits. The groups that are most likely to be poor are not the unemployed but those who are receiving extremely low wages.

Population Policy Issues

Migration

Bolivia has been suffering from large-scale migration, pushed by worsening conditions in rural areas and pulled by the expectations of a better life in the towns. Between 1976 and 1992 the growth rate of the urban population was 4.2 per cent compared to 0.09 per cent in rural areas. In 1992, 45.5 per cent of the population

lived in cities with more than 50 000 inhabitants and 42.5 per cent in villages with less than 2 000. Besides the magnitude of the migration there is the problem of increasing imbalances in age and gender between country and town. Mainly young men, unmarried or married, are rushing from the rural areas, leaving behind an unfavourable population structure and causing growing pressure on the labour market as well as on transportation, housing, health, education and training services.

Recognising the magnitude and nature of the issue, a large portion of the poverty reduction efforts has been concentrated on reducing both, the need to leave rural areas and the social problems created by the migration itself. The necessary strategic and institutional instruments are contained in the *Participación Popular* and implemented by the various social and other development funds, already mentioned.

Social Expenditures

It is generally assumed that increasing social expenditures contribute to reduce poverty and constitute a promising strategy in population policy.

Better access to public health and sanitation services and especially to education seems to improve family planning, and maternal health, to reduce fertility rates and child mortality.

Therefore poverty reduction programmes imply increasing public expenditures in those areas, as shown in Table 6.

Table 6. Trends in Social Sector Expenditures, 1986 to 1994

	Annual Averages		
	1986-87	1988-90	1991-94
As % of Total Expenditures			
Education	15.9	24.5	22.6
Health & social security	5.6	11.4	9.7
Basic sanitation & housing	0.2	0.2	0.2
Employment	0.7	1.6	1.8
Other social sectors	1.6	2.0	1.8
Total social sectors	24.0	39.7	34.6
Total non-social sectors	76.0	60.3	65.5
As % of GDP			
Social sector expenditures	3.3	5.1	6.4
Non social sector expenditures	10.4	7.8	12.2

Source: UDAPSO; INE.

An important element in the new Bolivian poverty reduction strategy is the decentralisation of public administration and expenditure following the policy of *Participación Popular*. In the field of social expenditures this applies especially to the municipalities. Their share of public funds, which were formerly spent almost entirely

by the central government, has increased in 1996 to 24 per cent. This means a great achievement for the poor villages in the country, which are now better equipped to take care of their own social needs. It also sets the framework for an improved targeting by allowing for demand driven projects, based on the initiative of the target group.

Nevertheless, per capita social expenditures in the better off regions are much higher than in the poorer regions. Thus, the amount received by people in Santa Cruz — the department ranking last on the poverty scale — is double that spent in Potosí.

Education

It is generally recognised that deficient schooling levels are among the most significant and visible poverty indicators (cf. Table 4 for urban poverty). Consequently most programmes aiming at poverty reduction place education reforms high on their agenda. Improving and expanding education is the number one tool to increase employment opportunities and income. Furthermore, increased education lowers poverty indirectly, for example, via the reduction of maternal and infant mortality, reduced average size of the family, increased life-expectancy, more participation in cultural and public life etc.

Rural areas with indigenous population were the most neglected areas, with illiteracy rates between 23 per cent (males) and 50 per cent (females). The functional illiteracy rates were even higher, with 58 per cent among males and 70 per cent among females, as compared to 20 respectively 27 per cent in urban areas.

At the operational level, parents and communities were mostly excluded and alienated from the school system, not permitted to participate in the definition of the learning contents etc. The distribution of resources favoured the primary level (41 per cent) as against the secondary level (9 per cent). Universities received 30 per cent while 20 per cent was spent on administration.

The *Bolivian Education Reform Law (1994)* aimed at providing adequate education to all by recognising the ethnic and cultural diversity of the country and the need to adapt education programmes to the reality of the different regions and areas, among other measures by introducing indigenous languages (Quechua and Aymará) in numerous schools.

The following major qualitative and quantitative changes are to be achieved by the reform:

- 1) Establishment of a flexible and decentralised institutional framework;
- 2) Participation of local communities in the educational process;
- 3) Rationalisation of sector financing;
- 4) Improvement of the management of public universities and teacher training institutes;

- 5) Incorporation of cultural and linguistic diversity into the educational process, by means of the so called *Intercultural Bilingual Education* (IBE);
- 6) A curricular reform of teacher training and formal studies;
- 7) Upgrading of the existing infrastructure and provision of additional infrastructure.

The Bolivian education reform is a well-balanced middle- and long-term instrument (expected duration 20 years) It has been partly developed and negotiated with specialists from the international donor community.

The implementation during the first two years was accompanied by teachers' strikes and demonstrations provoked by the unions and political groups. The new pedagogical approach (constructivism) that transforms the traditional authoritarian teacher to a *facilitator of learning and knowledge acquisition* reduces the authority of the teacher and requires a new participatory attitude. The reform programme, by incorporating indigenous languages and cultures, will foster the formation of a democratic and tolerant civil society and ultimately build up a new Bolivian identity.

Special Policy Efforts for Particular Groups among the Poor

The New Pension System

One of the principle aims of the *Participación Popular* has been to reform the pension system and to guarantee a minimum pension to all Bolivians at the time of retirement at 65. This is to be done by replacing the existing inefficient system by a new one, backed up by privately managed pension funds, to be funded with the proceeds of the privatisation (*capitalización*) of the state enterprises. The existing system covers barely 11 per cent of the working population (about 5 per cent of all Bolivians) and has been in financial difficulties for many years. An important aspect of the intended system is that for the first time workers in the informal and in the agricultural sector will be included.

The reform plan provoked protests from labour unions as well as from workers and retired persons who feared for their pensions. Nevertheless the pension law was approved by the parliament in November 1996, and two private funds were established in co-operation with foreign financial institutions. It is, of course, too early to judge the poverty reduction effects that the new pension system will have.

Special Programmes for Women and Children

Recognising the need to provide immediate help to families, especially women and children in urban and rural areas, who suffer from multiple forms of deprivation, the government (with the help of NGOs and foreign assistance) has created various special programmes, among others:

- The Integrated Child Project (PIDI) established in 1991 to implement the “Ten Year Action Plan for Children and Women”. It focuses on women and children in difficult circumstances, to improve the readiness of children for schooling, to increase employment opportunities for women and expand their knowledge of education, health and nutrition. PIDI has had a slow start and its coverage so far has been limited.
- The Plan VIDA (1994), with the goals to improve the level and quality of family planning; to assure access to prenatal care and increase the number of births taking place in hospitals; to strengthen human and other community resources for health services. The programme has clear targets regarding priority areas and objectives to be reached.
- The Nutrition Programme PROVIAN (1993), primarily a policy setting programme aimed at improving the awareness of malnutrition;
- A National Plan to control endemic diseases that especially affect the poor, such as malaria, chagas and yellow fever.

Role of the State

In Latin America, the clientelist and paternalistic state that considers itself the owner of the country and is opposed to any change has a long tradition. Bureaucracy, inefficiency, corruption etc. are usually mentioned when referring to government institutions.

Aware of that problem, the reformers in Bolivia decided to opt for a two-track strategy. In a first step the traditional government institutions, such as the ministries for agriculture and mining and the existing regional development corporations were either dissolved, scaled down or their operational functions were at least partly abolished. New institutions such as development funds or agencies were created, mostly with financial and technical assistance from abroad. Their task has been to channel funds and assistance directly to the target groups and sectors, unhampered by opposing interests and by bureaucratic obstacles. From the beginning, they were conceived to operate for a limited time only. Typically these funds were institutionally attached to the office of the president in order to ensure their empowerment. Their transitory mandate is important in so far as it allows for innovations, i. e. involving target groups and NGOs in the preparation and execution of projects, without creating permanent official entities parallel to the state organisation.

The second track of policies concentrated on building up a new public administration, limiting its power to the normative functions of a democratic state in the context of a market-oriented but socially motivated system. From the viewpoint of a poverty reduction strategy the following steps towards a reform of the Bolivian state are relevant:

- The *Law to Reform the Power of the Executive* of 1993. It created the Ministries for Human Development and for Sustainable Development and Environment but reduced the number of Ministries from 17 to 10, although their number later rose again to 12 and recently to 14;
- The *Reform of the Constitution* approved by the Bolivian Congress in August 1994. Of importance are especially those amendments that regulate the following areas: *election system* (nomination of candidates, representing the interests of the constituency); reform of the *judicial system*, (widely regarded as inefficient and corrupt); protection of individual and human rights, acceleration and transparency of procedures, creation of an Ombudsman etc.; *decentralisation* of the administration; reform of the constitution of the *municipalities*: more administrative autonomy, access to fiscal revenues etc.; formal recognition of Bolivia as a *multi-ethnic and multi-cultural* country, very important for the education reform.
- The *Popular Participation Law* of April 1994, supplemented by the *Administrative Decentralisation Law* of July 1995. The political goal is to reduce regional inequalities. The institutional aim of both laws is to set up a regional and local government system, throughout the country, partly replacing, partly complementing the central government. Bolivia had been one of the few countries without a representative local government system. The new law aims at increasing the capacities of the municipalities (including financial resources), abolishing the existing prerogatives for the capitals of the big departments, giving legal recognition to the approximately 20 000 so called *Territorial Basis Organisations* (OTB), including about 12 000 peasants' — mainly indigenous — communities.

It is of course too early for an assessment of these far-reaching institutional reforms. Many vested interests still have to be overcome. The results of the recent elections and a new government have to be considered. However, the legal and institutional framework has been established, changing the role of the state and providing somewhat better opportunities for the poor in Bolivia.

Socio-political Stability

In contrast to the two largest Andean countries, Colombia and Peru, and in spite of sharing many structural problems with both of them, Bolivia has been practically free from guerrilla movements and widespread violence since the revolution of 1952. Of course, there have been massive actions of protest by miners, teachers, peasants, indigenous movements, workers and employees, and even by the coca growers against many of the reform projects that were launched by the government. Since 1985 social conflict has been growing among those who consider themselves victims rather than beneficiaries of the reforms, by those who lost their jobs due to the slimming of the state and among many who believe that the results of the plan "*Cambio para Todos*" are not meeting the expectations it had raised.

The political parties, in government as in opposition, are structurally weak, showing deficits of internal democracy. The same applies to the once mighty labour unions. Political leaders and the parliament in general rank extremely low in public opinion. An announced programme to strengthen the legislative bodies to be financed by the Inter-American Development Bank is still pending. The judicial reform is still in its early stages and has not yet been able to gain confidence among the poor. In short, the democratisation process is far from being complete.

Nevertheless, considering the amount and size of difficulties that the new governments had to face, and the time necessary to make reforms work, the positive elements prevail:

- Democracy has been accepted by the Bolivian people and can be considered as being irreversible;
- For the first time after many decades of dictatorship and military coups Bolivia has experienced a series of peaceful changes of government following free elections;
- The armed forces and their leaders have accepted their new role as members of a democratic state, not being any more political actors in their own right;
- Economically and politically Bolivia is becoming firmly integrated into a community of democratic and market-oriented neighbouring countries in Latin America;
- Bolivia's international partners in trade and development co-operation are showing faith and confidence in the country's efforts to carry out the reforms and to reduce poverty.

The Role of International Co-operation

Bolivia's successful efforts to stabilise and reform the economy as well as to ensure peaceful democratic development and the respect for Human Rights, have been accompanied by broad international support. Already during the first phase of reforms, external financial contributions played an important role in bringing inflation to a halt. It helped finance public sector deficits, provided balance of payments support and helped maintaining monetary discipline. Increased capital inflows followed, mostly in the form of bilateral and multilateral development assistance. Between 1988 and 1992 Bolivia received between \$670 million and \$750 million annually. In 1994, inflows of ODA — grants and bilateral and multilateral concessional loans — amounted to 12 per cent of Bolivia's GDP, 74 per cent of total investment and 59 per cent of export earnings.

Representatives of donor countries and lending institutions have expressed concern that those large flows of concessional funds and the high dependency of Bolivia on capital and assistance from abroad might create problems with regard to the absorptive capacity of the country and to the capacity for planning, managing and supervising such an extent of programmes and projects.

Over the last years the EU and its member countries have been by far the most important donors (almost 54 per cent). The bulk of European aid funds for Bolivia are earmarked for poverty reduction and for programmes aimed at providing alternative development opportunities for peasants and coca growers, and also for protecting the ecosystem. Financial aid is largely channelled through FIS and other development funds, technical assistance co-operates with government agencies as well as with many of the international and Bolivian NGOs.

The EU has signed a comprehensive Cupertino agreement with Bolivia in 1993, laying emphasis on joint anti-drug programmes, and recognising the existence of a strong link between coca production and rural poverty and underdevelopment. The EU has also granted Bolivia access to the European Investment Bank. The “special drugs regime” of the General System of Preferences, which provides for zero customs for most products to the Andean countries, in the case of Bolivia has proved to be rather useless, due to the lack of export possibilities.

For many of the EU member countries as well as for the United States and Japan, Bolivia ranks high on the list of principal recipients of development aid in Latin America. The amounts of aid per capita are among the highest in the region, with only one or two Central American countries ranking higher.

Conclusions

The Bolivian poverty reduction policy since 1986 can be regarded as the most ambitious and far reaching in Latin America. Its outstanding characteristics are:

- *Good timing*: poverty reduction in Bolivia became a necessary goal when, after decades of dictatorship and authoritarian governments, a democratic system was to be established; when a near breakdown of the economy and an almost bankrupt state made structural adjustment unavoidable, causing new poverty in addition to that already existing, when, finally, poverty in developing countries had become a growing concern at international levels.
- *Comprehensiveness and cross-sector approach*: poverty reduction strategies are understood as a central part of a comprehensive and integrated programme of political, legal, administrative, financial and social reforms, to the effect that at least in principle all measures to be adopted have to be planned and assessed by taking into account their impact on the poor.
- *Target group and sector priorities*: the strategies are clearly focused on those groups (rural population, women, indigenous, children etc.) and sectors (social infrastructure, education, health etc.) that are the most needy but also, the most promising targets in terms of producing early results.
- *Combination of demand-driven (bottom up) and supply-oriented (top down) approaches*: raising income of the poor and involving target groups in the design and execution of projects ranks first. It is supplemented by improving and extending public social services (health, education etc.) to those who require special attention.

- *Private initiative and self responsibility*: the state provides basic public services but refrains from paternalistic interventions. Local communities, when given part of government's funds are considered as more suitable for projects that are to reach the poor.
- Combination of measures seeking *immediate solutions* to poverty problems, with measures pursuing *medium- and long-term* structural changes;
- The *legal or even constitutional status* of most of the reforms, achieved through approval by parliament, binds future administrations and makes reforms not easily reversible;

The principle weaknesses of the poverty reduction strategies are:

- *Insufficient institutional and human capacity* to implement reform programmes; some of the existing organisations are among the problems to be solved;
- Growing *dependency on continuing support from abroad* and insufficient local and national counterpart funding;
- *Inadequate targeting* to the disadvantage of those poor who are most in need but not prepared for demand-driven projects, resulting in leakage to the less poor;
- *Rising expectations* among target groups in terms of speed and size of tangible results of the measures;
- Insufficient *distinction between old (structural) poverty* and new (conjunctural) *poverty*, i.e. resulting from displacement of mining workers and public employees or from other adjustment measures.

General Assessment and Perspectives

While it is too early to evaluate the effectiveness of the Bolivian poverty reduction strategies, given the short period of time since they were started, a *preliminary assessment* can be made:

- Even while social conflicts persist, there is now *growing awareness and consensus* among most groups of the society that reducing poverty and improving the living conditions of the poor by raising education levels, improving health care etc. is a national task, notwithstanding a sometimes controversial discussion on how to achieve this goal;
- The *availability of poverty data* has improved, but their quality and comparability varies considerably among sectors and regions;
- The *participation by target groups* has greatly improved, especially at local and community levels and particularly among indigenous populations;
- There is, however, rising concern in the country as well as among donor institutions about how to remove some of the weaknesses mentioned above and in particular about the question of *sustainability*.

Notes

1. 1992 National Census on Population and Housing, main source of the Poverty Map (1993); Integrated Urban Households Surveys (EIH, 1989, 1990, 1992 and 1994); National Rural Household Survey of rural Cochabamba in 1991; Survey of the Fondo Nacional de Inversión Social (FIS), Limited rural household survey, carried out in May and June 1995, in La Paz, Cochabamba and Oruro; UDAPSO (1995), Mapa de Pobreza.
2. An excellent gender-sensitive scheme for poverty analysis has been presented in Baden and Milward (1995); cf. also Byrne (1995).

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Analysis of Poverty in Côte d'Ivoire

Alexandre Assémien¹

Introduction

Poverty is a scourge in industrialised and developing nations alike. The very complexity of its identification and manifestations requires that considerable attention be paid to its causes, since, in the final analysis, the reduction of poverty can be said to be subsumed in the search for a path to harmonious growth.

The interaction between economic growth and revenue redistribution has received special attention because it has become increasingly obvious that, firstly, the sharing of the fruits of economic growth influences the sustainability of the rate of growth and, secondly, that efficient allocation of factors can find full expression only in a market-based system guaranteeing remuneration of production factors through productivity.

Thus, if economic growth is to be sustained, it must be accompanied by appropriate sharing of ownership and the fruits of growth. On the other hand, the experience of the countries of South East Asia demonstrates that maintaining economic growth over time (its sustainability) and its endogenisation are contingent on human and social development which allows the growth to be both nurtured and deepened (enhancing its quality).

Consequently, it is apparent that economic growth *per se* is no longer a sufficient prerequisite for all development. The nature and quality of that growth (inclusive or exclusive) are also important.

The sub-Saharan countries have fuelled their economic growth largely through exploitation of natural potential and resources. The nature and quality of their growth reflect, firstly, the economic gap between them and other countries and, secondly, the initial conditions and imperatives of the development process. This has meant that although these countries have fared differently, while registering levels of growth which have been on average positive over recent years, over time a major discrepancy has arisen between the accumulation of wealth on the one hand and social and human development on the other.

This chapter examines the situation with respect to poverty in one sub-Saharan Africa country — Côte d'Ivoire. Extensive research has been conducted on this topic, allowing it to be seen against a wider background and putting into perspective the current reforms set in train by the government²

The structure is as follows: the first part analyses the economic and social evolution of Côte d'Ivoire in order to bring out the significant and characteristic features of the discrepancy between economic growth and social and human development. The second part deals with the causes of poverty and describes the situation of poor households. Finally, the third part looks at strategies to be, or already implemented in order to combat poverty in Côte d'Ivoire.

Analysis of Côte d'Ivoire's Economic and Social Evolution

Economic Evolution

Over the period between 1960 and 1980, Côte d'Ivoire saw growth in gross domestic product (GDP) in the region of 7 per cent per annum, a rate higher than the for population increase, estimated at 3.2 per cent annually. This performance was achieved largely by exporting products such as coffee, cocoa and wood.

Despite this economic success, the period from 1970 to 1980 was marked by problems arising from the oil shocks, falling world coffee and cocoa prices, rising import prices, and lower agricultural production caused by drought. The consequence of this situation was a deterioration in the terms of trade and the competitiveness of the economy.

The deterioration in the terms of trade, coupled with the rise in the dollar, increased the debt burden both domestically and abroad. Major arrears accumulated inside the country, distorting economic activity. Over the 1987–93 period, per capita GDP fell by approximately 5 per cent annually. Outstanding external debt expressed as a percentage of GDP rose from 53.4 per cent in 1980 to 90.4 per cent in 1993, while domestic savings as a percentage of GDP had fallen from 20.4 per cent to 9.4 per cent by 1993. The level of fixed capital investment, expressed as a percentage of GDP, fell from 24 per cent in 1980 to 7.8 per cent in 1993. The worsening of the macroeconomic climate over the period from 1987 to 1993 led to an increase in poverty.

Confronted with the entrenched recession during the 1980s, the government, hoping to create the conditions for an economic recovery, set in train structural adjustment measures aimed at restoring the broad lines of macroeconomic and financial equilibrium in order to shake out the financial sector and improve competitiveness.

The reforms helped generate an upturn in investment. In addition, the 1994 devaluation restored the economy to competitiveness and increased exports, which rose by 70 per cent between 1993 and 1995. Public sector investment rose from 3.7 per cent of GDP in 1993 to 4.2 per cent in 1995 and 4.6 per cent in 1996. GDP saw steady growth in real terms from 1994 to 1996, rising from 2 per cent in 1994 to 7.1 per cent in 1995. Growth of the same order is forecast for 1997. The Ivoirian government has created a social safety net worth some CFAF 20 million via several social funds in order to mitigate the worst consequences for the most vulnerable groups in society.

Table 1. Per Capita GDP, GDP Growth Rate and Natural Growth Rate

	1989	1990	1991	1992	1993	1994	1995	1996
Per capita GDP (CFAF '000)	292	278	267	256	246	242	249	257
GDP growth rate (%)	3	-1.1	0	-0.2	-0.2	2	7.1	7.1
Natural growth rate (%)	4.1	4.1	4	4	3.9	3.9	3.8	3.8

Source: Institut National de la Statistique (INS).

Côte d'Ivoire carried out a number of household surveys between 1975 and 1995. Among these, the following are worthy of note: the 1979 Household Budget/Consumption Survey; the On-going Household Survey, 1985 to 1988; the Priority Survey on the Social Aspects of Structural Adjustment (DSA) in 1992 in Abidjan and in 1993 over the whole country; and the Household Living Standards Survey (ENV) in 1995. These surveys make it possible to assess household income trends on the basis of their consumption at different points in the country's development.

Where household consumption is concerned, analysis is based on two poverty thresholds: the first — the upper, or relative poverty, threshold — was CFAF 75 000 per capita and per annum in 1985, CFAF 101 340 in 1993 and CFAF 144 800 in 1995. The other — the lower, or extreme or absolute poverty threshold — was CFAF 64 465 per capita and per annum in 1993, the corresponding figure for 1995 being CFAF 94 600.

These studies indicate that 10 per cent, 32.3 per cent and 36.8 per cent of the population were living in 1985, 1993 and 1995 respectively in households in which the annual average per capita consumption was less than CFAF 75 000, CFAF 101 340 and CFAF 144 800. This means that the number of poor households trebled in the space of ten years (1985 to 1995). Additionally, the poverty ratio, which was 8 per cent in provincial towns and less than 1 per cent (0.7 per cent) in Abidjan in 1985, had climbed by 1995 to 28.6 per cent in provincial towns and to 20.2 per cent in Abidjan. In 1995, nearly one half of impoverished households were living in rural areas.

Social Trends

Demographic studies are based on measurements of fertility, mortality, migration, population breakdown by age and gender, and geographic distribution. The population of Côte d'Ivoire, according to the General Population and Human Environment Census (RGPH), was 10.8 million in 1988. According to the estimates of the National Institute of Statistics (INS), it will reach 17 million by the year 2000. Given these figures, the country's population growth rate ranks among the highest. Projections indicate a rate of 3.7 per cent for the period from 1998 to 2000.

The population is unevenly distributed throughout the country. High densities (between 50 and 100 inhabitants per square kilometre) in the centre-west and south contrast with low densities (10 to 20 inhabitants per square kilometre) in the northwest and north.

With 39 per cent of its population living in towns and cities, Côte d'Ivoire is one of the most urbanised countries in the West African sub-region. National distribution of urban areas is not uniform: 47 towns are located in the forest zone and 21 in the savannah zone. One particularly striking feature of Côte d'Ivoire's urbanisation is the sheer size of Abidjan, a megalopolis which is home to 17.8 per cent of the total population and 45.7 per cent of the urban population.

A breakdown of the population by age reveals that 47 per cent are under 15 years old, which highlights the extreme youth of the national population. The older age group (60 and over) accounts for only 3.4 per cent of the total. The gender breakdown shows 51 per cent men to 49 per cent women, giving a ratio of 104 men to 100 women.

Recent results indicate that internal population migration is intensive: more than half the population has made at least one migratory journey in its lifetime. The destinations of such movements may be either rural and urban areas. The centre and centre-north regions can be considered to be "departure" zones, while the south, southwest and centre-west are the most frequent destination regions.

Table 2. **Demographic Trends, 1975 to 1995**

	1975	1980	1985	1990	1995
Côte d'Ivoire as a whole					
Urban growth rate	-	5.3	5.9	7.6	6.6
Urban population as % of rural population	47.0	52.4	59.2	71.4	92.7
Urban areas					
Ratio of men to women	117.6	107.0	106.1	105.3	103.7
Rural areas					
Ratio of men to women	102.9	107.0	106.1	103.8	103.9

Sources: INS, TBS (social indicators), 1995.

Where international migration is concerned, Côte d'Ivoire can be seen to be a welcoming haven within West Africa. This is evident in the percentage of foreign residents in Côte d'Ivoire, which has been rising steadily — from 22 per cent in 1975 to 28 per cent in 1988 and 25 per cent in 1993. Over 90 per cent of this foreign population comes from ECOWAS nations. Furthermore, Côte d'Ivoire is today seeing a major influx of refugees from the war in Liberia. The number involved is estimated at over 400 000.

Fertility remains high, according to recent studies. The live birth rate and the average number of offspring per mother were respectively 48 per 1 000 and 5.7 children per woman in 1994, according to the health and population survey. Childbearing begins very early: adolescents contribute 14.3 per cent to total birth rate. The rate is higher in rural than in urban areas, with average numbers of children per woman of 6.4 and 4.7 respectively.

Analysis of mortality rates over the past thirty years shows a definite fall, not only in general terms, but also in infant mortality. The crude mortality rate fell from 28 per 1 000 in 1958 to 13 per thousand in 1994. This reduction in the mortality is

also reflected in an increase in life expectancy, which rose from 33 years in 1958 to 48.5 years in 1994. The current figure is 56 years. Although declining, the infant mortality rate is still high, falling from 190 per 1 000 in 1965 to 100 per 1 000 in 1994. The main causes of death are anaemia, neonatal pathology, acute respiratory infections, malnutrition, the illnesses targeted in the Expanded Immunisation Programme (EIP), malaria, various types of meningitis, premature birth, diarrhoea, and AIDS.

Maternal mortality is estimated at 597 deaths per 100 000 births according to the health and population survey of 1994. The rate is usually lower in urban than in rural areas. The AIDS epidemic is spreading rapidly, and Côte d'Ivoire has one of the highest incidences of the disease in sub-Saharan Africa, particularly in Abidjan. Indeed, in 1995 it was estimated that 13 per cent of the city's adult population was HIV-positive.

Quantitative development of the educational system is linked to population growth in Côte d'Ivoire. The efforts made to ensure that educational supply matches need more closely were set back by the recession in the 1980s. The crude school enrolment ratio fell from 75 per cent to 65 per cent over the period 1975 to 1992, before coming back up to 72 per cent in 1996. The literacy rate among adults fell from 41.1 per cent in 1993 to 39.4 per cent in 1994, and rose to 41.6 per cent in 1995. However, these overall totals mask major differences between the rates for men and women and those for the different national regions, disparities which have exacerbated the poverty situation in Côte d'Ivoire.

The Causes and Characteristics of Poverty in Côte d'Ivoire

The Causes of Poverty

These are largely of economic and demographic origin. Over the period from 1978 to 1993, the country went through a severe recession for both cyclical and structural reasons. This can be attributed, among other reasons, to the collapse in world market prices for all the country's exported agricultural commodities (especially coffee and cocoa), which occurred against the background of a structurally fragile national economy facing difficulties of macroeconomic management, entrenched public accounts deficits and longlasting external imbalances despite a balance of trade which remained in surplus. The dramatic drop in investment levels (from 25 per cent over the period from 1978 to 1980 to an average of only 10 per cent between 1986 and 1990) was largely due to a cut in foreign capital inflows, combined with inadequate national savings levels. Public finances remained in a precarious state due to the failure of revenue to cover expenditure. Social expenditure funded by central government was cut, and this worsened not only the imbalance between supply and demand for social services, but also their quality. The health budget, expressed as a percentage of GDP, thus fell from 1.6 per cent in 1992 to 1.3 per cent in 1995.

In the years from 1992 to 1995, real household income fell significantly overall, by 13.3 per cent. This fall directly affected a major sector, approximately 60 per cent, comprising households deriving their income essentially from the products hit hardest by the decline in world prices for the country's principal exports. Improvement in purchase prices paid to producers, added to wage increases, has helped to slow the downward slide, reducing the 1994 decrease of 9.7 per cent to 3.2 per cent in 1995.

Rapid population growth over the period (3.8 per cent between 1975 and 1988) aggravated an already highly problematic situation. This rapid growth in population has occurred in conjunction with a generalised recession, a coupling which has had grave consequences for social sectors such as education, health and employment. The need for social services has increased very sharply in relation to economic growth.

Moreover, inequalities in access to schooling have become more marked and are closely linked to the place of residence. The illiteracy rate has climbed to almost 70 per cent in the countryside, whereas in towns it is approximately 30 per cent. Furthermore, there are persistent differences from region to region. While school enrolment stands at 75 per cent in Abidjan, it is still low in Odienné (45.3 per cent) and Korhogo (39.7 per cent), but is not far from 80 per cent in Yamoussokro. This inequality of access to education is also gender-related. For example, illiteracy is commoner among women (67.6 per cent) than among men (48.1 per cent). The distinction between town and country underscores this gender imbalance. The illiteracy rate for the rural female population is 79.5 per cent, compared with 38 per cent in towns. These disparities in literacy and school enrolment, which are more or less marked according to region and gender, are linked in part to the resistance to change of historic, cultural and economic factors.

In addition, strong population pressure has combined with the recession to produce high levels of unemployment. In 1990 the unemployed were estimated to number just under 60 000 in the country's working population, and were mainly in Abidjan and the provincial towns. The younger segment of the population (aged 20 to 29) was particularly hard hit, as were women (65 per cent, compared with 35 per cent of men).

From the point of view of public health, the recession led to severe deterioration in public health infrastructure due to lack of maintenance and a serious lack of facilities. Moreover, despite the efforts made to train health workers, they are still too few in number to meet the needs of a growing population. According to the statistics contained in the National Public Health Development Plan (PNDS) for 1996–2005, as at 31 December 1996 the Ministry of Public Health had a workforce of 16,536 (in the public sector) to cater for the health needs of a population of over 14.5 million. The "health worker to inhabitants" ratio is one doctor for every 9 500 people, one dentist for every 66 000, one pharmacist for every 32 000, one nurse for every 3 000 in urban areas and for every 15 000 in rural areas, one welfare worker for every 16 000, and one midwife for every 3 000 women of childbearing age.

Table 3. Disparities in Education

	Crude school enrolment ratio (%)				Drop-out rate (%)				Adult literacy	
	Primary		Secondary		Primary		Secondary		1993	1995
	1993	1995	1993	1995	1993	1995	1993	1995		
Abidjan	97.1	100.4	40.6	54.8	2.1	2.8	5.9	9.4	63.0	68.6
Urban areas other than Abidjan	74.7	82.7	39.6	45.6	9.8	1.6	10.0	3.2	46.8	50.4
Rural areas	47.8	62.7	13.4	14.1	14.9	3.8	18.8	14.1	36.3	37.2
Total for Côte d'Ivoire	66.5	74.8	30.3	31.3	10.0	3.0	10.0	9.1	41.1	41.6

Sources: INS: Data series for 1993; 1993 Social Aspects of Adjustment Survey (DSA 93);
Data series for 1995: 1995 Standard of Living Survey (ENV 95).

Table 4. Literacy Rates in Côte d'Ivoire as a Whole and by Region
(Percentage)

	1993	1995	1996
Côte d'Ivoire	41.1	41.6	43.5
Abidjan	63.0	68.6	67.6
Other urban areas	46.8	50.4	55.8
Rural areas	25.8	26.2	30.9

Sources: INS.

Table 5. Literacy Rates in Côte d'Ivoire by Gender and by Region

	1993	1995	1996
Men			
Total for Côte d'Ivoire	51.9	52.0	56.9
Abidjan	73.8	78.5	80.2
Other urban areas	57.5	61.2	72.1
Rural areas	36.3	37.2	42.4
Women			
Total for Côte d'Ivoire	31.0	31.3	32.3
Abidjan	52.6	59.6	57.7
Other urban areas	36.8	40.4	41.9
Rural areas	16.0	15.1	21.7

Sources: INS.

Generally speaking, access to public health services remains limited in Côte d'Ivoire. Several factors explain the low use rate for health facilities: economic or financial reasons, geographic location (such facilities are spread unevenly over the country), psychological or cultural factors, and the quality of patient reception. However, it does seem, according to the latest assessments in October 1997, that the problem of availability is essentially one of restoring existing health centres to operational condition, thus actually enabling them to offer health care, rather than of geographic accessibility (which would require new construction). Indeed, the DSA survey had already indicated in 1993 that 82.2 per cent of all households in Côte d'Ivoire had access to health services less than one hour away. In rural areas, the equivalent figure was 73.9 per cent, compared with 99.3 per cent for urban areas other than Abidjan.

Finally, inadequate access to the whole range of production factors for all economic agents in all categories, allied to the traditionalist and discriminatory structure of property ownership, can also be seen as a major cause of poverty. For example, women's lack of access to credit and property ownership remains a major source of impoverishment given female involvement in the national wealth-creating process, as we shall see below.

Nevertheless, where basic infrastructure is concerned, major progress has been made in village and urban water supplies, rural electrification and subsidised housing. In the case of rural electrification, the 14 localities supplied with electricity in 1960 in Côte d'Ivoire have risen to 1 760, with a programme of at least 200 localities for electrification from 1997 on. Where water supply is concerned, coverage of rural areas stands at 50 per cent, and the figure for towns is 75 per cent.

Having indicated the causes of poverty in Côte d'Ivoire, we must now look at the socio-economic characteristics of households living in poverty.

The Socio-economic Characteristics of Poor Households

These have been defined on the basis of a qualitative survey of households in 1995. This produced two identifying criteria: indicators of social well-being and perceived well-being.

For indicators of social well-being, it was shown that good health, access to health services when necessary, and education for one's children are important indicators of the well-being of a household, as well as its chances of avoiding poverty in the longer run. Such indicators reflect high levels of need on the part of disadvantaged groups.

Data on perceived well-being shows that the population does not see poverty only in economic terms. Ownership of goods, opportunities for a household to send its offspring to school, sufficient food to eat and access to modern healthcare are influential factors in households' and individuals' perceptions of wealth and poverty. Moreover, uncertainty, insecurity, social exclusion, lack of protection

and feelings of powerlessness are also perceived as defining well-being or poverty. The impression of living in isolation also appears to be criterion of poverty. Consequently, belonging to a family, a community or a group constitutes a sign of wealth and of hope for the future.

Using the above identifying criteria for poverty, it is possible to define the spatial distribution of poor households. Thus, as already mentioned, almost half of all poor households were living in rural areas in 1995.

It should also be mentioned that ten years ago poverty was rare in provincial towns and virtually non-existent in Abidjan. Their respective incidence levels for poverty were 8 per cent and 0.7 per cent in 1985. Conversely, in Abidjan in 1995 almost one person in five (20.2 per cent) was living below the relative poverty line, the figure for the other urban areas being a little over one person in four (28.6 per cent).

According to the survey results (see Tables 6 and 7), poor households present two main characteristics. The first is the high concentration of poverty in agricultural households. The second is the high concentration in less structured sectors of the economy. In this respect, it should be borne in mind that 36.8 per cent of households in Côte d'Ivoire had a level of consumption under CFAF 144 800 in 1995. Two principal socio-economic groups fell below this national average. One comprises households whose heads are producers of agricultural exports, with a poverty incidence of 43 per cent, and the other households whose heads are producers of food crops, the poverty incidence of these being 58 per cent. Together, these two categories account for 65 per cent of all poor households in Côte d'Ivoire.

Table 6. Poverty Overview of Côte d'Ivoire in 1993 and 1995

Household Status	Male-headed household		Female-headed household		All households	
	1993	1995	1993	1995	1993	1995
Poor households (%)						
Urban	19.6	24.2	17.3	21.2	19.4	23.7
<i>Of which: Abidjan</i>	5.2	20.2	4.4	12.5	5.1	20.2
Rural	41.5	46.5	47.1	41.2	42.0	46.1
Côte d'Ivoire	32.3	37.6	31.8	29.7	32.3	36.8
Extremely poor households (%)						
Urban	5.7	6.1	3.3	4.7	5.4	5.9
<i>Of which: Abidjan</i>	0.8	4.4	0.7	5.8	0.8	4.6
Rural	14.2	16.3	16.9	11.7	14.4	15.9
Côte d'Ivoire	10.6	12.2	9.9	7.7	10.6	11.7

Source: INS, DSA 93 and ENV95

It should be emphasised that these are groups for which the distorting effect of devaluation on purchasing power was felt immediately, due to their sector of activity, but at the time of the survey they had not as yet felt the benefit of any positive fallout from the devaluation measures and accompanying reforms (exchange premiums, competitiveness of food crop exports).

Table 7. **Income share* of Poor and Extremely Poor Households in 1993 and 1995**

Household Status	Male-headed household		Female-headed household		All households	
	1993	1995	1993	1995	1993	1995
Poor households (%)						
Urban	6.5	9.0	5.4	7.0	6.4	8.6
<i>Of which: Abidjan</i>	1.5	7.1	0.9	3.3	1.4	6.4
Rural	22.5	25.6	26.1	22.4	22.7	25.3
Côte d'Ivoire	13.6	17.0	12.2	11.3	13.5	16.3
Extremely poor households (%)						
Urban	1.3	1.6	0.6	0.9	1.2	1.5
<i>Of which: Abidjan</i>	0.2	1.0	0.1	1.0	0.1	1.0
Rural	5.4	6.2	6.5	4.4	5.5	6.0
Côte d'Ivoire	3.1	3.8	2.5	1.9	3.1	3.6

* estimated from expenditure.

Source: INS, DSA 93 and ENV95.

According to the socio-economic data on households in the “Poverty Profile” survey conducted by the INS in 1995, women, in addition to their numerous household duties, play a central role in working life. Agriculture occupies 61 per cent of the working population and 67 per cent of female labour works in subsistence agriculture. Women grow 75 per cent of all food crops. In the informal sector, women predominate in low-productivity activities. This sector provides work for 1.2 million people, of whom 63 per cent are women, or 29 per cent of the total female working population. Most women work in the processing and marketing of foodstuffs. Children, particularly girls, also play a major role here.

Where salaried employment is concerned, women earn less than men in all sectors. Most work in the informal sector, in which the average wage is a sixth of that in the formal sector. In the informal sector, the average female wage is 33 per cent that of the average male wage. Given that 95 per cent of working women work in the informal and food-related sectors, these large gender-related wage discrepancies lead to major disparities between men and women for access to, and control of, productive economic resources.

The formal sector employs approximately 8 per cent of the working population, but only 2 per cent of working women. Women account for only 8 per cent of employees in the private sector, but 22 per cent of all employees in the public sector, 47 per cent in education, 11 per cent in health and 18 per cent in administration.

Finally, it must be emphasised that women make a limited but increasing contribution to decision making at all levels, and in political life particularly. The expression and recognition of their fundamental rights require not only adjustments in basic legal provisions, but more importantly, increased awareness on the part of economic and political players, as well as by women themselves.

All in all, it would appear that if they are to succeed, the efforts devoted to reducing poverty must be aimed not only directly at the problems of agricultural households, but also, and principally, at the problems of the formal and informal sectors, with particular attention being paid to women, both young and older, and children.

Strategies for Reducing Poverty

The considerable efforts made in the area of social policy by the government of Côte d'Ivoire are evident in the overall figures. More than 40 per cent of the government's budget has been devoted to social sectors. Thus there is an important fund of past achievement. The changing HDI value shows that much progress has been made. This indicator has in fact risen from 0.168 in 1960 to 0.370 in 1992, and stood at 0.369 in 1994 and 0.414 in 1995 (INS data).

The recession compromised the existing dynamic and highlighted inadequacies related to the effectiveness and efficiency of public spending in social sectors. The task now is to reverse this trend and to develop inclusive programmes for growth enriched by efficient deployment of human resources and the creation of an environment allowing those resources to play a full role in the creation of national wealth and benefit to the full from the fruits of their labours.

The government is trying to do this in its development programmes for the 1995–2000 period. The aim is to achieve the healthy and sustained rates of economic growth which are necessary if any social progress is to be made. This programme also incorporates transverse programmes covering the population as a whole and the reduction of poverty.

In a document entitled "Population Policy Declaration" formally adopted in March 1997, the government set out in detail the broad strategic thrusts for curbing population growth and addressing the problems of young people and the female population. In addition, in order to generate ongoing improvement in the living conditions of the most disadvantaged, the broad lines of the struggle against poverty were drawn up and approved in June 1997. A poverty action plan is also being defined, and this will take account of the multisectoral dimension of the problem.

The goal of the National Programme for the Reduction of Poverty will be, firstly, to make significant inroads into poverty in Côte d'Ivoire by improving the living standards of its various population groups, especially the most disadvantaged and, secondly, to define a framework for the constant monitoring of social indicators to gain full control over the poverty reduction process. Furthermore, in view of poverty's multisectoral nature and geographic diversity, the programme will take into account its national, regional and local aspects through the decentralised authorities, civil society and NGOs.

The objectives assigned to the programme fall into two categories: general objectives, and specific targets related to sectoral plans implemented in social sectors.

The general objectives involve the implementation, as part of an integrated approach, of measures aimed at:

- i)* increasing and consolidating economic growth;
- ii)* reducing the percentage of households living in conditions of extreme poverty from 10 per cent in 1995 to 5 per cent in 2001;
- iii)* reducing the percentage of the population living below the relative poverty line from 36.8 per cent in 1995 to 30 per cent by 2001; and
- iv)* strengthening institutional capacities at national, regional and local levels for the formulation and application of economic and social policies.

At the microeconomic and decentralised levels, the targets set involve:

- i)* developing and implementing specific measures aimed at defined population groups;
- ii)* redefining the role of local authorities in order to convert them gradually from providers of services into bodies capable of proactive creation and propagation of conditions favourable to the implementation of economic and social development programmes; and
- iii)* defining and creating a more fruitful partnership between local authorities, NGOs, the public sector and civil society in order to arrive at a deeper awareness and a sense of responsibility on the part of the various players and ensure efficient implementation of measures for the reduction of poverty.

The objectives described above, if attained, will make an effective contribution to a significant reduction in poverty. This is in our view an innovative programme which offers a new vision and a new approach to the application of social policy in Côte d'Ivoire, as well as a better response to the need for sustainable human development. The government's commitment to effective efforts to reduce poverty has taken practical form in the holding of the first national days for study and awareness of the reduction of poverty on 30 and 31 October 1997, with World Bank and UNDP support.

The ambitious targets which the government of Côte d'Ivoire has set itself necessitate a disciplined approach and appropriate tools for implementation. For example, it is imperative that an integrated awareness-raising programme be developed on the basis of a widened IEC programme. It is also becoming imperative to target underprivileged population groups, initiating measures and applying investment within the framework of a dynamic process capable of adapting to changes in the environment.

Partnership and International Co-operation

International co-operation in the struggle against poverty in Côte d'Ivoire is effective, and large-scale activities are underway with both bilateral and multilateral partners. A non-exhaustive list of such activities and partnerships would include the following: important macroeconomic and sectoral reforms as part of an economic programme with the World Bank and the IMF aiming to enhance economic growth and achieve a more equitable distribution of its benefits; UNICEF is supporting projects to help underprivileged children and the education of girls; functional literacy programmes, intended particularly for rural and urban women, are either underway or being planned in the context of agricultural development programmes supported by lenders such as the African Development Bank and the World Bank; the World Bank is also associated with the UNDP and other international organisations in seeking to achieve better co-ordination between primary health care services and the actual needs of the population, in addition to their efforts in the fight against AIDS; other development partners are working with the government and NGOs in the field of family planning; in agriculture, the World Bank is supporting the agrarian reform, while seeking to improve women's productivity by giving them better access to financial services and by directing research and agricultural extension programmes into animal husbandry.

Nonetheless, the poor level of participation of NGOs in development activities compared with neighbouring countries has to be recognised. This stems, in part, from poor co-operation between NGOs and the government in development activities.

In sum, the implementation of a new anti-poverty programme in Côte d'Ivoire will require the creation of sounder partnerships between national and international bodies, and this is where progress has begun to be registered. The expertise and experience of overseas development agencies will enhance local capacity in the implementation of the programme.

Conclusion

An analysis of poverty in Côte d'Ivoire shows that despite the existence of social policy which has achieved undeniable results in terms of human development, the robustness of that policy has been sorely tested by the unprecedented recession in the country. Doubt has now been cast on its effectiveness and it has become imperative to carry out a thorough policy review. This task is being undertaken by the government of Côte d'Ivoire in its three-year economic and social programme for 1997–2000, in conjunction with its development partners. Institutional and structural reforms, within a dynamic framework based on participation, will enable significant inroads to be made into the national incidence of poverty. The government's innovative approach in this field requires a strengthening of the national capability for building and applying the programme now being defined.

Notes

1. Senior lecturer at the *Institut National Polytechnique Félix Houphouët-Boigny* in Yamoussoukro, and National Planning Director at the Ministry of Planning and Industrial Development. The views and opinions expressed in the present paper are those of the author alone.
2. The surveys should, however, be interpreted with considerable circumspection. This is because, as some reports point out, the increase in poverty between 1993 and 1995 has been calculated by comparing the results of a survey of 9 600 households in 1993 with those of a survey of 1 000 households in 1995. Comparison of the two surveys raises numerous statistical difficulties.

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Public Policies, Social Development and Poverty Reduction: The Kerala Model

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Introduction

The state of Kerala has received wide international acclaim for its achievements in different areas of social development like high life expectancy and low infant mortality in addition to the most rapid reduction in poverty among the states in India. These are the outcomes of a strategy of support-led social security pursued by the successive governments of Kerala. The strategy was based on a comprehensive investment programme in social sectors like education, public health and redistributive policy measures like land reforms, housing schemes, and an exhaustive coverage of the public food distribution system. In addition, the state government has introduced various social security measures to reduce income insecurity and deprivation among vulnerable sections in Kerala. As a result, even though its state domestic product is one of the smallest in the country and has been stagnant, Kerala has achieved a level of human development comparable with those in several Asian countries¹. What is particularly remarkable is the even distribution of human development across gender, space and social groups and its rapid growth in recent decades. As a result, Kerala has achieved substantial reduction in poverty along with a high level of food security². How did Kerala manage to achieve such a remarkable progress in spite of the virtual stagnation in its domestic economy? This paper addresses this question and provides a profile of public policies which enabled Kerala to such an achievement.

Geographical and demographic features of the state of Kerala are presented below; followed by a profile of poverty in Kerala *vis-à-vis* all-India and examines how real the poverty reduction in Kerala has been during the post-independence period³. The subsequent sections explore the possible reasons for Kerala's impressive achievement in poverty reduction. The growth performance of Kerala's economy is poor. Hence, Kerala's achievement with respect to poverty reduction is attributed to *i*) high levels of human development and the economic opportunities that opened up in the wake of the OPEC price hike and oil boom in the Gulf countries; and *ii*) redistributive and

social security measures. The final sections therefore, provide a profile of human development in Kerala and its relative position in India and across countries in the world; and a profile of public policies for social development and security that played a crucial role in achieving high levels of human development in Kerala.

Kerala: Salient Features

The state of Kerala is located at the south-western tip of the Indian subcontinent. It was formed in 1956 by reorganising the former princely states of Cochin and Travancore with the Malabar district which was a part of the Madras province of British India⁴. It is one of the smallest states in India, accounting for a mere 1.18 per cent of the total geographical area of India, but with 29.1 million people, it accounted for 3.44 per cent of the total Indian population in 1991. Consequently, the density of population in Kerala was relatively high (749 persons per sq. km. against 267 for all-India). The sex ratio (number of females per thousand males) was 1 036 in Kerala but 927 for all-India. The share of urban population in Kerala was 26.4 per cent against 25.7 per cent in all-India (Government of Kerala, 1995). The number of female headed households per thousand households is 223 in rural Kerala and 252 in urban Kerala against all-India estimates of 97 and 106 respectively (Government of India, 1997b).

How Real is Poverty Reduction in Kerala?

The economic development of Kerala has been examined in considerable detail. As regards poverty, the focus has been largely on the rural sector (see Kannan 1995; Datt and Ravallion, 1996). Following Ahluwalia (1978), many attempts have been made to verify the trickle down hypothesis and to explain the observed fluctuations in poverty. In this context, even simple statistical tools convey unambiguous messages only for a stationary economy and not for an economy undergoing institutional and structural changes of production⁵. However, Kerala — with a large tertiary sector — has experienced changes not of production structures but of sources of income; foreign remittances became a major source of income during the post-1970s (Kannan, 1990).

Among the important studies on rural poverty in India, Datt and Ravallion (1996) point out that Kerala brought about rapid reduction in poverty through human development. High levels of human development enabled the Keralites to exploit overseas employment opportunities; the consequent remittances played a significant role in raising the average living standards. The rate of reduction in poverty, as measured by three important poverty measures — head-count ratio — poverty gap index and squared poverty gap index, during the period 1957–58 to 1990–91 was the highest in Kerala among all the states. The growth rate of per capita consumer expenditure was also the highest for Kerala (1.61 per cent).

There is a need for a careful verification of the hypothesis about poverty reduction in Kerala, because most time series of estimates of poverty are available only for rural Kerala; and are mostly related to the simple head-count ratios. Estimates of distributionally sensitive measures like the Sen index and the FGT2 measure are available but have been estimated price-adjusting only the poverty lines for inflation and not adjusting for the distributional impact of inflation. Hence, depending upon the nature of inflation and changes in relative prices, these estimates based on price-unadjusted distributions may end up over/under-estimating the intensity and depth of poverty. Therefore, this section presents *i*) time series estimates of FGT class of poverty measures for rural and urban Kerala (juxtaposed with that for all-India); *ii*) results on FGT poverty measures with corrections for the distributional impact of inflation; and *iii*) a disaggregate analysis of the data sets underlying these poverty measures at constant prices and in terms of actual quantities. The poverty measures considered are the headcount measure (H), the poverty gap measure (PG) and the P_{α} measure (for $\alpha = 2.0$) or the squared poverty gap index proposed by Foster, Greer and Thorbecke (1984).

Two alternative sets of estimates of FGT class of poverty measures for rural and urban Kerala and all-India based on the NSS data are presented (Tables 1 to 6): The first set of estimates is made using the calorie intake method with a norm of 2 100 calories (Tables 1 to 4). These estimates provide a time series profile of the poverty scenario in Kerala compared to all-India, but the price indices used for updating the poverty lines have outdated weights and may not satisfactorily reflect the changes in the cost of a minimum consumption basket (see, Suryanarayana, 1995b). Therefore, these estimates are supplemented with those corresponding to the poverty lines suggested by the Expert Group appointed by the Government of India (Government of India, 1993, Tables 5 and 6). The Expert Group approach has not considered the question of estimating distributionally sensitive poverty measures. Hence, estimates of poverty measures based on reconstructed NSS consumer expenditure distributions at 1970–71 prices are discussed⁶. The results are as follows:

- i*) The first set of estimates of all the three types of measures for the rural sectors of both Kerala and all-India show an increase in poverty till the mid-1960s and a decline thereafter, of course, marked by fluctuations; but the range and frequency of fluctuations were higher for Kerala than for all-India. A similar picture is obtained for the urban sector except that the temporal movements for Kerala and all-India were similar. Both rural and urban poverty were higher in Kerala than in India as a whole in 1961–62; the order reversed by 1993–94 (Tables 1 to 4). Between 1961–62 and 1993–94, rural poverty as measured by the headcount, poverty gap and FGT2 measures declined by 65.57 per cent, 79.94 per cent and 85.59 per cent respectively in rural Kerala; the corresponding reductions for rural all-India were lower (40.85 per cent, 56.63 per cent and 63.56 per cent respectively). The pattern for urban Kerala and urban all-India was similar.

- ii) The estimates of poverty corresponding to the poverty lines of the Expert Group, show decreases in all the poverty measures for rural Kerala and rural all-India during the three periods considered; the reductions in rural poverty in Kerala were substantial relative to that in all-India (Tables 5 and 6). Similarly, poverty in urban Kerala and urban all-India had declined with relatively larger reductions in the former than in the latter, particularly between 1977–78 and 1983. The magnitude, both size and severity, of rural poverty was higher in Kerala than all-India as a whole during the 1970s but the order reversed after 1983. Urban poverty, both incidence and severity, was higher in Kerala than in all-India during the four different periods considered. Within Kerala, estimates of all the three measures show rural poverty to be lower than urban poverty throughout.

The poverty estimates with price-corrections for the distributional impact of inflation for some years between 1970–71 and 1987–88 (Suryanarayana, 1997b) confirm the broad patterns observed above.

Thus, there seems to be a general improvement in the economic status, hence in access to foodgrains, of the population in both rural and urban Kerala. When it comes to the implications for food and nutrition security of the poor, these results have to be interpreted only after careful scrutiny since the methodology followed for deflating consumer expenditures is valid in a stationary context and not in a developing economy undergoing structural changes in production and consumer preferences (Suryanarayana, 1996b). Therefore, the data sets underlying the poverty estimates need further verification. The results are as follows:

- i) The average consumer expenditure at 1960–61 prices of Kerala's *rural* population fluctuated around a declining trend till 1973–74 when it was about half the level in 1961–62 and recovered to the initial level only by the mid-1970s. It is only after 1973–74 that real consumption increased in rural Kerala. Similarly, average consumer expenditure at 1960–61 prices of urban Kerala declined till 1967–68 and recovered to the initial level by 1969–70 and increased thereafter. The percentage increase in average consumer expenditure in 1993–94 relative to the initial level was 28.52 per cent in rural Kerala and 60.77 per cent in urban Kerala which were substantially higher than the increases in the corresponding national levels (16.26 and 26.26 per cent respectively) (Tables 1 to 4).
- ii) The estimates at 1970–71 prices for the period 1970–71 to 1987–88 show some increase in consumption after 1970–71. Unlike rural all-India, where only the poorest three decile groups experienced higher increases in consumption at 1970–71 prices than the rural population as a whole (Suryanarayana, 1995a), all the five poorest decile groups enjoyed increases higher than the average in rural Kerala. Similarly urban Kerala experienced higher increases in consumption at 1970–71 prices than urban all-India (Suryanarayana, 1995a) and within urban Kerala only the bottom three decile groups' monthly consumer expenditure increased more than the average for the population.

If consumer expenditure at constant prices had really increased fastest in Kerala, how did the benefits of growth get distributed among the poor relative to all-India? To examine this question, we estimate decile groupwise consumption at 1970–71 all-India prices for the rural and urban sectors of Kerala and all-India using the appropriate price indices of Minhas *et al.*, 1991, Tables 7 and 8⁷. The estimates for rural Kerala show that real consumption was much less than that for their rural all-India counterparts in 1970–71. The disparity got reduced after 1970–71, of course, at different paces for different decile groups. It was only after 1977–78 that rural Kerala caught up with the all-India rural average and exceeded it. The estimates for 1986/87 and 1987–88 show that the poorest five decile groups' consumption relative to that of their all-India counterparts was much less than that for the population as a whole. Urban Kerala relative to urban all-India was much worse off in 1970–71. While the rural Kerala consumption was less than the all-India rural consumption only by 11.62 per cent, the urban Kerala average was less than the corresponding national average by 47.15 per cent. This urban Kerala–all-India disparity got reduced during 1972–73 and 1973–74 but increased till 1983. Only after 1983 was this disparity reduced for the decile groups considered here. Still the Kerala urban poor decile groups had a consumption less than their all-India urban counterparts. Thus, on the whole, rural Kerala seems to have done relatively better than urban Kerala in poverty reduction both absolutely and relatively (to national averages).

The question that would follow now is: How far such increases in consumer expenditure ensured increased food security measured in terms of increases in cereal consumption? This is quite important since Kerala is a foodgrain deficit state and public intervention in the form of welfare policies and the public distribution system are supposed to have promoted food security in Kerala. In 1983 cereals accounted for 60.96 per cent of calorie and 53.98 per cent of protein intake of the rural population in Kerala; the corresponding estimates for urban Kerala being 56.41 and 51.6 respectively (Government of India, 1989). Therefore, the changes in the poverty and food security situation may be examined in terms of changes in physical consumption of cereals. The findings are as follows:

- i) There was an increase in cereal consumption in rural Kerala since 1961–62. In fact, Kerala is the only state in India where average rural cereal consumption has increased between 1961–62 and 1990–91 (Suryanarayana, 1996a)⁸. While the increase in the cereal consumption of the rural population between 1961–62 and 1993–94 was only a marginal 1.92 per cent, the poorest three decile groups' increases were 38.57 per cent, 48.74 per cent and 31.71 per cent respectively. These increases could be largely due to increases in economic access thanks to overseas remittances and increases in physical access to rice because of effective public intervention through the Public Distribution System (PDS)⁹;
- ii) In urban Kerala, there was a decline in the cereal consumption of the total population but the poorest three decile groups experienced increases of 58.5 per cent, 42.42 per cent and 26.65 per cent respectively; and

- iii) What is most important is that the level of cereal consumption in rural Kerala in 1993–94 was below the normative levels. Could this be due to the pursuit of variety in the consumption basket in Kerala? Given the importance of cereals for calorie adequacy, this finding calls for a detailed analysis of the changes in consumption patterns during the 1970s and 1980s and their implications for nutrition security.

As regards the question of “pursuit of variety”, results show that for the rural population as a whole, the budget share of cereal and cereal substitutes declined marginally (from 34.11 to 30.56 per cent), when the total real expenditure had increased almost by 50 per cent. As regards the three rural poorest decile groups, consumption patterns remained the same with marginal variations in different years. Cereals and cereal substitutes have accounted for a substantial part of the increases in total real consumption (Suryanarayana, 1997*b*). Still average rural cereal consumption in 1993–94 was the lowest in Kerala (Government of India, 1996*b*). The estimates for the urban sector reveal a picture similar to that observed for all-India rural (Suryanarayana, 1995*a*) but different from that for rural Kerala. Unlike the rural population, the urban population spent less than 12 per cent of the total increases in their budget on cereals on cereal substitutes. The urban poorest two decile groups spent about 20 per cent of the total increase on these basic food items. The items which have received larger budget allocations are milk and milk products, fruits, vegetables and nuts and durable and miscellaneous goods and services.

Consistent with the decline in cereal consumption, there was a reduction in calorie intake per capita per diem from 1 631 in 1961–62 to 1 559 in 1972–73 in rural Kerala. There was a progressive increase in calorie intake in urban Kerala (Suryanarayana, 1997*b*). Unlike the all-India experience, there was some improvement in calorie intake in Kerala between 1972–73 and 1983 (Government of India, 1989). The average per capita intake increased to 1 884 in rural and to 2 049 in urban Kerala. The calorie intakes of all the decile groups (except the urban richest decile group) increased between the two years. Still a majority, about 80 per cent in rural Kerala and about 70 per cent for urban Kerala, had a calorie intake level less than the normative minimum (2 400 calories for the rural and 2 100 calories for the urban sector) considered in the estimation of the poverty lines by the Expert Group (Government of India, 1979). The average intake of protein and fat per diem increased for all the decile groups in rural and urban Kerala. But the average calorie intake levels in both rural and urban Kerala were less than the corresponding all-India estimates.

This could be partly due to data problems. The NSS records prepared food items under beverages and refreshments. It may be noted that in Kerala a significant proportion of the population takes food from restaurants. The proportion of households with at least one meal taken from outside during the last 30 days was 34.60 per cent (38.80 per cent) in rural (urban) Kerala (highest across states) but 16.20 per cent (20.50 per cent) in rural (urban) all-India in 1993 (January–June) (Government of India, 1996*a*). Conversely, the proportion of expenditure on individual food items gets under-recorded. Thus, a significant portion of the food consumption was not properly accounted for and consequently calorie, protein and fat intakes might have been underestimated

particularly for rural Kerala. Also, with improvement in health and literacy, nutrients must have got utilised much more efficiently resulting in a less than proportionate increase in their requirement¹⁰. This is further corroborated by anthropometric measures which show that Kerala is ahead of other states (Dreze and Sen, 1993). In sum, poverty reduction in Kerala is real and not a statistical mirage.

Poverty: Structure and Spatial Profile

Poor households are generally larger in size. The number of children per household is higher for poor expenditure groups than for the higher ones. As regards size distribution of the population across monthly per expenditure classes, the percentage of persons in poorer classes is less in Kerala than in India as a whole, particularly for the rural sector.

The majority of the poor households belong to the agricultural labour class, as for all-India, but, contrary to the all-India picture, where the self-employed form the second major group of the poor, rural landless/land-poor households account for a significant part of the poor in Kerala. The proportion of casual labour¹¹ among rural male workers (46.90 per cent as against the all-India average of 33.8 per cent in 1993–94) was the highest among the major states in India; the corresponding percentages for rural female workers was 35.3 for Kerala and 38.7 for all-India. Similarly the percentage share of casual labourers among urban male workers was the highest in Kerala (35.7 per cent) while the all-India average was 16.1 per cent; but not so with the female workforce (27.6 per cent in urban Kerala as against the all-India average of 26 per cent) (Government of India, 1997b).

The incidence of poverty is the highest in the three northern districts of Kasaragod, Malappuram and Palghat (see Kannan, 1995). In 11 out of 14 districts, 70 per cent of the poor belong to the labour class. Thus, spatially and occupationally there seems to be some unevenness in poverty in Kerala which needs attention and corrective public policy action. What would be these policies? A careful answer would call for an assessment of the economy's performance and review of policies that enabled Kerala to achieve the reduction in poverty reported in the preceding section. This is done below.

State Economy and Growth Performance

A radical political movement advocating land distribution for social justice received wide social support for fundamental institutional reforms and insistence on public policies for social development. While the economy made considerable progress on these counts, it has little to boast of in terms of growth in commodity producing sectors.

The state domestic product (SDP) is very small and below the all-India average. In terms of per capita SDP, Kerala ranked 7 among 15 major states in 1959–60 to 1961–62 (Centre for Development Studies, 1977); 13 in 1980–81 and 12 in 1990–91 among 21 states of the Indian union (Government of Kerala, 1993). The growth in per

capita SDP during the 1960s was barely one per cent (Kannan, 1995). Per capita SDP increased by 0.06 per cent per annum during 1970–71 to 1980–81 and by 1.40 per cent per annum during 1980–81 to 1990–91 and the growth rates were less than half of that in all-India (Ramachandran, 1995) despite a progressive decline in the population growth in Kerala since 1971. Agriculture stagnated between 1975–76 and 1985–86 (Kannan and Pushpangadan, 1990) but the SDP in the service sector has grown at the rate of 4.37 per cent since the mid-1970s (Kannan, 1995).

This leads to the question of how Kerala achieved such a rapid real reduction in poverty at a time when there was virtual stagnation in the economy, and unemployment levels were very high (Government of India, 1997*b*). The answer could be: *i*) “public policies” which enabled Kerala to achieve high levels of human development and hence, exploit employment opportunities in the rest of the country and the world leading to substantial foreign remittances into Kerala¹² and to growth in the service sector; and *ii*) poverty alleviation policies which promoted income and food security of the poor¹³. Hence, in spite of its very poor per capita SDP growth performance, the ranking of Kerala among states in terms of rural per capita consumer expenditure improved substantially during the 1970s, and during the 1980s in terms of urban per capita consumer expenditure. Thus, there is a need for an assessment of Kerala’s achievement with respect to human development and the various public policies that made this achievement possible, in the face of material underdevelopment.

Human Development

Kerala has achieved undoubtedly high levels of human development with respect to not only the aggregate measure but also its individual constituents. With estimates of life expectancy at birth of 72 years, a male literacy rate of 93.62 per cent and a female literacy rate of 89.81 per cent, Kerala stands far above the states of Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh. The infant mortality rate in Kerala is 16 per thousand which is less than a fourth of the all-India estimate and less than one sixth of the estimates for Madhya Pradesh and Orissa (Table 9). In fact Kerala’s achievements with respect to the individual indicators of human development are on par with those in several Asian countries (Table 10). While India, with a Human Development Index (HDI) of 0.382, had a ranking of 135, Kerala’s rank (with a HDI of 0.535) fell in between 112 (El Salvador) and 113 (Bolivia) and most of the districts in Kerala fall under the ‘medium HDI’ category under the UNDP specification (Thomas, 1996).

Kerala’s achievement looks equally impressive after taking into account the gender considerations in computing the HDI. Inter-state differentials in gender-related development index (GDI) are striking; GDI value is the highest for Kerala (0.565) and lowest for Uttar Pradesh (0.293) (Kumar, 1996). Kerala’s GDI ranking across the countries of the world is 73 and stands between China and Nicaragua.

Public Policies: Investment in the Social Sector

The priority assigned to social sector development can be appreciated by the fact that it has received about 24 per cent of the total plan expenditure during first seven Five Year Plan periods (1951–90) (Government of Kerala, 1996). As a result, since 1970 Kerala is consistently at the top among the Indian states in terms of social sector achievements (Dutta *et al.*, 1994). Currently, the state government expenditure on the social sector constitutes about 40 per cent of the total plan and non-plan expenditure.

Education

In 1991, the literacy rate in Kerala was 89.81 per cent, compared to the all-India average of 52.21 per cent. More striking is Kerala's performance in ensuring gender balance. The female literacy rate was 86.17 per cent, compared to 39.20 per cent for all-India, 21 per cent for Madhya Pradesh and 26 per cent for Uttar Pradesh (Table 9)¹⁴. The literacy rate among the scheduled castes (SCs), a socially and economically weaker section, was 69.38 per cent among whom the female literacy rate was 65.03 per cent. The literacy rate among the scheduled tribes (STs) was 48.62 per cent, with the female literacy rate being 43.53 per cent (Government of Kerala, 1997b).

How did Kerala achieve this kind of progress? The southern part of Kerala, comprising the Travancore region, has laid considerable emphasis on education right from the inception of the Christian era. Temples in Kerala served as the centres of learning for the masses (Nag, 1983). During the last century, Christian missionaries and native rulers played a major role in spreading education, particularly female education. As early as 1901, the Travancore part of Kerala was leading the rest of the country in terms of female education (Nag, 1983). As a result, public involvement in state politics and social affairs has been considerable. On the other hand, Malabar was backward with respect to education and health due to policy indifference under the British. However, under effective public policies of the Government of Kerala, Malabar made rapid progress after independence and had caught up with the rest of Kerala by the 1980s (Krishnan, 1995).

In general, gender disparities, across regions and socio-economic strata have been reduced substantially as a result of effective policies for the education sector¹⁵. Among the various policy measures, most important are: *i*) the Kerala Education Act of 1959 which provided a perspective for free and compulsory education of all children within a decade; *ii*) gradual elimination of fees for middle, high school and pre-degree classes in Kerala; *iii*) improvement in the service conditions of teachers; *iv*) emphasis on the development of the base, that is, primary, middle and secondary stages¹⁶. In this context, programmes like the mid-day meals in primary schools have provided good support and helped in reducing the number of school drop-outs. The results in terms

of high literacy rates as well as externalities such as improved health status and hence low infant and child mortality rates are considerable. With literacy, knowledge about hygiene and use of health facilities improves. There is enough evidence to show that higher female literacy in Kerala has led to high utilisation of maternal and child health services by women (Nag, 1983)¹⁷. Higher literacy has also led to higher awareness about one's rights and hence, to a higher level of political participation particularly of the poor, thus forcing the State Government to take effective care of the social needs of the poor.

Investment in Health

Kerala has achieved considerable progress with respect to health and demographic transition since its formation. This experience stands out because Kerala has demonstrated that it is possible to achieve such transitions within a single generation by a mix of social policies and health infrastructure (Krishnan, 1991). At its creation, the state of Kerala was marked by considerable differences in health parameters between Cochin and Travancore, on the one hand, and Malabar, on the other; life expectancy was higher in the former than in the latter. Malabar was relatively backward with respect to both health infrastructure and economic, institutional and social parameters. Today Malabar is on par with the rest of the State thanks to effective public policies pursued by the government. This is largely because of the network of health infrastructure which has ensured access to health care in all its dimensions viz. locational access, economic and social access. The cost and burden of health care in Kerala is the lowest among the Indian states which has rendered policies for poverty alleviation quite effective (Krishnan, 1994a)¹⁸. In addition, public policy on health in Kerala laid stress on maternal and child care, immunisation and curative medicine (Krishnan, 1991). Other factors which have contributed to such an achievement on the health front are education, particularly that of women (see above), transport, general health consciousness and habits of Keralites¹⁹. All the villages in Kerala are linked by all-weather roads. In this respect, Kerala is followed closely by Punjab (99 per cent) and far behind by Maharashtra (53 per cent). As noted by Halstead (1985), infrastructural development of health services has brought down the infant mortality rate in Kerala substantially²⁰. Kerala has a low infant mortality rate (16 while the all-India estimate is 74 for the year 1995), low birth rate, low death rate, and high life expectancy²¹. Another distinct feature about Kerala is that the rural-urban and male-female differences with respect to health achievements are marginal. Such differences are the widest in Bihar and Madhya Pradesh where infant mortality rates are high (Uplekar and George, 1994). The achievement on the health front appears remarkable against the evidence that per capita food consumption in Kerala is one of the lowest among the Indian states²². This only goes to highlight the effective role played by medical care in the state.

Rural Development and Poverty Alleviation Programmes

The state government implements many rural development programmes targeted largely at the poor and sponsored by Central Government. Examples are:

- *The Integrated Rural Development Programme (IRDP)*; which assists poor families in taking up self-employment schemes.
- *Training of Rural Youth for Self Employment (TRYSEM)*; a component of the IRDP under which rural youths (aged 18–35) are trained in basic technical and managerial skills so that they can undertake self-employment ventures. Once trained, they are provided financial assistance in terms of loans and subsidies for starting their enterprises.
- *Development of Women and Children in Rural Areas (DWCRA)*; this is a group-oriented programme with an exclusive focus on women who, as a group, are helped to take up economic activities suiting their skills, aptitudes and local conditions.
- *Jawahar Rozgar Yojana (JRY)*; this is a programme that seeks to create employment opportunities for the rural unemployed and underemployed as well as economic infrastructure and durable community assets improving the quality of life.
- *Employment Assurance Scheme (EAS)*; under EAS, 100 days of assured non-farm employment wages are provided during the lean agricultural season. In addition, rural artisans are provided with tool kits so as to increase their productivity, earnings and quality of life.
- *Central Rural Sanitation Programme (CRSP)*; and
- *Integrated Waste Land Development Project (IWLDP)*.

These programmes are implemented by the Department of Rural Development which conducts its own surveys in order to identify the poor and minimise errors in targeting²³ (see Government of Kerala, 1997b). For instance, families with an annual income (at 1991–92 prices) of Rs 11 000 or less are considered poor and among them, the poorest of the poor (annual income less than Rs 8 500) are assisted on a priority basis. Within the poor, special attention is paid to the SC/ST (scheduled caste/scheduled tribe) communities, women and physically handicapped. For instance, among the IRDP beneficiaries, 50 per cent are SC/ST, 40 per cent are women and 3 per cent are physically handicapped. (For an appreciation of the commendable role played by these programmes in poverty alleviation, see Government of Kerala, 1997b).

The State also implements poverty alleviation programmes for the urban sector, the most important of them being i) Nehru Rozgar Yojna, promoting self-employment through urban micro enterprises, urban wage employment, and housing and shelter upgrading; ii) Environmental Improvement of Urban Slums; iii) Urban Basic Services for the Poor.

The Task Force on Poverty Alleviation Programmes set up by the Government of Kerala in connection with the formulation of the Ninth Five Year Plan has recommended elimination of poverty by providing i) at least one regular employment to each poor household so as to ensure them an annual income of Rs 21 000; ii) shelter for all homeless families; iii) drinking water and sanitary facilities for all households (Government of Kerala, 1997a).

Social Security Schemes

While education and medical facilities played an important role in laying the foundation for social development and poverty alleviation, social security schemes sought to reduce income insecurity among the weaker and deprived sections of the society. Kerala leads the rest of the country in terms of the number of social security schemes and their coverage. The schemes can be classified into three groups: pension, welfare assistance and institutional care. Three major pension schemes are the Kerala Agricultural Workers' Pension Scheme, the Kerala Old Age Destitute Pension Scheme and the special pension scheme for the handicapped. In addition, the Government also operates institutional schemes for the welfare of destitute women, girls and children, orphans, the aged, ex-convicts, disabled, and mentally retarded children and beggars²⁴. These schemes, together with those run by the central government and its various departments, have played an important redistributive and protective role from the point of view of the weak and vulnerable.

Public Policies for Economic Equity

Besides the policies for the social sector, Kerala also pursued a set of policies to ensure economic and food security particularly for the poor. Two important policy measures in this respect are land reforms and the Public Food Distribution System (PDS) which address the two major determinants of food security in India, i.e. inequalities in the distribution of land holdings and foodgrain production (Centre for Development Studies, 1977; Suryanarayana, 1996a).

Land Reforms

The princely state of Travancore had implemented land reforms in the 19th century as part of the monarch's effort to weaken the feudal and semi-feudal elements. In 1865, Travancore conferred full ownership rights to tenants of state-owned land by a royal proclamation; Cochin followed suit only in 1924. In the Malabar district, an oppressive tenurial system continued under the British rule. Accordingly, available estimates show that in 1911 cultivating households constituted about 75.30 per cent of the agricultural population in Travancore, but only 15.70 per cent in Cochin and

7.70 per cent in Malabar. The picture remained broadly similar even in 1951 (Centre for Development Studies, 1977), and led to considerable agrarian unrest and radical movements in Malabar. The movements spread to Cochin and Travancore and state reorganisation only strengthened these movements.

Land reforms were complementary to the policies for social development and consisted of three parts: *i*) tenurial reforms which abolished tenancy and bestowed ownership rights to hutment dwellers; *ii*) reforms regarding homestead land which conferred ownership rights on the occupants, particularly the rural poor; *iii*) ceilings on land ownership, and redistribution of surplus land to the landless. The reform efforts were relatively successful with respect to the first two components. Tenurial reforms succeeded in transferring 1.97 million acres of land to 1.27 million households; reforms covering homestead land transferred only 20 000 acres to 270 000 households and the Government could redistribute only 50 000 acres to 90 000 households (Radhakrishnan, 1989)²⁵. The effects of land reforms were as follows:

- i*) they benefited largely the tenants in the Malabar region;
- ii*) their impact in terms of land redistribution and reduction of inequalities in income from land was little (Centre for Development Studies, 1977). The size of the operational holdings²⁶ in Kerala is quite small today, averaging 0.35 ha in 1991–92. Inequality, as measured by the Gini coefficient, increased from 0.647 in 1970–71 to 0.649 in 1981–82 and declined to 0.636 in 1991–92 while at the all–India level inequality increased from 0.586 to 0.629 and to 0.641 respectively. The percentage of marginal holdings (less than 1.01 ha) increased from 86.21 in 1970–71 to 91.58 in 1991–92; their share in area increased from 40.05 to 53.27 respectively (Government of India, 1997a);
- iii*) These reforms provided the much needed housing security for dwelling to the poor and hence strengthened the bargaining power of labour, most of whom are poor²⁷. As a result, the reserve price of labour increased and could be sustained in the face of massive unemployment. This must have also helped in sustaining the average consumption levels in Kerala;
- iv*) by promoting production of tapioca in small holdings, land reforms reduced the threat of food insecurity due to declining rice production in the domestic economy at least in the immediate short run (during the 1970s).

An important related measure was The Kerala Agricultural Worker's Act of 1975 which sought to legislate minimum wages, provide job security and retirement benefits, time limits for working hours and set up arbitration boards to settle disputes between workers and employers. As a result, Kerala has known the highest real wage increases for agricultural workers: 63 per cent for men between 1970–71 and 1988–89 (Jose, 1994). The government enacted laws to provide for unemployment insurance for agricultural workers in 1980–81 and an agricultural labour pension in 1982.

Public Food Distribution System

Kerala is a food deficit state. Its per capita foodgrain production in 1987–88 was only 38.38 kg against the national average of 175.20 kg. This is largely because the cropping pattern is commercially oriented with the proportion of cropped area under rice being 18.53 per cent in 1990–91 (Government of Kerala, 1993)²⁸. Rice is the major staple but its per capita production²⁹ of 37.34 kg in 1990–91 works out to a per capita daily availability of only 102.30 g, against the consumption norm of 370 g per capita per day of the Indian Council of Medical Research (ICMR).

During the pre-independence era, the deficit was met through imports from outside. The PDS evolved in its present form mainly after October 1964 with the imposition of stringent restrictions on inter-state movement of foodgrains on private trade account³⁰. As of 31 December 1991, the PDS covered a population of 26.4 million, i.e. about 91 per cent of the population.

There is a two-tier system of PDS in Kerala today, based on procurement through (1) the Food Corporation of India (FCI) and handled by the Department of Civil Supplies of the Government of Kerala, and (2) the Kerala State Civil Supplies Corporation from the open market and distributed through a network of “Maveli stores”. Such statewide coverage of public distribution of essential commodities has benefitted the underprivileged sections of society and has reduced the impact of poverty (Government of Kerala, 1994).

What is most striking about food security in India during the post-independence period is the decline in cereal consumption (Suryanarayana, 1996a). This seems to have been due to a variety of reasons like high price of cereals resulting from declining coarse cereal availability and increasing market dependence of the poor caused by increasing landlessness and changing consumer preferences. In Kerala too, per capita cereal consumption declined between 1961–62 and 1973–74. The picture has changed since the mid-1970s. With the larger availability of PDS rice, decline in the relative price of rice and increases in income, consumption and production of tapioca showed a steady decline³¹. In contrast to the all-India picture (see Suryanarayana, 1995a), Kerala is the only state in India where per capita cereal consumption has increased since the mid-1970s.

Supplementary Nutrition Programme

This is a programme intended to ensure food security for vulnerable sections among the poor. It includes Integrated Child Development Services (ICDS), Special Nutrition Programmes in Urban Areas, Applied Nutrition Programme for Women and Pre-School Children and Mid-day Meal Programme in Schools. The Social Welfare Department is in charge of the ICDS projects and Special Nutrition Programme. This programme provides pre-school children with 300 calories and 15 grams of protein per day and pregnant and nursing mothers with 500 calories and 25 grams of protein per day for 300 days per year. The ICDS is operated through a network of 15 154 “anganawadis” for about a million beneficiaries (Government of Kerala,

1997b)³². To ensure the effective implementation of the programme, the “anganawadis” are operated by educated women. Further, they render health counselling also with assistance from trained experts. Besides the direct provision of food by the Social Welfare Department, the Rural Development Department implements applied nutrition programmes under which women are trained to develop kitchen gardens and prepare nutritious food using local resources. Finally, the Education Department implements the Mid-day Meal Programme in primary schools³³. The programme’s objective is to provide almost one-fourth of the daily requirements of a child (410 calories and 15 grams of protein). It is self-targeted in the sense that only the poor who need such benefits participate in the school feeding programme. Thus, it redistributes i) in favour of lower income groups and ii) lower age-groups who are vulnerable to the adverse effects of malnutrition. About 70 per cent of the primary school children benefit from this programme.

Conclusion

There has been a real reduction in poverty in Kerala during the post-independence period. This has happened in spite of the fact that the state domestic economy had been stagnant till the mid-1980s. How did Kerala manage to achieve this? Kerala has provided a unique example of achieving a real reduction in poverty not by material progress but by social development and redistributive and social security measures. As a result of high social development, Keralites could exploit the employment opportunities overseas and in the rest of the country and make up for a stagnant domestic economy. For vulnerable sections of the population, like the socially weaker groups, destitutes, old and handicapped, redistributive public policies and social security measures have played a major role in promoting their economic, food and nutrition security. In sum, Kerala’s achievement has been made possible by a set of public policies, radical reforms and people’s participation despite low levels of income and limited material progress. At the same time, some of the very same factors like public awareness and active labour force, which enabled Kerala to achieve high levels of social development, have also acted as deterrents to private initiative to invest and promote Kerala’s material development. This failure on the part of Kerala to achieve economic growth despite high levels of social development calls for a search for a set of complementary policies for economic growth so that the present levels of social development could be sustained in the long run without any external constraint. This is all the more imperative given the magnitude of unemployment in Kerala today. It is high time Kerala ensures physical capital accumulation for an efficient use of the accumulated abundant human capital.

Notes

1. See Table 10. As Sen points out, the average levels of literacy, life expectancy, infant mortality etc. in India are enormously adverse in comparison with China but Kerala fares significantly better than China in all these respects (Sen, 1997).
2. For comparison with other Indian states (see UNDP, 1997).
3. The question of poverty reduction in Kerala is examined in some detail since this is an issue which has received little attention. As regards public policies and social development, there is considerable literature (see Dreze and Sen, 1995; 1997 and the studies cited therein).
4. These three regions had different historical backgrounds (Ramachandran, 1995), reflected in the uneven social and economic development at the time of state reorganisation.
5. Such methodological issues are quite important for making valid observation and policy suggestions (see Suryanarayana, 1995a).
6. Such estimates are available in Suryanarayana (1997b).
7. For these price indices, see Jain and Minhas (1991), Minhas and Jain (1990), Minhas, Jain and Tendulkar (1991), Minhas, Kansal and Jain (1992) and Tendulkar and Jain (1993).
8. Average rural and urban per capita cereal consumption declined between 1987–88 and 1993–94 across most of the states including Kerala, though the percentage decline was one of the lowest in Kerala (Suryanarayana, 1997c).
9. Kerala is one state where per capita PDS delivery of cereals has increased with reduced inter-year variance since 1970s (see Geetha and Suryanarayana, 1993).
10. For other issues in this context, see Suryanarayana (1997b).
11. Casual labour is defined as a person casually engaged in others' farm or non-farm enterprises (both household and non-household) and getting in return a wage according to the terms of the daily or periodic work contract (Government of India, 1997b).
12. Non-resident external deposits account for more than 37 per cent of the total bank deposits in Kerala (Sandesara, Suryanarayana, Thomas, 1996). Krishnan's estimates show that remittances into Kerala after 1972–73 were in the range 15 to 22 per cent of the SDP and were highest at 30 per cent in 1978–79 (Krishnan, 1994b).

13. Kannan (1995) has worked out the money equivalent of benefits of various poverty alleviation programmes (like PDS rice only), school meal programme, supplementary nutrition programme, pensions to destitutes and agricultural labourers of old age, Integrated Rural Development Programme, National Rural Employment Programme and Rural Landless Employment Guarantee Programme and other subsidiaries) to rural labour households. The benefits per rural labour household in 1983 were Rs 1 395, equivalent to 26 per cent of the annual income of the rural labour household or, in per capita terms, 21 per cent of the household consumer expenditure.
14. Dreze and Sen (1995) point out that Kerala's female literacy rate is higher than that in any Chinese province.
15. For a quantitative evidence of Kerala's progress on various aspects of educational development in Kerala, see Thomas (1996).
16. For further details, see Nair (1997).
17. Different country experiences provide evidence of how important is maternal education as a determinant of infant and child mortality (Caldwell, 1979).
18. This is an important factor which has considerable implications for poverty in all its dimensions – incidence, depth, intensity, transient and chronic. The relative burden of treatment, defined as the ratio of treatment cost to the annual per capita expenditure (proxy for income), is higher for the poor. This cost in the rural sector, for instance, even in government hospitals varies between 100 and 230 per cent in poor, backward states like Bihar, Rajasthan and Uttar Pradesh; the burden of treatment in private hospitals exceeds 100 per cent in all the states except Assam, West Bengal, Kerala and Tamil Nadu (Krishnan, 1994a). The burden of treatment in public hospitals for the top decile group, on the other hand, is between 3–30 per cent in the rural and 4–35 per cent in the urban sector.
19. The Rockefeller Foundation ranks Kerala along with China, Costa Rica and Sri Lanka for achieving life expectancies of 65–70 years and reducing infant and child mortality rates comparable to those of developed countries (Halstead, 1985). The following four major factors which contributed to this are : *i*) political and social commitment to equity, *ii*) equitable distribution and access to public health and health care at the primary, secondary and tertiary levels, *iii*) uniform access to the educational system with a focus on the primary level, and *iv*) adequate availability of nutrition.
20. The proportion of child birth taking place in institutions is the highest in Kerala (85.70 per cent) followed by Maharashtra (33.30 per cent) and Himachal Pradesh (21.90 per cent) but low in Bihar (11.30 per cent) and lowest in Punjab (6.80 per cent). But trained professionals attend most of the deliveries in Punjab whereas untrained professionals attend most of the deliveries in Bihar and Madhya Pradesh.
21. For statewide details, see Table 9.
22. For an appreciation of Kerala's achievements on the health front, see Centre for Development Studies (1977), Krishnan (1991) and Kabir and Krishnan (1996).
23. See Cornia and Stewart (1993) for the concept of errors in targeting.

24. Some important social security schemes run by the Kerala State Government are listed in Nair (1997).
25. The total land declared as surplus as of 30 November 1996 was 64 400 acres. About 146 000 persons benefitted from the redistribution of which 43 per cent were Scheduled Castes and 5 per cent were Scheduled Tribes. These beneficiaries were also provided financial assistance for land development and cultivation (Government of Kerala, 1997b).
26. An operational holding is defined as “a techno-economic unit used wholly or partly for agricultural production and operated (directed/managed) by one person alone or with the assistance of others without regard to title, size or location” (Government of India, 1997a).
27. For instance, in 1993–94 about 91 per cent of the rural households possessed one hectare or less of land and only 2.7 per cent were landless (the corresponding all–India estimates being 72 per cent and 13 per cent respectively) (Government of India, 1997a).
28. Other food crops like pulses, millets and tapioca accounted for only one per cent of cropped area. Furthermore, the average size of operational holding is quite small; in 1991 it was a mere 0.31 hectare as against the all–India average of 1.57 hectare (Government of Kerala, 1995). The size of about 90 per cent of the land holdings is less than half a hectare which indicates the acute pressure on land (Government of Kerala, 1994).
29. Crop-specific studies show stagnation in the production of rice and tapioca in Kerala (see, George and Mukherjee, 1986; Kannan and Pushpangad an, 1988, 1990 and Pushpangadan, 1988).
30. For more on this, see Centre for Development Studies (1977) and Suryanarayana (1995b).
31. For a statistical verification, see Pushpangadan (1988).
32. *Anganawadis* are ICDS centres at the village level.
33. This programme existed even during pre-independence period in the princely states of Cochin and Travancore; as a statewide programme it started only in 1961 depending largely on the food support from the Cooperative for American Relief Everywhere (CARE). The programme continued, even when CARE stopped its assistance in the 1980s, with the support of the state government.

Table 1. **Consumer Expenditure Levels, Inequalities and Poverty Indicators: Rural Kerala**

Year	Poverty line (Rs per capita per month)	Headcount ratio (per cent)	Poverty gap index (per cent)	FGT2 index (per cent)	Lorenz ratio at current prices (per cent)	Monthly PCTCE at current prices	Monthly PCTCE at 1960–61 prices
1961–62	17.10	49.03	15.95	6.94	33.04	21.07	19.88
1963–64	17.60	52.63	15.69	6.24	30.18	20.36	18.66
1964–65	21.30	61.27	22.17	10.43	33.57	22.30	16.89
1965–66	24.15	71.49	26.01	11.80	29.83	21.80	14.53
1966–67	25.92	68.45	23.98	10.62	30.13	24.56	15.25
1967–68	27.70	63.09	21.03	9.34	31.85	28.54	16.59
1968–69	31.40	64.41	23.29	10.80	41.46	36.18	18.55
1969–70	32.52	68.41	23.85	10.74	30.92	31.07	15.38
1970–71	34.50	62.32	21.64	9.75	33.04	36.12	16.88
1972–73	35.58	51.65	15.56	6.28	31.40	42.19	19.09
1973–74	44.40	47.69	14.47	5.92	31.99	55.35	10.05
1977–78	51.04	40.34	12.21	5.16	35.84	74.67	23.56
1983	85.97	28.36	6.18	1.97	33.88	145.45	27.24
1986–87	107.07	23.05	4.85	1.40	34.82	196.37	29.95
1987–88	113.67	19.98	3.90	1.21	33.16	211.47	29.67
1993–94	211.88	16.88	3.20	1.00	30.20	390.41	25.55

Note: Poverty indicators are based on published NSS consumer expenditure distributions using the conventional all-India norm of Rs 15 per capita per month at 1960/61 prices for the rural sector. The estimates are obtained by price-adjusting only the poverty line with the respective consumer price index for agricultural labourers.

Source: Suryanarayana (1997b).

**Table 2. Consumer Expenditure Levels, Inequalities and Poverty Indicators:
Rural All-India**

Year	Poverty line (Rs per capita per month)	Headcount ratio (per cent)	Poverty gap index (per cent)	FGT2 index (per cent)	Lorenz ratio at current prices (per cent)	Monthly PCTCE at current prices	Monthly PCTCE at 1960-61 prices
1961-62	15.45	38.29	10.10	3.65	31.61	21.73	21.10
1963-64	17.70	44.76	12.32	4.64	30.01	22.37	18.96
1964-65	21.30	45.11	12.63	4.91	29.65	26.44	18.62
1965-66	23.25	47.87	13.54	5.31	30.13	28.40	18.32
1966-67	28.50	55.77	17.74	7.67	29.69	30.90	16.26
1967-68	30.90	55.42	17.54	7.51	29.11	33.40	16.21
1968-69	27.75	50.12	14.71	5.98	30.97	33.29	17.99
1969-70	28.95	48.80	14.12	5.62	29.83	34.70	17.98
1970-71	28.80	45.22	12.60	4.86	29.76	35.31	18.39
1972-73	35.31	46.29	13.23	5.25	30.67	44.17	17.98
1973-74	42.90	44.16	11.87	4.42	28.19	53.01	18.53
1977-78	48.45	39.82	10.71	3.97	34.20	69.01	21.33
1983	76.65	32.82	8.10	2.77	30.10	112.68	22.05
1986-87	86.70	25.54	5.66	1.92	30.10	141.44	24.47
1987-88	97.50	25.70	5.34	1.69	30.20	158.10	24.32
1993-94	172.05	22.65	4.38	1.33	28.54	241.40	24.53

Note: Poverty indicators are based published NSS consumer expenditure distributions using the conventional all-India norm of Rs 15 per capita per month at 1960/61 prices for the rural sector. The estimates are obtained by price-adjusting only the poverty line with the respective consumer price index for agricultural labourers.

Source: Suryanarayana (1997b).

Table 3. Consumer Expenditure Levels, Inequalities and Poverty Indicators: Urban Kerala

Year	Poverty line (Rs per capita per month)	Headcount ratio (per cent)	Poverty gap index (per cent)	FGT2 index (per cent)	Lorenz ratio at current prices (per cent)	Monthly PCTCE at current prices	Monthly PCTCE at 1960-61 prices
1961-62	19.15	48.71	17.07	7.91	38.81	25.82	24.65
1963-64	20.67	49.46	16.53	7.27	37.41	27.29	24.14
1964-65	22.79	51.09	16.94	7.43	38.96	30.11	24.15
1965-66	24.69	68.97	24.07	10.53	34.34	24.93	18.46
1966-67	27.41	56.86	20.99	9.93	43.09	35.45	23.65
1967-68	31.42	61.96	22.08	10.00	36.58	34.81	20.26
1968-69	32.35	57.52	20.57	9.44	37.83	38.39	21.70
1969-70	32.72	53.44	18.02	7.76	41.27	44.41	24.81
1970-71	33.87	47.80	16.02	7.05	39.73	47.63	25.71
1972-73	37.44	42.89	13.42	5.43	39.49	58.27	28.45
1973-74	50.42	48.68	15.26	6.12	37.57	69.93	24.99
1977-78	56.57	44.64	15.44	7.02	40.41	84.20	27.21
1983	99.23	31.05	7.91	2.90	39.34	179.82	33.13
1986-87	125.28	29.57	7.72	2.75	43.33	243.46	35.53
1987-88	134.50	28.29	6.35	1.88	39.34	266.22	36.19
1993-94	227.78	13.05	2.51	0.80	34.37	493.83	39.63

Note: Poverty indicators are based on the published NSS consumer expenditure distributions using the conventional all-India norm of Rs 18 per capita per month at 1960-61 prices for the urban sector. The estimates are obtained by price-adjusting only the poverty line with the respective weighted consumer price indices for industrial workers and urban non-manual employees.

Source: Suryanarayana (1997b).

Table 4. Consumer Expenditure Levels, Inequalities and Poverty Indicators: Urban All-India

All India							
Year	Poverty line (Rs per capita per month)	Headcount ratio (per cent)	Poverty gap index (per cent)	FGT2 index (per cent)	Lorenz ratio at current prices (per cent)	Monthly PCTCE at current prices	Monthly PCTCE at 1960-61 prices
1961-62	18.72	33.83	9.34	3.47	36.37	30.86	29.67
1963-64	20.34	36.08	9.48	3.30	36.54	32.96	29.17
1964-65	22.68	35.22	9.38	3.49	35.52	36.03	28.60
1965-66	24.30	37.55	10.16	3.79	34.45	36.65	26.93
1966-67	27.00	36.37	9.74	3.63	34.69	41.54	27.69
1967-68	29.70	37.35	10.02	3.76	34.50	44.82	27.16
1968-69	29.88	35.78	9.63	3.59	34.25	46.04	27.73
1969-70	30.78	33.58	8.66	3.15	35.86	50.39	29.47
1970-71	32.22	32.20	8.14	2.89	34.69	52.85	29.53
1972-73	35.64	27.31	6.22	1.91	34.70	63.33	31.98
1973-74	41.76	24.79	5.16	1.58	30.90	70.77	30.51
1977-78	55.26	26.51	6.66	2.47	35.53	100.00	31.32
1983	90.00	22.29	4.96	1.63	34.08	170.46	34.09
1986-87	114.48	20.69	4.53	1.47	36.74	236.35	37.16
1987-88	123.48	20.92	4.31	1.27	35.60	249.93	36.43
1993-94	220.08	18.22	3.65	1.08	34.42	458.04	37.46

Note: Poverty indicators are based on the published NSS consumer expenditure distributions using the conventional all-India norm of Rs 18 per capita per month at 1960-61 prices for the urban sector. The estimates are obtained by price-adjusting only the poverty line with the respective weighted consumer price indices for industrial workers and urban non-manual employees.

Source: Suryanarayana (1997b).

Table 5. Poverty Indicators Based on Expert Group Norm: Rural Kerala and All-India

Kerala Rural				
Year	Poverty line (Rs per capita per month)	Headcount ratio (per cent)	Poverty gap index (per cent)	FGT2 index (per cent)
1973-74	51.68	59.18	19.98	8.89
1977-78	58.88	49.99	16.61	7.47
1983	99.35	39.21	9.91	3.50
1987-88	130.61	29.93	6.63	2.19
Rural All-India				
1973-74	49.00	55.94	16.63	6.72
1977-78	55.29	50.50	14.98	6.03
1983	87.77	43.39	11.90	4.49
1987-88	112.67	37.16	8.85	3.05

Note: Poverty indicators are based on the all-India norm of Rs 49 at 1973-74 prices for the rural sector.

Source: Suryanarayana (1997b).

Table 6. **Poverty Indicators Based on Expert Group Norm: Urban Kerala and Urban All-India**

Year	Poverty line (Rs per capita per month)	Headcount ratio (per cent)	Poverty gap index (per cent)	FGT2 index (per cent)
1973–74	62.08	61.16	22.77	10.57
1977–78	71.82	58.68	23.23	11.78
1983	127.84	48.26	15.08	6.35
1987–88	175.11	44.49	13.38	5.20
Rural All-India				
1973–74	56.60	47.40	13.35	5.10
1977–78	70.08	41.98	12.52	5.18
1983	115.02	38.08	10.47	4.00
1987–88	161.87	37.63	10.10	3.62

Note: Poverty indicators are based on the all-India norm of Rs 56.60 at 1973–74 prices for the urban sector.

Source: Suryanarayana (1997b).

Table 7. **Poverty Indicators Based On Current Price and Price-Adjusted Distributions: Rural Kerala**

Year	Poverty line (Rs per capita per month)	Headcount ratio (per cent)	Poverty gap index (per cent)	FGT2 index (per cent)	MPCTCE	Lorenz ratio (per cent)
At current prices ^a						
1970–71	38.62	69.87	26.40	12.64	36.12	33.04
1972–72	42.96	66.09	23.06	10.41	42.19	31.40
1973–74	52.68	60.60	20.74	9.33	55.35	31.99
1977–78	64.56	56.21	19.83	9.28	74.67	35.84
1983	110.20	47.25	13.20	5.01	145.45	33.88
1987–88	154.83	43.57	11.36	4.16	211.47	33.16
At 1970–71 prices ^b						
1970–71	38.62	69.87	26.40	12.64	36.12	33.04
1972–73	38.62	64.82	22.03	9.75	38.45	30.81
1973–74	38.62	58.50	19.30	8.45	41.55	31.38
1977–78	38.62	54.67	18.40	8.33	44.82	34.14
1983	38.62	44.26	11.50	4.13	51.41	31.89
1987–88	38.62	40.66	9.73	3.34	52.47	30.57

a. The poverty lines at current prices are from Minhas and Jain (1990) and Minhas *et al.* (1991).

b. The consumer expenditure distributions at 1970–71 prices are obtained by deflating commodity-wise expenditures across expenditure classes with the respective commodity group price indices from Jain and Minhas (1991) and Tendulkar and Jain (1993).

Source: Suryanarayana (1997b).

**Table 8. Poverty Indicators Based On Current Price and Price-Adjusted Distributions:
Rural All-India**

Year	Poverty line (Rs per capita per month)	Headcount ratio (per cent)	Poverty gap index (per cent)	FGT2 index (per cent)	MPCTCE	Lorenz ratio (per cent)
At current prices ^a						
1970-71	33.01	57.00	17.52	7.30	35.31	28.76
1972-72	40.22	56.48	17.90	7.62	44.17	30.67
1973-74	49.09	56.10	16.71	6.76	53.01	28.19
1977-78	57.64	53.93	16.50	6.81	69.10	34.20
1983	93.16	48.34	13.87	5.43	112.68	30.10
1987-88	122.63	44.30	11.45	4.16	158.10	30.16
At 1970-71 prices ^b						
1970-71	33.01	57.00	17.52	7.30	35.31	28.76
1972-73	33.01	56.45	17.57	7.38	36.48	30.78
1973-74	33.01	56.11	16.85	6.85	35.89	28.78
1977-78	33.01	54.05	16.17	6.56	39.02	33.09
1983	33.01	48.54	13.74	5.32	39.48	29.40
1987-88	33.01	46.37	11.60	4.11	40.42	28.01

a. The poverty lines at current prices are from Minhas and Jain (1990) and Minhas *et al.* (1991).

b. The consumer expenditure distributions at 1970-71 prices are obtained by deflating commodity-wise expenditures across expenditure classes with the respective commodity group price indices from Jain and Minhas (1991) and Tendulkar and Jain (1993).

Source: Suryanarayana (1997b).

Table 9. **Selected Indicators of Human Development for Major States**

State	Life expectancy at birth (years) (1989-93)	Literacy rate (per cent) (1991)			Infant Mortality Rate	Death rate (per thousand) (1995)	Birth rate
		Male	Female	Total			
Andhra Pradesh	60.6	55.13	32.72	44.09	66	8.3	24.0
Assam	54.9	61.87	43.03	52.89	77	9.6	29.3
Bihar	58.5	52.49	22.89	38.48	73	10.5	32.1
Gujarat	60.1	73.13	48.64	61.29	62	7.6	26.7
Haryana	62.9	69.10	40.47	55.85	68	8.0	30.0
Karnataka	61.9	67.26	44.34	56.04	62	7.6	24.2
Kerala	72.0	93.62	86.17	89.81	16	6.0	17.7
Madhya Pradesh	54.0	58.42	28.85	44.20	99	11.1	33.0
Maharashtra	64.2	76.56	52.32	64.87	55	7.4	24.5
Orissa	55.5	63.09	34.68	49.09	103	10.8	27.7
Punjab	66.4	65.66	50.41	58.51	54	7.3	24.7
Rajasthan	58.0	54.99	20.44	38.55	85	9.1	33.2
Tamil Nadu	62.4	73.75	51.33	62.66	56	7.9	20.2
Uttar Pradesh	55.9	55.73	25.31	41.60	86	10.4	34.7
West Bengal	61.5	67.81	46.56	57.70	59	7.7	23.6
All-India	59.4	64.13	39.29	52.21	74	9.0	28.3

Source: Government of India (1997c).

Table 10. Indicators of Human Development for Some Asian Countries, 1993

Country	Life expectancy at birth (years)	Infant Mortality Rate (per thousand births)	Adult literacy
China	68.8	44	80.0
Indonesia	63.0	58	82.9
India	60.8	74	52.2
Kerala State (India)	72.0	16	89.8
Malaysia	70.9	13	82.5
Philippines	66.5	43	94.2
Pakistan	61.8	89	36.4
Republic of Korea	71.3	11	97.6
Singapore	74.9	6	90.3
Sri Lanka	72.0	17	89.6
Thailand	69.2	36	93.6

Source: UNDP, *Human Development Report*, 1996.

Table 11. Trends in Literacy: Kerala and India

Year	Kerala			India		
	Male	Female	Rate of Literacy Total	Male	Female	Total
1901	19.15	3.15	11.14	9.83	0.60	5.35
1911	22.25	4.43	13.31	10.56	1.05	5.92
1921	27.88	10.26	19.02	12.21	1.81	7.16
1931	30.89	11.00	21.34	15.59	2.93	9.50
1941	—	—	—	24.90	7.30	16.10
1951	49.79	31.41	40.47	24.95	7.93	16.67
1961	54.97	38.90	56.85	34.44	12.95	24.02
1971	66.62	54.31	60.42	39.45	18.68	29.45
1981	87.74	75.65	70.42	46.62	24.73	36.03
1991	93.62	86.17	89.81	64.13	39.29	52.21

Source: Census of India and Kerala — various decadal volumes cited in Government of Kerala (1997b).

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Malaysia: Key Issues in Poverty Reduction Strategies

Chamhuri Siwar

Introduction

Malaysia has achieved a remarkable record of high and sustained economic growth along with success in poverty reduction (World Bank, 1993). A combination of factors, including strong commitment and vision of government towards poverty eradication, emphasis on growth and redistribution strategies, effective planning and implementation machinery, stable government and good governance explain this achievement.

We begin with the definition and incidence of poverty, before covering the special programme for the very poor as well as the gender dimension of poverty.

Definition and Incidence of Poverty

The absolute poverty concept is used to determine the poverty line income (PLI). The PLI is regarded as the monetary equivalent of expenditure sufficient to meet basic needs of shelter, food, clothing, energy, transportation, communication, education, health and recreation (Malaysia, 1996). Households with a gross monthly income below the PLI are considered poor.

The PLI is revised periodically to reflect changes in the cost of living or the consumer price index (CPI). Furthermore, since Peninsular Malaysia, Sabah and Sarawak have different average cost of living and household sizes, different PLIs are used for them, as shown in Table 1.

Table 1. **PLI for Selected Years, 1970–95**

Year	Peninsular Malaysia		Sabah		Sarawak	
	PLI (RM)	Household size	PLI (RM)	Household size	PLI (RM)	Household size
1970	180	5.4	—	—	—	—
1980	274	5.14	410	5.4	347	5.6
1990	370	5.14	544	5.36	452	5.24
1995	425	4.6	601	4.6	516	4.8

Source: Economic Planning, Unit, and various Five-Year Development Plans.

The origin of the concern for poverty eradication stems from the extreme poverty among the Malays or Bumiputeras (indigenous people). Poverty data by ethnic groups show the higher poverty incidence among the Malays compared to the Chinese and Indians (Table 2). The New Economic Policy (NEP) implemented during the period 1971–90 aimed at eradicating poverty irrespective of race. As can be observed, all ethnic groups had their poverty incidence dropping substantially over this period. The portrayal of poverty according to ethnic origin was discontinued after 1990.

Table 2. **Poverty Incidence by Ethnic Group, Peninsular Malaysia**

	1970	1976	1984	1987	1990
Malays	64.8	56.4	25.8	23.8	20.8
Chinese	26.0	19.2	7.8	7.1	5.7
Indian	39.2	28.5	10.1	9.7	8.0
Others	44.8	44.6	22.0	24.3	18.0
Average	49.3	35.1	18.4	17.3	15.0

Source: Various Five-Year Plans.

For planning and implementation purposes, poverty targets initially distinguished rural and urban groups. Within the rural sector, the target groups were further classified into rubber smallholders, padi farmers, coconut smallholders, fishermen, and estate workers (Table 3). However, these data series were discontinued after 1987 when the focus of policies shifted to the issues of hard-core poor.

Urban target groups were also identified as consisting of squatters, low cost flat dwellers, and residents of Chinese New Villages (created to resettle mainly Chinese residents to protect them from communist insurgencies after World War II). The government's greater concern was with eradicating rural poverty, due to its greater incidence and also its prevalence among the Bumiputeras.

Table 3. **Incidence of Poverty by Rural – Urban Strata for Peninsular Malaysia**
(percentage)

	1970	1976	1985	1990	1995
Rural	58.7	47.8	24.7	19.3	14.1
Rubber smallholders	64.7	58.2	42.7	–	–
Paddy farmers	88.1	80.3	57.7	–	–
Estate workers	40.0	–	19.6	–	–
Fishermen	73.2	62.7	26.1	–	–
Coconut smallholders	52.8	64.0	46.2	–	–
Urban	21.3	17.9	8.2	7.3	4.1
Total	49.3	39.6	18.4	15.0	9.1

Source: Malaysia (1981, 1986, 1991, 1996).

The incidence of poverty for the entire country has been significantly reduced from 49.3 per cent in 1970 to 9.6 per cent in 1995 (Table 4). Higher poverty incidences were reported for the rural sector, and in Sabah and Sarawak. Micro studies on poverty show that poverty is still prevalent especially in underdeveloped states and districts (Chamhuri Siwar, 1994a).

The incidence of urban poverty is relatively lower throughout, but is underreported as there is no separate PLI for the urban areas, although urban costs of living are higher by about 20 per cent.

From 1985, the incidence of hard-core poverty has been recorded. The hard-core poverty line is defined as half of PLI. This definition was introduced to enable a more accurate targeting of poverty reduction projects to more focused groups of hard-core or extremely poor.

The incidence of hard-core poverty was reduced from 6.9 per cent in 1985 to 2.2 per cent in 1995, following the implementation of the Development Programme for the Hard-core Poor (DPHP) since 1989. It is expected to be reduced further to 0.5 per cent by year 2000.

Poverty data by gender are lacking. Gender analysis on poverty is a recent phenomenon in Malaysia. In the past, poverty alleviation programmes have focused on heads of households who are mainly males. Women in poverty have only recently become the subject of research (Chamhuri Siwar, 1996a; Madeline and Shahadan, 1994; Jamilah, 1994a; Rahmah, 1996). However, concern for the role and status of women in poverty eradication programmes has been increasing. For example, the beneficiaries of the Grameen-type loan scheme under the *Amanah Ikhtiar Malaysia* (AIM) are almost exclusively (99.9 per cent) women.

Table 4. **Incidence of Poverty and Number of Poor Households by Region**

	Total	1985 Urban	Rural	Total	1990 Urban	Rural	Total	1995 Urban	Rural
Peninsular Malaysia									
Incidence of poverty (%)	18.4	8.2	24.7	15.0	7.3	19.3	9.1	4.1	14.1
Poor households ('000)	483.3	81.3	402.0	448.9	77.5	371.4	329.5	73.3	256.2
Incidence of hard-core poverty (%)	6.3	2.4	8.7	3.6	1.4	4.8	1.7	0.6	2.8
Hard-core poor households ('000)	165.6	23.8	141.8	107.3	14.9	92.4	61.3	10.6	50.7
Sabah									
Incidence of poverty (%)	33.1	14.3	38.6	34.3	14.7	39.1	25.6	8.5	33.0
Poor households ('000)	76.0	7.5	68.5	96.6	8.5	91.1	91.1	9.1	82.0
Incidence of hard-core poverty (%)	9.7	2.9	11.7	8.5	1.7	10.1	5.5	1.3	7.2
Hard-core poor households ('000)	22.3	1.5	20.8	24.7	1.0	23.7	19.4	1.4	18.0
Sarawak									
Incidence of poverty (%)	31.9	8.2	37.3	21.0	4.9	24.7	16.0	2.1	20.1
Poor households ('000)	90.1	4.2	85.9	70.9	3.1	67.8	64.9	1.9	63.0
Incidence of hard-core poverty (%)	10.0	1.7	11.9	3.3	0.6	3.9	2.0	0.3	2.5
Hard-core poor households ('000)	28.2	0.9	27.3	11.1	0.4	10.7	8.1	0.3	7.8
Malaysia Total									
Incidence of poverty (%)	20.7	8.5	27.3	17.1	7.5	21.8	9.6	4.1	16.1
Poor households ('000)	649.4	93.0	556.4	619.4	89.1	530.3	485.5	84.3	401.2
Incidence of hard-core poverty (%)	6.9	2.4	9.3	3.9	1.3	5.2	2.2	0.8	3.7
Hard-core poor households ('000)	216.1	26.2	89.9	143.1	126.8	126.8	88.8	12.3	76.5

Sources: Malaysia (1991a).

Macroeconomic Framework and Policies

*Growth and Structural Transformation of the Economy*¹

Malaysia has often been regarded as a showcase of successful economic development. From being a commodity producer and exporter of rubber and tin at independence in 1957, it has become an industrial producer and exporter. Over the period 1971–90, the Malaysian economy has been growing at an average rate of 6.7 per cent.

The year-by-year growth rates have fluctuated considerably between 11.7 per cent in 1973, and –1 per cent during the recession years of 1985 and 1986. The most remarkable achievement was the high and sustained growth of between 7.8 and 9.7 per cent over the eight consecutive years 1988–95.

Overall economic growth was associated with rapid growth of the manufacturing sector and a decline of growth of agriculture to 2 per cent (1995) and of its share in GDP. The service sector has remained the leading sector with its GDP share reaching 44.8 per cent in 1995 (Table 5).

Table 5. **Composition of Gross Domestic Product (GDP) by Industry**

Industry	1970	1980	1990	1995
Agriculture, forestry and fishery	29.0	22.9	18.7	13.9
Mining and quarrying	13.7	10.1	9.7	0.7
Manufacturing	13.9	19.6	27.0	32.7
Construction	3.8	4.6	3.5	0.4
Service	39.6	42.8	42.1	44.8

Source: Malaysia (1991b) ; Malaysia, *Economic Report 1994/95*, Ministry of Finance, Kuala Lumpur.

The transformation of the economy is also affecting the employment structure, with a decline in agriculture from 53.5 per cent in 1970 to 18 per cent in 1995, an increase in the manufacturing sector from 8.7 per cent in 1970 to 25.9 per cent in 1995, and in non-government services from 20.5 to 36.2 per cent over the same period. However, the government service sector saw its employment share decline from 15 per cent in 1985 to 11 per cent in 1995.

After independence, Malaysia embarked on a diversification and structural transformation policy. Agricultural diversification and modernisation processes increased incomes of the agricultural and rural population through improved agricultural productivity and marketability of crops, enhanced value added through marketing, retailing, transportation, storage, processing and vertical as well as horizontal integration.

Agricultural diversification and modernisation were accompanied by improvements in basic infrastructure and amenities (e.g. water, electricity, roads, health, education, food and nutrition, housing, etc.) and thus enhanced the welfare and quality of life of

the rural population. The economic transformation also brought about changes in the structure and composition of rural household incomes, with non-farm income forming a significant (up to 60 per cent) portion of household incomes (Chamhuri Siwar, 1994b).

Despite the general improvement in the quality of life of the rural population, the urban-rural disparity seemed to be widening with rapid economic growth. The challenge was to achieve an optimum balance between rural and urban development with a more equitable distribution of income and access to modern amenities and services. Towards this end, the Second Rural Development Transformation was formulated to include a shift from infrastructural development to human resource development, strengthening the family unit and well-being, developing effective delivery systems and rural institutions, and promoting active community participation.

The manufacturing sector is now considered to be the main engine of growth of the Malaysian economy. With rapid economic growth the redistributive process can take place through various poverty reduction and income redistribution strategies.

Market Economy and Role of Government

The Malaysian economy is essentially private-sector driven, with the private-sector component of the demand structure of the economy ranging between 71.8 per cent of GDP in 1960 to 75.9 per cent of GDP in 1991. Initially, government involvement was kept to the minimum but it increased significantly during the NEP period. The public-sector expenditure increased from 22.4 per cent of GDP in 1970 to 29.1 per cent of GDP in 1980. However, the global recession of the 1980s saw the government reducing its expenditure and involvement in the economy.

The NEP objectives of poverty eradication and restructuring of society led to the proliferation of agencies related to these objectives. While the market economy has contributed to rapid economic growth, government's pro-active intervention was required to ensure equitable income distribution and poverty eradication.

Faced with a financial burden due to the recession of the 1980s the government has been gradually withdrawing from the economy. Although budget cuts were imposed for federal development and current expenditures, poverty alleviation received a significant portion (between 22–31 per cent) of development expenditure. Expenditures for agriculture and rural development form the largest portion of anti-poverty allocation, however declining from a high of 29 per cent during 1971–75 to 11 per cent in the Seventh Malaysia Plan 1996–2000 (Table 6).

Structural adjustment programmes implemented since the mid-1980s brought a shift towards private sector-led growth. Government's role was reoriented towards providing support services and the necessary infrastructure and conducive environment for the private sector to flourish. Private sector spending and investments increased

Table 6. Development Expenditures by the Federal Government Related to Poverty Alleviation, 1966-2000
(Unit: Million RM)

Item	1MP (1966-70)		2MP (1971-75)		3MP (1976-80)		4MP (1981-85)		5MP (1986-90)		6MP (1991-95)		7MP (1996-00)*	
	Amount	%/(A)	Amount	% (A)	Amount	%/ (A)	Amount	%/ (A)	Amount	%/ (A)	Amount	%/ (A)	Amount	%/ (A)
1. Agriculture/Rural	1 114.0	26	2 127.0	29	4 443.0	21	6 246.0	16	7 127.0	14	8 470.0	15	7 566.0	11
2. Commerce/Industry	0.4	0	1.0	0	76.0	0	275.0	1	77.0	0	162.0	0	714.0	1
3. Social	4.2	0	13.0	0	781.0	4	1 157.0	3	2 332.0	5	3 044.0	6	1 579.0	2
4. Infrastructure	42.4	1	110.0	2	974.0	5	1 641.0	4	3 435.0	7	2 953.0	5	5 081.0	8
Anti-poverty total	1 161.0	27	2 251.0	31	6 274.0	30	9 319.0	24	12 971.0	26	14 629.0	27	14 940.0	22
Development total (A)	4 242.0		7 250.0		21 202.0		39 329.0		49 262.0		55 000.0		67 500.0	

a. Figures for 7MP are estimates.

Source: Various Five-Year Development Plans.

steadily and led to the revival and strong recovery of the economy in 1987 and thereafter contributed significantly to the rapid economic growth of about 8–9 per cent annually between 1988–95 (Lin, 1994).

At the close of the NEP in 1990, poverty had been significantly reduced from 49 per cent in 1970 to 17 per cent in 1990. The task of poverty alleviation in the 1990s, as outlined in the Second Outline Perspective Plan (1991–2000) (Malaysia, 1991b) shifted to the eradication of hard-core poverty. A special Development Programme for the Hard-core Poor (DPHP) was designed to be delivered directly to the hard-core poor by the various development agencies, by the private sector (providing financial assistance and skill and technical development) as well as by *Baktidesa* (Corporate Assistance for Rural Development). The NGOs are also involved, mainly through Grameen-type microcredit programmes implemented by the *Amanah Ikhtiar Malaysia* (AIM). In addition, various Poverty Eradication Foundations are being set up in several states to assist in poverty eradication programmes.

Growth with Equity

Colonialist development emphasised growth of certain urban, commercial, mining and plantation sectors, while neglecting the rural, smallholder agriculture and the food sectors. This resulted in serious inequalities and extreme poverty among Malaysia's multi-ethnic population, especially the Malays.

The racial riots of 13 May 1969 marked the watershed of Malaysia's development policy, with the subsequent NEP (1970–90) putting more emphasis on poverty eradication, economic restructuring, income and wealth redistribution. The NEP was introduced urgently to address the socio-economic problems related to extreme poverty (especially among the Malays), identification of race with occupation, and uneven distribution of incomes and wealth across sectors, regions, and ethnic lines (Lin, 1994; Zainal, 1994).

Malaysia's unique experience shows that there need not be a trade off between growth and equity. Malaysia achieved rapid economic growth during the NEP period, averaging about 7 per cent per annum during 1971–90. The slow and negative growth of the early 1980s was a global phenomenon, affecting not just Malaysia but also the world economy.

Along with rapid and sustained growth, Malaysia achieved significant success in terms of poverty alleviation as shown earlier (Tables 2–4). By international comparison, Malaysia's absolute poverty incidence is very low and is almost non-existent (Ahuju, *et al.*, 1997).

While absolute poverty could be nearly eradicated, the issue of reducing relative poverty or income inequality seems to be more difficult. Comparing 1970 and the years of 1989 and 1995, shows the Gini coefficient decreasing from 0.513 to 0.445 and 0.464 respectively, suggesting a narrowing of overall income inequality. Upon closer scrutiny, income inequality in fact increased slightly during 1970–76, decreased during 1976–89 and increased again from 0.446 to 0.464 between 1990 and 1995 (see Table 7).

Table 7. **Distribution of Household in Peninsular Malaysia**

Strata by income level	Income Share (in percentage)					
	1970	1976	1979	1984	1987	1989
Rural:						
Top 20%	51.0	54.5	53.2	49.5	48.3	n.a
Middle 40%	35.9	33.7	34.4	36.4	36.7	n.a
Bottom 40%	13.1	11.8	12.4	14.1	15.0	n.a
Gini coefficient	0.469	0.500	0.482	n.a	n.a	0.409
Mean household income (RM)	200	392	550	824	852	n.a
Median household income (RM)	n.a	262	369	596	629	n.a
Urban:						
Top 20%	51.9	55.9	55.6	52.1	50.8	n.a
Middle 40%	31.8	32.2	32.1	34.5	35.0	n.a
Bottom 40%	12.3	11.9	12.3	13.4	14.2	n.a
Gini coefficient	0.513	0.529	0.501	n.a	n.a	0.445
Mean household income (RM)	407	830	975	1 541	1 467	n.a
Median household income (RM)	n.a	495	600	1 027	1 004	n.a
Disparity ratio (U/R) of mean HH income	2.04	2.12	1.77	1.87	1.72	—
Overall:						
Top 20%	55.7	57.7	55.8	53.2	51.2	50.3
Middle 40%	32.9	31.2	32.4	34.0	35.0	35.2
Bottom 40%	11.5	11.1	11.9	12.8	13.8	14.5
Gini coefficient	0.513	0.529	0.508	0.48	0.456	0.445
Note:	Gini Coefficients after 1990 (overall):	$\frac{1990}{0.446}$	$\frac{1993}{0.459}$	$\frac{1995}{0.464}$		

Source: Malaysia (1996). Ishak and Ragayah (1995).

The overall distribution of household income showed an improvement with the share of the bottom 40 per cent of the population increasing (see Table 7).

The decrease in income inequality during 1976–89 may be attributed to various restructuring strategies of the NEP. After the NEP, a more liberalised and open economy and relaxation of the NEP provisions regarding special privilege and quota for Bumiputera may have contributed towards increasing income inequality after 1990.

Income disparity between the various ethnic groups generally showed a narrowing trend, (see Table 8), since the household income of the Malays grew at a faster rate than the income of the Chinese and the Indians. This may be due to various income-generating opportunities accorded to the Malays during the implementation of the NEP (1971–90). The income disparity between the urban and rural sector also narrowed

(see Table 7). However, a disturbing trend is the increase in the disparity ratio among various ethnic groups between 1990–95, which may be due to a more liberalised economy and relaxations in the quota system and special privileges for the Malays.

Table 8. Mean Household Income by Ethnic Group, Peninsular Malaysia
(Unit: RM, constant prices)

	1970	1976	1979	1984	1990	1995
Malay (M)	172	237	296	384	940	1 289
Chinese (C)	394	540	565	678	1 631	2 333
Indian (I)	304	369	455	494	1 209	1 735
Disparity ratio (C/M)	2.24	2.27	1.91	1.77	1.74	1.81
Disparity ratio (I/M)	1.77	1.56	1.92	1.27	1.29	1.35
Disparity ratio (C/I)	1.30	1.47	1.24	1.37	1.35	1.35

Source: Computed from various Five-Year Plans.

Table 9 summarises the various economic development and poverty eradication strategies and major programmes.

During the period of the First Malaysia Plan (1MP) (1966–70), poverty was implicitly alleviated by a package of rural development programmes. The poverty situation was serious, especially among the Malays in rural areas. Criticism about the lack of successful poverty alleviation programmes for the Malays culminated in the racial riot which occurred in May 1969. This riot brought poverty and inter-ethnic inequality into the spotlight.

The NEP was implemented from the 2MP (1971) up to the 5MP (1990). Broadly, the strategies under the NEP were aimed at generating employment, increasing incomes and productivity, improving the quality of life, and providing more opportunities designed to tackle poverty among paddy cultivators, rubber and coconut smallholders, fishermen, estate workers, agricultural labourers, residents of new villages, the urban poor and the poor in Sabah and Sarawak. Evidence shows that poverty had been significantly reduced by the end of the NEP.

The National Development Policy (NDP) was introduced to replace the NEP in 1991. The NDP, implemented in the 6MP and 7MP periods, still retains poverty eradication as an important objective, focusing on the eradication of hard-core poverty and the reduction of relative poverty. Although some strategies under the NEP such as employment generation, increase in income and productivity, and improvement in the quality of life continued under the NDP, poverty reduction strategies under the NDP focus more on human resource development, rural urbanisation and the development of non-farm employment.

Table 9. Summary of Growth and Poverty Eradication Strategies

Development Plans	Economic Development Strategies	Poverty Eradication Strategies	Major Programmes
1MP (1966–70)	Employment generation Reduction in under-employment Promotion of new economic activities Human resource development for effective participation in economic and social development Diversification: Reduction in dependence on rubber, expansion of timber, palm oil and manufacturing	Poverty tackled implicitly Increase in per capita income and consumption, especially of rural inhabitants Increase in productivity and income earning capacity Provide infrastructure, e.g. electricity, health, low-cost housing, transportation, etc.	Rural Economic Development Programmes, including Land development schemes By FELDA Land consolidation and rehabilitation schemes by FELCRA Irrigation and drainage Rubber replanting Coconut rehabilitation Modernisation of small-scale fishery and marketing system Revision of credit facilities
2MP (1971–75)	NEP: growth & redistribution Restructuring of society Stimulation of investment and consumption Promotion of export-led Industrialisation Employment generation through growth in key sectors Expansion of government activities	NEP explicitly recognised poverty as a core socio-economic problem Employment generation Increase in income and productivity Modernisation of rural life Improvement of living conditions among urban poor Reduction of inequality in income distribution Expansion of education and training facilities	Land development, consolidation and rehabilitation Provision of complementary inputs, infrastructure and services Modernisation of fishery through the provision of subsidies and facilities National rubber price stabilisation Employment expansion in manufacturing and construction sectors
3MP (1976–80)	Continuation of NEP Ethnic balance in employment through public enterprises Expansion of education and training facilities Establishment of trust funds for Malays Export-led industrialisation Further expansion of government activities, including in the economy	Targets of anti-poverty programmes clarified Improvement in welfare and quality of life for rural and urban poor Promotion of agriculture and industry for generation of income and employment Increase of Malays' participation in ownership and control of wealth in the modern sector	Irrigation and drainage for paddy cultivation Replanting for rubber smallholders Replanting, rehabilitation and inter-cropping for coconut smallholders Subsidised distribution of equipment and relocation for fishermen Improvement of basic facilities for estate workers and small-scale industries Special settlement schemes for agriculture labourers Promotion of labour-intensive small-scale industries for urban poor
4MP (1981–85)	Structural adjustment in government expenditure Structural transformation of the economy, resulting in diminishing role of agriculture and raising the contribution of manufacturing, construction, banking and financial sectors National Agricultural Policy (NAP) implemented to revitalise agriculture Downsizing of Government	Introduction of the concern for hard-core poor Employment generation in manufacturing and service sectors Improvement in productivity and income Revitalisation of agriculture by commercialisation	IADP Irrigation and drainage Rubber replanting Crop diversification and Livestock integration Modernisation of small-scale fishery Land rehabilitation, consolidation development schemes Provision of agriculture support services such as training, extension, research, credit, marketing, processing Dispersed industrialisation and building of new urban centres

Table 9 (end)

Development Plans	Economic Development Strategies	Poverty Eradication Strategies	Major Programmes
5MP (1986–90)	Efficient use of resources Minimisation of government assistance Privatisation Export-led manufacturing, Industrial Master Plan (IMP) Increase in domestic savings Promotion of foreign investment Revitalisation of the agriculture sector under the NAP	Increase in productivity and income Improvement in the quality of life Employment generation In manufacturing and service sectors	Group farming Rural urbanisation Establishment of rural growth centres Promotion of non-farm employment
6MP (1991–95)	National Development Policy (NDP) focusing on: Economic growth with equity Creation of Bumiputra Commercial and Industrial Community (BCIC) Reduction in social and economic inequality among ethnic groups Promotion of human resource development Regionally balanced industrial policies	Concentration on hard-core poor Reduction in relative poverty (bottom 40% of households) Minimisation of leakage and improvement in delivery system Generation of employment opportunities for low income groups Improvement in skills and productivity	Special package for the hard-core poor (DHP) Loan scheme by AIM IADP Land consolidation and rehabilitation Commercialisation of farms Linkages of rural with modern sectors Continued provision and improvement of facilities for the urban poor Employment opportunities in manufacturing, construction and other urban activities
7MP (1996–2000)	Continuation of the NDP Sustained economic development Shift from the input/ investment orientation to productivity-orientation Large-scale production for exports Increased investment in education and training Private sector-led growth with emphasis on privatisation	Emphasis on the hard-core poor Reduction in relative poverty Employment and income generation in the non-agriculture sectors Development of remote areas in the poorest states and districts	Special package of the hard-core poor (DHP) continued NGOs to complement governmental activities Participation of the private sector in poverty alleviation Better education and training for low-income groups Low and medium-cost housing for the urban poor

Source: Compiled from various Malaysian Five Year Plans.

Good Governance and Poverty Alleviation

Governance is defined as the manner in which power is exercised in the management of the country's economic and social resources for development (World Bank, 1992). There are basically, four components of governance, namely: i) public sector management ii) accountability iii) legal framework for development and iv) transparency and information.

Good governance implies open and enlightened policy making with sound economic management based on accountability, participation, predictability and transparency.

In Malaysia, good governance is reflected in improved public sector management, sound financial management and civil service reform. Greater participation of beneficiaries in planning and the development process is ensured through various "top-down" and "bottom-up" development administration mechanisms. Government's planning, budgetary allocation, implementation and monitoring are conducted through various multi-agency development, technical, and co-ordination committees at the federal, state, district and village levels. In these processes, greater participation of the beneficiaries, NGOs, local government and the private sector is ensured, along with greater transparency of information and predictability, through an effective delivery system and a co-ordinated institutional and legal framework.

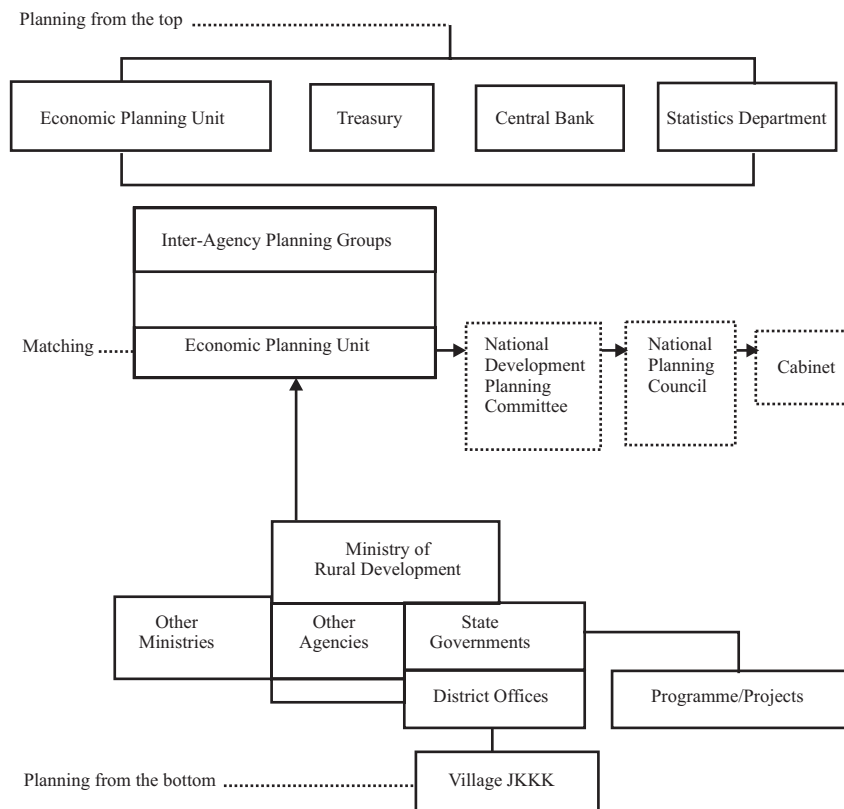
The planning process in Malaysia is a two-way interactive process between EPU on the one hand, and the line ministries and agencies on the other hand, as shown in Figure 1, which implies a "top-down" and "bottom up" process. Planning from the top, which is confined to setting macro-level parameters, is done in the context of the Inter-Agency Planning Groups (IAPGs), composed of the central agencies such as the EPU, the Treasury and Central Bank. The EPU also functions as the secretariat for each of the IAPGs. Planning from the bottom, on the other hand, essentially involves development plans of specific programmes and projects, which could come from the village, district and state development and planning committees.

Presently, the Ministry of Rural Development (MRD) co-ordinates the planning and implementation of poverty eradication programmes, especially the DPHP. The MRD is horizontally and vertically linked with other ministries and agencies through a committee system. Figure 2 describes the committees organised for the DPHP which started in 1989. The relevant ministries/agencies send a representative to the steering committee of each level to participate in an integrated approach to poverty eradication. For example, co-operation with the Ministry of Education is emphasised in the development of schools in rural areas; the Ministry of Agriculture plays the leading role in co-operation with the MRD on agricultural matters.

The Poverty Eradication Division was established in the MRD in 1995, taking over from the ICU the task of co-ordinating the DPHP.

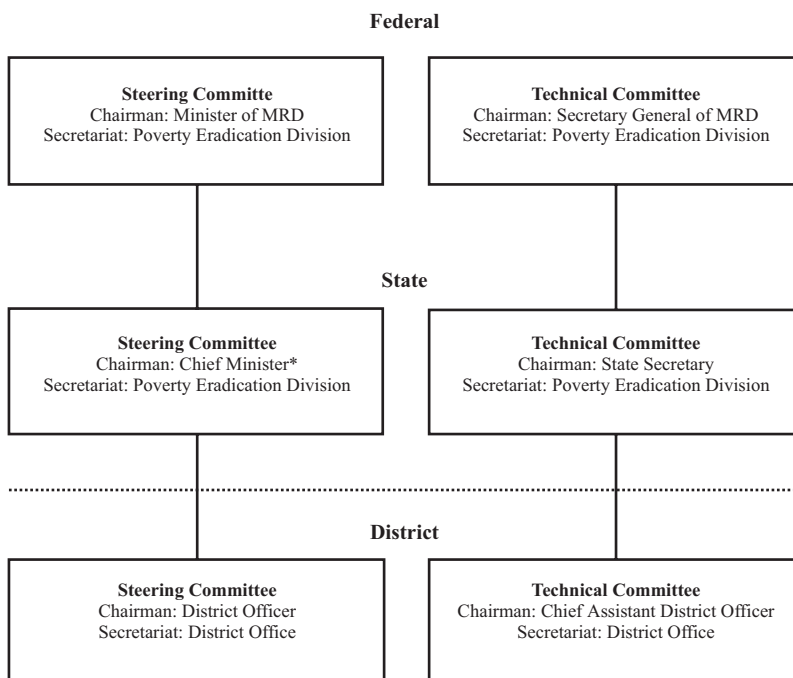
NGOs engaged in rural development complement governmental activities. A leading NGO is the *Amanah Ikhtiar Malaysia* (AIM) which participates in the steering and working committees of DPHP at the respective levels.

Figure 1. **Planning Process for Poverty Alleviation**



Source: Samsudin Hitam (1993), modified by the author.

**Figure 2. Committees for the Development Programme
for the Hard-core Poor (DHP)**



Note: *Chief Minister: Administrative head of the state.

In October 1995, the MRD set up a movement to encourage private sector involvement in rural development in a better planned, co-ordinated and continuous way. This movement is called BAKTIDESA (Corporate Assistance for Rural Development). By December 1996, 30 private companies manifested their intention to participate in BAKTIDESA. To ensure efficient management of the programme, the MRD has established a special secretariat for BAKTIDESA, promoting the participation of the private sector in rural development and poverty alleviation.

Gender and Poverty

Until very recently, gender-related poverty studies have been almost non-existent in Malaysia (Jamilah, 1994b). There is also a lack of women-focused programmes. Men have been the focus of poverty alleviation programmes which rely on the trickle-down process to extend benefits to poor women and their families. The failure of this process to improve the living standards of the majority of poor women calls for a specialised women-focused poverty alleviation strategy.

Husna and Mahfoz (1994) found that very few women were aware and participated in programmes offered by development agencies, although many of them are actively involved in farming and contribute significantly to household income. The study concluded that there was a need for gender-sensitive poverty alleviation strategies.

Women predominate as workers in the estate sector (Susan and Oorjitham, 1994). Nevertheless, women form the economically most disadvantaged category, characterised by low wages and poor living conditions. Therefore, women as a sub-category of the estate labour force should be targeted by specific programmes of change.

Madeline and Shahadan (1994) found that female-headed Households (FHH) had the highest poverty incidence and a lack of skills which limits their opportunities to break free from the vicious circle of poverty.

A recent paper (Nor, 1997) highlights poverty among FHH in selected urban areas in Peninsular Malaysia and concludes that the urban informal sector provides ample opportunities for FHH to improve their socio-economic status and escape the poverty trap.

While poverty alleviation programmes are generally targeted at and benefit the heads of households who are mainly males, there also exist women-focused poverty alleviation programmes. One microfinance programme, *Ikhtiar Loan Scheme*, introduced as a pilot project in 1986 proved successful, and was replicated and expanded throughout the country. It is now almost exclusively targeted at female beneficiaries. ILS is now institutionalised and recognised as a successful poverty eradication programme, delivered through an NGO known as AIM, which receives institutional and financial support from government in terms of interest free loans.

The impact study of the pilot project in the state of Selangor (Gibbons and Sukor, 1990) revealed that women beneficiaries generally felt the burden of poverty more closely, were more successful, trustworthy, followed the scheme fully and had a higher repayment rate than men. When the ILS was expanded to cover the poorest districts and villages throughout the nation, it was decided that the ILS will be exclusively targeted at women, although in most cases the loans are utilised by the household.

The ILS proves to be a successful replication of a Grameen-type microfinance programme for poor women. It has expanded rapidly from 909 beneficiaries in 1989 to 39 401 by end 1995. At that time, 81.2 per cent of the first time borrowers (ILS1) were still considered poor, while 18.3 per cent who were on ILS 2 and ILS 3 were considered to have “graduated” to non-poor categories. The scheme had a repayment rate of 99.6 per cent (Chamhuri Siwar, 1996*b*).

The government is aware of the need for more women-focused development programmes. Several mechanisms were instituted, including:

- i)* the National Council on Integration of Women in Development (NACIWID) in 1976 to provide policy guidelines for the participation of Women in Development (WID);
- ii)* the Secretariat for Women Affairs (HAWA) in 1983 to serve as a national focal point for women’s affairs;
- iii)* the National Policy for Women (NPW) in 1989 to ensure gender equality and integration of women in all sectors of development.

In addition, many NGOs and professional groups are working to improve the situation of women, on issues such as raising the status of women, equal pay for equal work, rights for divorced women, violence against women, etc. About 40 NGOs and professional groups are affiliated to the National Council of Women Organisations (NCWO).

In recognition of the women’s role in development, a special chapter on WID appeared in Malaysia’s Five Year Development Plans beginning with the Sixth Malaysia Plan (Malaysia, 1991*a*). The 7th plan (Malaysia, 1996) promises continuing efforts to address women’s concerns and to review and remove all legal and institutional constraints that inhibit women’s active participation in the development process.

Meanwhile, there has been significant improvement, including greater participation in the economy and labour market, improved access to education and health, made possible through more gender-sensitive development programmes, new opportunities for women as a result of rapid growth in the economy and a more conducive legal and institutional framework.

Various legal, institutional and fiscal support mechanisms have been instituted to encourage more women to join the job market, including tax exemptions for the establishment of child-care centres, provision of training for small business and entrepreneurial development and provision of hostel facilities for female rural-urban migrants.

There have also been improvements in occupational mobility of women. Women have made advances into higher-paying jobs, with the proportion of women in professional and technical, as well as administrative and managerial occupational categories increasing respectively from 9.4 per cent (1990) to 13.5 per cent (1995) and 0.6 per cent (1990) to 1.9 per cent (1995). In the public sector, there are no gender differences in pay for the same job. In the private sector, male-female wage differentials exist, but these differentials are narrowing, particularly in the labour-intensive industries. For example, in the electronics industries, where women are well represented, female earnings as a percentage of male earnings increased from 82.7 per cent in 1990 to 92.5 per cent in 1995 (Malaysia 1996).

The educational attainment of women in Malaysia has improved tremendously with equal access to educational opportunities, as well as social and economic advancement. Female enrolment in primary and secondary levels now accounts for about 50–52 per cent of total enrolment. Female intake into universities increased to 49.5 per cent in 1994, compared to 37.2 per cent in 1990. Yet, adult female illiteracy is still relatively high at 22 per cent in 1995, compared to 11 per cent for males.

The prospect for further advancement of women in the future is bright, with improved educational, health and socio-economic status of women. The strategic thrusts for further advancement of women for 1996–2000 include:

- i) promoting greater female participation in the labour market through more flexible working arrangements and support facilities;
- ii) providing opportunities for upward mobility in the labour market through more educational and training improvement;
- iii) improving the health status of women further;
- iv) strengthening the institutional capacity for the advancement of women, reviewing laws and regulations that inhibit the advancement of women;
- v) operationalising the action plan of the National Policy for Women;
- vi) forging closer linkages at the international level for the advancement of women.

Summary and Conclusion

Malaysia's success in poverty alleviation has been achieved through several factors, including strong commitment of the government towards poverty alleviation, balanced growth with redistribution strategies, effective planning and implementation machinery and good governance.

Overall, the incidence of poverty has been significantly reduced from 49.3 per cent in 1970 to 9.6 per cent in 1995. Poverty incidence is now confined to "pockets of poverty" especially among the hard-core or extremely poor, mainly in remote and underdeveloped rural areas of Peninsular Malaysia, Sabah and Sarawak. Hence, the focus of poverty alleviation is presently on eradicating hard-core poverty through a special development programme for the hard-core poor (DPHP).

Rapid and sustained economic growth and the transformation of the economy have contributed to the significant reduction in the poverty incidence. The market economy with a vibrant private sector is the main engine of growth, transforming the economy from a primary producer and exporter to an industrial manufacturer and exporter.

The role of the government is essentially the provision of public services and the facilitation of the smooth functioning of a growing economy. However, government involvement increased significantly during the implementation of the NEP (1971–90), to ensure that the two-pronged objectives of poverty eradication and restructuring of society were met. The implementation of the NEP objectives led to the proliferation of agencies and NFPEs. While the market economy has contributed to rapid economic growth, the government's pro-active intervention has been required to ensure equitable income distribution and poverty eradication.

The recession of the 1980s and the twin budgetary and balance of payment deficits, led to the gradual withdrawal of the government from the economy, overall budget cuts, downsizing of government employment, and corporatisation and privatisation of agencies. However, rural development and poverty eradication continue to receive significant allocations, while the delivery system was made more efficient with streamlining and better co-ordination of agencies and a package of projects/programmes for DPHP.

A balanced strategy combining growth and equity has been emphasised throughout the development plans. The assumed trade-off between growth and equity objectives did not materialise. While absolute poverty could be eradicated, except for the category of the hard-core poor, the issue of reducing relative poverty or income inequality seems to be more difficult. The NDP (1991–2000) which replaces the NEP retains the growth with equity objectives, focusing on the eradication of hard-core poverty and the reduction of relative poverty.

Good governance is reflected in improved public-sector management, sound financial management, civil-service reform, sound planning and implementation machinery and an effective delivery system. Good governance also implies open and enlightened policy making with sound economic management based on accountability, participation, predictability and transparency. In relation to the poor, good governance can be seen in government's commitment towards poverty alleviation in all aspects of planning, implementation, monitoring, budgetary allocation, ensuring effective representation and participation of beneficiaries, and effective co-ordination at federal, state, district and village levels, essentially through "top down" and "bottom-up" processes.

Finally, the once neglected issue of gender in poverty alleviation is increasingly getting attention from policy makers and researchers. Gender sensitive indicators of poverty and programmes for the advancement of women in social and economic development are now taken into account in development plans.

Greater participation of the NGOs and of the private sector also indicates that poverty eradication is not just the concern of government, but also the moral responsibility of a caring and just society.

Note

1. This sub-section draws heavily on OECF (1997) of which the present author is one of the co-authors.

Acronyms

1MP	First Malaysian Plan (1965–70)
2MP	Second Malaysian Plan (1971–75)
3MP	Third Malaysian Plan (1976–80)
4MP	Fourth Malaysian Plan (1981–85)
5MP	Fifth Malaysian Plan (1986–90)
6MP	Sixth Malaysian Plan (1991–95)
7MP	Seventh Malaysian Plan (1996–2000)
AIM	Amanah Ikhtiar Malaysia
APDC	Asia Pacific Development Centre
BAKTIDESA	Corporate Assistance for Rural Development
CPI	Consumer price index
FELDA	Federal Land Development Authority
FHH	Female-headed households
GDP	Gross domestic product
HAWA	Secretariat for Women's Affairs
ICU	Implementation Co-ordination Unit
ILS	Ikhtiar Loan Scheme
IMP	Industrial Master Plan
INTAN	National Institute of Development Administration
IRPA	Intensified Research in Priority Areas
MRD	Ministry of Rural Development
NACIWID	National Council on Integration of Women in Development
NCWO	National Council of Women Organisation
NEP	New Economic Policy
NFPE	Non-Financial Public Enterprise
NGO	Non-governmental organisation
NPW	National Policy for Women
OECD	Organisation for Economic Co-operation and Development
OECF	Overseas Economic Co-operation Fund (Japan)
PLI	Poverty line income
RED	Rural economic development
WID	Women in Development

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Key Issues for Poverty Reduction Strategies in Uganda

Fred Opio

Introduction

Most economic indicators for Uganda show impressive performance (sustained high GDP growth rate, low inflation, stable exchange rates, etc.) while the number of poor people has not declined. In effect, poverty is believed to have increased in the north and north-eastern regions of Uganda, although there are insufficient trend data to measure such an increase explicitly. There is, however, fairly strong evidence to suggest that the last two decades and a half have seen a further deterioration in the social welfare of the population, many of whom are poor.

Between 1981 and 1984, the economy grew on average by about 2.6 per cent and recorded a significant trade surplus (Table 1). Intensified political turmoil from late 1984 to early 1986 plunged the economy into a chaotic situation. Inflation gyrated back to triple digits, the exchange rate sharply depreciated, compounded by increasing corruption and misappropriation. The sudden economic decline reversed earlier gains to such an extent that even some economists remained doubtful about the efficacy of any structural reform programmes.

However, after some serious misgivings about the economic reform process as inspired by the World Bank and IMF, the current government gradually appreciated the potential virtues of economic stabilisation and structural reforms. The principal aims of the 1987 Strategic Adjustment Programme (SAP) — supported by the Economic Recovery Programme (ERP), Structural Adjustment Credits (SAC) and Structural Adjustment Facility (ESAF) — were as follows:

- i) to rehabilitate the economy and promote growth;
- ii) to stabilise the economy and reduce inflation;
- iii) to terminate the balance of payments crisis.

Table 1. Uganda's Economic Performance

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP per capita \$	159.0	166.0	151.0	149.0	147.0	152.0	158.3	163.7	167.8	160.8	173.7	178.9	189.6	202.3
GDP per capita growth %	5.5	3.5	-6.3	-1.5	-1.6	3.8	4.1	3.4	2.5	2.3	0.9	3.1	6.1	6.7
Gross domestic savings (% GDP)	-1.43	-3.90	-6.20	-7.01	-8.40	-12.7	-9.80	-6.20	-5.70	-2.50	-1.60	-1.4	-0.1	-0.67
Private investment (% GDP)	9.17	9.94	3.21	4.90	6.00	6.90	4.80	5.00	6.6	7.6	7.7	8.8	9.2	11.3
Trade balance (\$ million)	+22.1	+26.7	+78.2	+62.3	+43.1	-249.5	-231.7	-280.1	-361.0	-326.7	-367.9	-468.3	-596.4	-571.3
Balance of payments (\$ million)	-	+3.0	-25.0	+31.0	+100.7	-134.1	-282.7	-229.0	-276.4	-187.4	-131.5	-96.3	-67.0	
Exports as % GDP	8.2	7.8	8.9	6.9	8.3	7.7	7.3	7.3	7.3	6.4	7.2	6.2	8.6	7.5
Accumulative external debt (% GDP)	67.0	50.0	62.2	44.1	56.2	59.1	73.7	92.1	115.0	90.7	80.6	66.1	65.0	—
Revenue tax (% GDP)	1.0	7.0	3.2	4.0	6.4	5.7	6.1	6.6	6.2	7.4	6.7	7.1	10.7	11.2
Expenditure (% GDP ^a)	5.0	11.0	11.0	12.0	10.5	11.9	12.3	12.6	12.6	14.4	19.9	21.0	17.9	18.4
Inflation rate %	249.3	141.8	164.5	164.5	135.6	232.8	164.5	74.5	26.1	32.4	64.3	9.2	6.9	7.8

a. Based on fiscal years

Sources: Government of Uganda (1995a).
Government of Uganda (1995b).
World Bank (1995).
Economic Policy Research Centre (1995). Research data bank.

Strategically, these objectives were to sustain economic growth at around 5 per cent per annum, restore fiscal and monetary discipline and reduce inflation, reduce balance of payments deficits and generate foreign exchange reserves in excess of four months of import requirements, rehabilitate the major economic sectors and generate sufficient resources to achieve major priority objectives.

Poverty reduction was prominently absent from these strategic objectives, but it was widely believed that the trickling-down process as the economy stabilises would ultimately reduce poverty. As this has not been the case, the government has now begun to grapple with worsening poverty problems.

Visibility of Poverty

Based on social indicators such as life expectancy, infant mortality, access to health, sanitation, illiteracy, nutritional status etc., poverty conditions appear to have worsened in Uganda (Table 2).

Table 2. **Major Social Indicators**

	1971–75	1976–80	1981–85	1986–90	1991–95	1996–2000 (Projected)
Life expectancy (years)	50.1	48.7	48.3	47.7	45.3	39.6
Infant mortality/1000	108.4	115.5	115.5	120.2	116.0	96.0
Av. annual school enrolment (million)	n.a.	n.a.	2.11	2.60	2.83	3.55
School drop-out rate %	—	—	—	—	43.7	17.5
Maternal death rate per 10 000	366	401	472	523	507	395.5
Index of per capita food production (1979=100)	127.8	115.0	102.2	108.6	109.5	112.6

Source: World Bank, *World Development Report*, various issues.
UNDP, *Human Development Report*, various issues.

The 1970s and early 1980s saw radical political, social and economic changes that reversed all socio-economic progress achieved since independence. Civil strife and human rights abuses during this period resulted in significant loss of life, human displacement, and have bred all forms of poverty. The most severe form is “despondent poverty”, where the poor are deprived of all the means of earning a living. This group form the “absolute poor” who have constituted up to 10 per cent of the population (Table 3). The “head count index” suggests that about 90 per cent of Uganda’s poor live in rural areas.

The incidence and severity of poverty in Uganda is best viewed in the manner in which the poor perceive their condition. Most poor describe their condition as powerless and helpless, signified by lack of assets, alienation from the community and inability to meet basic needs.

Table 3. Changes in Poverty Indicators (Head Count Measures)
As Percentage of Total Population

	Rural		Urban		Uganda	
	Poor	Non-Poor	Poor	Non-Poor	Poor	Non-Poor
(a) Relative poverty						
1989-90	37.9	62.1	14.3	85.7	34.8	65.2
1992-93	43.0	57.0	8.6	91.4	38.1	61.9
1993-94	46.6	53.4	6.6	93.4	40.6	59.4
1994-95	40.1	59.9	7.8	92.2	36.3	63.7
(b) Absolute poverty						
1989-90	11.3	88.7	2.7	97.3	10.2	89.8
1992-93	10.8	89.2	1.2	98.8	9.4	90.6
1993-94	10.4	89.8	0.5	99.5	8.7	91.3
1994-95	6.9	93.1	0.8	99.2	6.2	93.8

Source: Department of Statistics, Monitoring Surveys Reports, various issues.

Over 40 per cent of the rural households are poor, against 8 per cent in urban areas (Table 3). Over 70 per cent of small landowners are among the poor. The following factors characterise poverty in Uganda:

- i) large family (household) size;
- ii) gender;
- iii) small landholding;
- iv) geographical location (regions/districts);
- v) educational background;
- vi) occupation.

Poverty is particularly severe among female headed households, orphans/street children, displaced persons, handicapped and widows.

Female-Headed Households and Widows

In 1990 about 20 per cent of households were female headed and this proportion had increased to 25 per cent by 1996 (various Monitoring Surveys, 1996). The number of female-headed households is expected to increase further given the incidence of HIV/AIDS, divorce and civil strife in the Northern and Southern parts of the country. Widowed and divorced women are often deprived of household property and sometimes evicted from their homes, making them unable to meet basic needs.

Table 4. **Distribution of Labour Force by Sector and Sex**

	Labour Force Categories (percentage)		
	Male	Female	Total
Total	53.6	46.4	100
Agriculture	39.3	40.3	79.6
Industry	2.8	0.4	3.2
Services	11.2	5.3	16.5
Unemployed	0.4	0.3	0.7

Source: THS 1992/93.

Orphans, Street Children and Displaced Persons

In the 1990/91 census, 10 per cent of the children below the age of 15 years were classified as orphans, mainly due to the HIV/AIDS epidemic and civil war. The number of households headed by a minor is increasing rapidly, as dependency ratios grow beyond manageable levels. Such children are often advised to maintain their property rather than move to live with relatives who may misappropriate their few remaining assets.

Street children also form a sizeable proportion of the poor. Parental neglect and change in marital status often force children to leave home in search for survival. In addition, children are sometimes sent by poor parents or guardians to earn a living or beg for the family. In 1993, 37 per cent of the street children were totally on their own and slept on the streets while the rest remained in contact with their guardian or parent (New Vision, 1994).

The Handicapped

The breakdown in health care, especially lack of immunisation programmes and civil strife are the main causes of the increase in the numbers of the disabled. The National Union of Disabled People in Uganda (NUDIPU) and the 1990/91 population census suggested that 15–17 per cent of the population were disabled. But this excludes those mentally or emotionally disabled due to traumas caused by civil wars.

Landless Peasants

While it is difficult to determine the number of landless persons in Uganda due to the migratory nature of some ethnic groups, land shortage in some parts of the country and the systems of land tenure have created landlessness in many parts of the country. In a participatory poverty assessment survey landlessness was ranked by peasant farmers among the top five poverty issues (Opio, 1996). The study also established that among the poor, the average plot size for a family of eight in many densely

populated areas was less than one acre (0.31 ha) and yet most families do not want to move away from their villages for fear of losing the safety nets provided by the extended family system (Opio, 1996).

Regional Disparity

The northern and the eastern regions have consistently been regarded as the least developed and most poverty ridden. The unending civil strife in the North and the difficult conditions in which the majority of the population of these regions live confirm their suffering and poverty problems. The regular cattle rustling in the north and eastern regions by the Karamojongs has caused migration to safer locations but also loss of assets and land. District officials in those areas have identified victims of cattle rustling as the most desperate and vulnerable to famine and starvation; a large proportion of displaced families live in dire poverty in the towns of Lira and Soroti in northern and eastern Uganda respectively.

Gender and Poverty

Gender and poverty are interlinked in Uganda since men and women play different roles, have different needs and face different constraints in responding to economic and social changes and incentives (World Bank, 1993). These differences arise from fundamental imbalances in rights and obligations between the two groups, in particular rights of control over resources.

In analysing gender differentiation and poverty in Uganda, it is important to emphasise three factors that limit the analysis: first, the great diversity of situations makes generalisation difficult, because responsibilities of men and women vary according to cultural and ethnic differences; second, changing survival strategies through reliance on sale of food crops to meet household needs; and, third, disaggregated data on gender issues are lacking.

Women play multiple roles in the household and in agriculture with hardly any remuneration. They constitute about 40 per cent of total agricultural labour and produce 80 per cent of the household food, often using rudimentary technology. Men provide less than 40 per cent of the agricultural labour and benefit from the income of such labour since they control the cash-based household economy. Yet women are increasingly becoming responsible for income generation for household cash purchases. It is estimated that up to 30 per cent of women with children in school pay part or all of the required school fees.

The work load of women tends to be higher than that of men. The 1992/93 Integrated Household survey indicated that women work on an average of 15 hours per day, compared to some 8 hours for men.

As a result, women's health status is generally poor as illustrated by the high morbidity rate of 76 per cent (1992/93 Integrated Household Survey, and World Bank, 1993). This has particular significance when viewed in conjunction with the high fertility rate of 7.3 live births. The poor health of women has a direct effect on family health, and this is compounded by a low level of education (43 per cent illiteracy) which in turn affects health, nutrition and hygiene negatively.

Government Commitment and Vision for Poverty Reduction

Concerns about the impact of the Structural Adjustment Programme (SAP) on the poor have led to the introduction of several. These programmes included:

- i) The Programme for the Alleviation of Poverty and Social Cost of Adjustment (PAPSCA);
- ii) Poverty Alleviation Project (PAP);
- iii) Universal Primary Education (UPE);
- iv) Programmes initiated by NGOs and donors.

Most of these programmes focused on the rural sector and on marginalised groups (women, children, orphans, widows, disabled, rural poor etc.), but have had little impact on poverty (Opio 1996).

Impact of Government Programmes on Poverty

Surveys of poor communities and households have established that apart from PAPSCA, most government programmes were not rated highly by the community or households (Table 5). Both the communities and households felt that community-based organisations (CBOs) and women's groups made little impact on poverty reduction. Instead, individual effort was considered to be one of the factors contributing most to poverty reduction. This seems to suggest that most households prefer independent, individual approaches to improving their poverty conditions to working as a group. While this does not contradict the community participation concept as a poverty reduction strategy, it suggests that community participation should be treated as complementary to individual efforts.

Up to 1995, the principal programme for poverty alleviation in Uganda was PAPSCA. Although it has been rated as relatively successful in achieving its objectives, several problems of implementation weakened its potential as an effective mechanism for poverty reduction:

- insufficient resources to support a variety of programmes;
- targeting of programmes favouring urban areas (58 per cent) over rural areas (42 per cent);

Table 5. Impact of Government Programmes under SAP on Poverty Reduction

Programmes	Households Rating ^a (percentage)	Community Rating ^a (percentage)
SAP	52.5	65.5
PAPSCA	77.2	74.7
PAP	36.7	50.0
NURP	40.5	32.7
ENTANDIKWA	42.2	42.8
NGOs	54.6	52.0
CBOs	14.6	23.7
Women's Group	16.0	17.8
Individual Effort	63.0	61.3

a. Represent proportion of population/community that ranked the respective programme as effective.

Source: Economic Policy Research Centre (1996). A survey of household living conditions.

- delayed decentralisation of decision making resulting in delayed implementation, and use of a large proportion of resources for institution building with long term benefits yet to be realised.

In recent years, there has been a greater awareness of the need to incorporate poverty reduction programmes in the reform process. When the Government of Uganda, NGOs and development partners expressed willingness to participate in various poverty eradication programmes in 1995, the Government of Uganda decided to develop a Poverty Eradication Action Plan which was unveiled in July 1997.

Uganda's Vision for Poverty Reduction

The Action Plan establishes the policy framework for the eradication of poverty over the next two decades. It is intended not to substitute sectoral plans, but to prioritise public actions across various sectors through a participatory approach.

The economy has responded very well to stabilisation and structural reform measures, but the impact on poverty has been marginal. The best way to remove people from poverty is not to give them handouts but to encourage and facilitate households to earn decent incomes to improve the quality of their lives. In moving towards this national aspiration, government has adopted the following pro-poor poverty eradication strategies:

- maintaining and consolidating the existing macroeconomic policy in order to keep the economy on the growth path, while providing the requisite economic incentives to enable the poor to participate in the growth process. This could be achieved by encouraging community participation and targeting poor communities to benefit from rural financial support schemes, revolving credit schemes, risk sharing and contract financing;

- making economic growth sufficiently broad-based to encompass the poor by focusing public expenditure on increasing economic opportunities particularly in agriculture;
- providing basic social services to the masses;
- building national capacity to facilitate adequate and quick response to economic problems and disasters; and
- building a secure, democratic, just and tolerant political order that would promote transparency and accountability.

Macroeconomic Policy and the Institutional Framework for Poverty Reduction

In order to address major economic constraints, the government is committed to sustainable macroeconomic policy strategies, namely:

- reform of the existing tax structure (system) to broaden the income tax base, reduce the anti-export bias and phase out discriminatory administrative tax measures and make taxes more progressive;
- prudent debt management to achieve a significant reduction in the debt burden and ensure effective utilisation of external resources;
- provision of a policy and regulatory infrastructure and incentives conducive to attracting investment into rural areas generally and poorer regions in particular.
- efficiency of public expenditure with focus on poverty reduction initiatives.

Public expenditure will be targeted at poverty reduction by focusing on basic services which the poor use. This will be promoted by *i)* progressively increasing the share of recurrent expenditure allocated to the provision of basic services from 23 per cent to 50 per cent of total resources, *ii)* adequate incentives for officers to move to more remote districts, and *iii)* by prioritising infrastructure in the poorest parts of the nation. The government will pursue the introduction of national minimum standards in each sector by district to guide the planning and mobilisation of resources for the services demanded at the grassroots.

Effective utilisation of existing resources is a major thrust of this action plan. This will be achieved through *i)* development of partnerships with communities, NGOs and the private sector in poverty eradication initiatives; *ii)* appropriate reallocation of resources by fully implementing decentralisation in every ministry in pursuit of efficiency and savings in all sectors; *iii)* budgetary reform; *iv)* development of a small, efficient and well motivated civil service; *v)* transparency in fund disbursement to make diversion of funds more difficult.

Institutional Framework for Poverty Eradication

An institutional arrangement involving clearly every key player is a prerequisite for an effective poverty eradication initiative. With respect to the provision of basic social services, rural infrastructure and production services, the government recognises the need to have in place institutions whose roles are clearly defined and which are capable of delivering services to the people efficiently and in an affordable manner.

The strategy is to eliminate disparities in the geographical distribution of feeder and other rural roads; to improve feeder roads to all-weather standards in all districts; to build the capacity of district administrations in road construction and sustainable maintenance and to promote local constructors in road works as well as labour-intensive technology.

Land

Most Ugandans derive their livelihood directly from the land. This is certainly true of the rural population where the incidence of poverty is highest. However, access to land and its sustainable use remains a critical issue in the eradication of poverty. Many smallholders do not have secure ownership rights over land beyond communal rights of tillage and grazing. Land in rural areas is hardly accepted as collateral for credit. Women generally do not have secure rights over land. The policy strategy is to entrench the rights of all Ugandans to land; and utilise land sustainably to eradicate poverty. Accordingly, the government will pursue the following main policy objectives:

- to enact a land law which gives rights over land to all citizens, including women, widows, orphans and children;
- to provide the poor with free legal counsel in litigation over land;
- to promote sustainable utilisation of land to support existing and future generations. In this regard, the Ministry of Agriculture is to promote the adoption of soil conservation and environmentally friendly agricultural practices; and encourage land consolidation, given that land fragmentation is a serious problem in many parts of Uganda.

Agriculture and Food Security

Agriculture is the engine of poverty reduction because it generates incomes as well as productive employment for the poor and is a source of food security. The policy strategy on modernisation of agriculture emphasises the exploitation of the full potentials of the sector, in pursuit of the following policy objectives:

- to develop a sustainable extension service reaching all rural households;
- to promote the adoption of modern technologies e.g. by introducing draught animal power, hybrid seeds and irrigation, in an effort to increase production and productivity;

- to rehabilitate the requisite infrastructure: rural feeder roads, rural markets, and storage facilities;
- to encourage the provision of credit and market information to farmers;
- to remove fiscal measures which are harmful to agricultural production and trade.

Markets

The development of the rural market is central to the government's overall strategy for modernisation of the rural economy. Government will promote partnerships with local authorities, the private sector and local communities in the pursuit of the following policy objectives:

- provision of sites for rural markets;
- building multi-purpose infrastructure with market stalls, platforms, sheds, basic amenities and storage facilities;
- introduction of the use of standardised weights and measures in rural markets; and
- facilitation of the collection and dissemination of information about commodities and their prices.

Employment and Labour Productivity

In an effort to reduce poverty, the government strategy of improved labour productivity and increased employment creation will promote the following actions:

- tripartite consultations between the government, employers and workers to ensure good industrial relations;
- partnerships with the private sector in the development and financing of pre-service and in-service training, as well as vocational and technical training programmes;
- low-cost adult functional literacy programmes and special training programmes for women and the disabled;
- formulation of a national employment policy and updating of the Workman Compensation Act.

Rural Credit and Financial Services

The fragile and weak financial sector poses a major challenge to the government's efforts to develop the rural economy. There is a lack of rural banking services, and the poor have no access to credit from formal banking institutions which require terms and conditions the poor cannot meet.

The government's major objective over the plan period is to promote the growth of microfinance institutions, so as to provide effectively credit and other financial services to the poor.

Micro and Small-scale Enterprises (MSEs)

MSEs can contribute to poverty reduction by generating employment and income. The government recognises that the sector is currently operating under serious legal, institutional and entrepreneurship constraints. The main thrust is to:

- promote the provision of well serviced physical facilities;
- provide access to credit and training services;
- develop appropriate legal, policy and regulatory frameworks; and
- promote occupational safety at the work place.

Health Care Services

Adequate and affordable health services for the poor improve their life expectancy, increase their labour productivity and consequently their incomes. Currently, health indicators suggest that malnutrition as well as child and maternal mortality are still major concerns. Access to health services is restricted in terms of distance and cost of services. Publicly supplied services are constrained by inadequate availability of drugs and medical staff.

The government aims to consolidate existing services and to reorient services and resources towards primary health care, transforming the health system from being curative to being preventive. Primary health care services for the poor will be promoted through *i*) subsidies on both health care service in rural communities and costs of treating highly communicable diseases, *ii*) increased resource allocations to favour poorer districts.

Water

Clean water supply is essential for the health of the population and for improving the quality of life. Only 33 per cent of the rural population have access to safe drinking water within five km of walking distance. The government will continue to pursue the strategy to provide safe drinking water on a sustainable basis for the people and animals in an effort to reduce or eliminate the incidence of water borne diseases. Emphasis will be placed on community-based and demand-driven approaches; use of appropriate and low-cost technology as well as promotion of partnerships with NGOs, the private sector and development partners to increase coverage and reduce duplication of effort and waste of resources.

Education

Primary education still suffers from low enrolment and completion rates of just 69 per cent and 32 per cent respectively. Adult illiteracy is greater among women than men and is twice as high in poorer rural areas than it is in towns. The policy objective of the government is to achieve universal primary education and to fund support for tertiary education. The strategy is to finance up to four children per family. The challenge is to implement the programme without adversely affecting the quality of education, and to build capacity to absorb the influx of graduates in secondary and tertiary institutions.

The government is developing an implementation strategy that will focus on i) increasing resource flows into primary education as well as efficiency of resource use, ii) low-cost options for teacher training, textbook provision and classroom construction. Districts will be encouraged to offer bursaries for the education of gifted and needy children. NGOs and donors will also be encouraged to support education of the poor. The government will continue with its emphasis of redirecting public expenditure away from subsidies towards provision of basic pedagogical facilities.

The Ministry of Planning and Economic Development is responsible for co-ordinating the implementation of the Plan and provision of policy guidelines and technical assistance to facilitate the development of district plans and programmes that reflect priorities for poverty eradication. A mechanism will be established for systematic monitoring of the impact of the plan on poverty.

Macroeconomic Growth Policy Agenda

Since 1990, the implementation of structural reform in Uganda has been synonymous with tight fiscal policies aimed at addressing the imbalance between public revenue generated from taxes, excise duties etc. and public spending. The main concern of the government has been to reduce budget deficits by limiting public borrowing and controlling inflation. This approach has been quite successful in creating more stable economic conditions and stimulating growth, but with little positive impact on poverty.

Fiscal Policies

More recently, the reduction in fiscal deficits has been achieved mainly through the restructuring of the revenue base. The establishment of the semi-autonomous Uganda Revenue Authority (URA) has improved the collection of tax revenues, although they still account for less than 12 per cent of GDP. The tax base needs to be broadened and its collection improved. On the expenditure side, shifting government budget lines has proved easier than reducing actual spending. While attempts to reduce government spending have been made, they have not equally affected all sectors (Table 6).

Table 6. Non-Wage Recurrent Public Expenditure*
As Percentage of Total Expenditure

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
Defence	36.3	13.3	23.8	22.9	25.8	28.7
Education	13.7	4.1	14.1	12.0	12.0	7.7
Health	4.5	1.4	1.5	4.0	4.8	3.4
Agriculture	3.6	2.3	2.5	1.8	2.2	1.2
Other Social Services	2.4	5.7	1.2	1.8	1.6	2.5

* Excluding development assistance

Source: Government of Uganda (1995a); World Bank (1995).

Four major factors have influenced the expenditure pattern in Uganda at the expense of poverty reduction programmes, namely:

- i) high interest payments on external debts have “crowded out” other spending;
- ii) increase in defence spending;
- iii) cuts in government expenditures have been directed at supplies and maintenance in an attempt to protect wages and salaries; and
- iv) capital spending has benefited mainly infrastructural development in transport, communication, energy and tourism.

Monetary Policies

While between 1987 and 1992 growth indicators showed significant improvement, monetary indicators such as the exchange rate, inflation and interest rates were not impressive. The 77 per cent devaluation in 1987 did little to reduce disparities between the parallel market and the premium rates. High inflation remained a barrier to stable exchange rates. It was thus necessary to legalise the parallel markets to narrow the gap in the two markets.

Liberalising the exchange rate since 1991 has worked wonders in restoring public confidence, as the official rates were progressively reduced and the margin between the premium and open market was brought down to only 15 per cent by the end of 1991. The exchange market had been fully rationalised and direct state control terminated by 1993. Through the use of appropriate money supply, credit and exchange rate policies, inflation has been brought down and maintained since at low levels, while the Uganda shilling has since enjoyed stable exchange rates against major currencies, but this has not been translated into any poverty reduction strategies. For example, the terms of trade have not favoured the agricultural sector on which the poor depend, except for the coffee subsector, where less than 40 per cent of poor farmers are engaged. Input prices have increased markedly while export prices have fluctuated at a low level, except for the coffee price boom of 1994/95.

Trade Liberalisation Policies

Import substitution strategies adopted in Uganda and in many developing countries in the 1970s and early 1980s resulted in policies of trade protectionism (import controls, high tariffs etc.) favouring *inter alia* inefficient parastatals with no significant advantage for the economy. However, since the introduction of the structural reforms, a gradual move towards a more liberalised system has taken place. This involved:

- A gradual move from general import control to a liberalised system of licensing with a restricted list of items;
- A gradual move from non-tariff to tariff control and a gradual reduction in the effective rates of tariff protection; and
- Introduction of various export incentives.

These policy reforms have had little visible impact on export performance. However, the significant windfalls from coffee and other non-traditional export commodities (simsim, cut flowers, vanilla, fruits etc.), increased Uganda's export share as a percentage of GDP in 1994/95. Other major traditional export commodities (cotton, tea, tobacco etc.) have not contributed much to the change of the GDP share. Hence, mainly the coffee exporters and the coffee farmers have benefited from this policy.

As for imports, there was a significant increase in the volume and value of textiles, manufactured goods and vehicles, but the picture for other goods was not so clear.

Socio-Political Environment and Good Governance

After nearly two decades of civil strife and political instability, Uganda has enjoyed relative peace and stability since the beginning of the 1990s. While there are still occasional clashes in the north and south western parts of the country as a result of various disgruntled political groups, such clashes have little impact on the rest of the country. Political stability and good governance are necessary conditions for poverty reduction. They call for respect for law and order, democratic leadership, transparency and accountability.

Security and Human Rights Protection

Insecurity and violation of human rights in the 1970s and 1980s have characterised the political system in Uganda. However the promulgation of the new constitution in 1995 created the necessary environment for political stability and human rights protection. Hence security has improved, but organised crime has remained a problem.

Administration of law and order requires an efficient and transparent system. While this has been missing for many years, Uganda now enjoys an open and fair judicial system, but for the poor, access to legal services is still limited. This is more pronounced in rural areas where the poor have difficulties in resolving land disputes.

The government has now initiated the creation of local councils (LC), which are responsible for grass-root administrative decisions and maintaining law and order at the village level. A system of decentralisation has been implemented at district levels to bring the process of decision making closer to the people.

Democratic Leadership

Uganda has recently adopted a non-party political system called the “Movement System”. This system is based on governance by consensus, and aims at creating the necessary environment for a referendum to be held in 1999 to determine whether Uganda should adopt a multi-party democratic system in the future or not. While the system has been criticised by many political scientists as a one party system and largely dictatorial, many believe that it could, if given the chance, minimise the confusion that party politics had created in the past. As to poverty reduction, the poor would be better served if the system of government were made more transparent and accountable.

Transparency and Accountability

While the system of government appears to have improved, transparency and accountability are still lacking. Corruption in high places has become the norm rather the exception. However, through the leadership code and the various parliamentary committees, the focus on corruption has intensified. The media have been instrumental in exposing the graft, and the various parliamentary committees have played a significant role in ensuring that those who have been found guilty are brought to justice.

Nevertheless, the performance of these institutions has been constrained by:

- a weak judicial system, lacking capacity to implement the various measures;
- lack of awareness of laws on malpractices, transparency and accountability; and
- poor law enforcement procedures.

It is imperative that these constraints be reduced if the system of transparency and accountability is to be effectively implemented. The leadership code and the national poverty eradication action plan have recommended that government should publicise all information pertaining to corruption and the system of accountability.

The Role of the State: Pro-poor Initiatives

What is still puzzling the government is that poverty has not been reduced since 1987 when Uganda embarked on an economic recovery programme. The real challenge for structural reform and adjustment measures in Uganda now lies with the attainment of growth with equity. The improvement of living standards and creation of job opportunities through increased contribution by the community and the private sector, diversification of the export sector and widening of the tax base appear to be the necessary conditions for poverty reduction in Uganda. In addition, government now needs to rationalise its recurrent expenditure in favour of social sectors while expenditures for defence and public administration should be curtailed.

Community Participation and Poverty Reduction

Community participation is central to poverty reduction is a necessary condition for effective implementation of policies tackling poverty directly. Special emphasis has been given to the conceptualisation and design of programmes which involve the poor. These programmes include among others: sensitisation of communities, identification of community related projects and mobilisation of resources.

To achieve this, the state has adopted the system of decentralisation to empower local governments and to bring the political and administrative control closer to the people, thus improving transparency and accountability. This approach is expected to enhance the government's capacity to provide services to the local communities and especially to the poor.

Public Expenditure and Poverty

Although major social sectors such as health, education and agriculture have been regarded as high priority sectors in the national budget, there has not been any significant increase in spending in these sectors. Apart from education which in 1990/91 and 1992/93 received a significant boost in the recurrent expenditure, there has been no indicative increase in the recurrent expenditures towards the social sectors. Defence has continued to enjoy favourable allocations from the recurrent expenditures at the expense of mainly social sectors (Table 6).

Income Distribution, Employment and Poverty

In 1987, Uganda's social indicators were among the worst in Sub-Saharan Africa. While the per capita income has increased since then by 33 per cent (Table 1), the living conditions of the majority of the rural poor have not significantly improved.

Rural per capita income has only increased by about 10 per cent over the adjustment period (Government of Uganda, 1995a). There are, however, reasons to believe that while domestic terms of trade for cash crops have been more favourable, those for food crops have actually declined. This may have been due to poor markets for food crops and limited access to marketing facilities. The supply/demand conditions have not favoured food crops to the extent that there is often a glut of food supply in some areas, while there is shortage in other areas.

While the extent of poverty is high in the various regions, disparities in incomes are not so pronounced, particularly among regions at high income brackets. Recent studies suggest that over 40 per cent of households in the regions earn less than \$500 annually, compared to only 22 per cent in Kampala (Table 7).

Table 7. Regional Income Distribution
Per cent of Household Population Per Income Range
(1 000 Ug Shs = 1 \$)

Income Range (Ug Shs)	Uganda	Central	Eastern	Northern	Western	Kampala
10 000 – 50 000	4.0	3.5	2.6	2.2	7.9	1.1
> 50 000 – 100 000	3.5	3.0	8.1	10.1	5.4	1.1
> 100 000 – 200 000	10.3	3.2	10.0	8.2	10.0	0.3
> 200 000 – 300 000	7.8	5.3	11.4	11.4	7.3	4.6
> 300 000 – 400 000	7.3	11.5	8.0	8.0	6.7	2.3
> 400 000 – 500 000	7.3	8.9	6.9	6.9	7.6	4.6
Sub-total	40.2	35.4	48.0	46.8	44.9	13.6
> 500 000 – 1 000 000	27.0	22.6	28.8	27.6	28.5	23.9
> 1 000 000 – 2 000 000	16.1	17.3	14.4	12.7	16.1	22.8
> 2 000 000 – 5 000 000	11.4	14.2	6.6	11.8	7.9	31.8
Sub-total	54.5	54.1	49.8	52.1	52.5	78.5
> 5 000 000 – 10 000 000	3.2	7.1	0.7	2.1	2.4	4.6
>10 000 000	2.1	3.5	1.5	1.0	0.3	3.4
Sub-total	5.3	10.6	2.2	2.1	2.7	8.0
Total	100	100	100	100	100	100

Source: Economic Policy Research Centre and Department of Statistics (1996). Survey of Households and Communities Living Conditions in Uganda.

Various studies on income distribution in developing countries suggest that there exists significant income disparity between occupational groups and that over the years, the difference between skilled and unskilled widens. Such disparities seem to arise from lack of employment opportunities. Assessment of the level of employment in Uganda is rather complex. The largely informal nature of the economy makes it difficult to determine the exact number of those employed and unemployed. In Uganda, there exists a small and largely urban formal sector and a mainly rural subsistence sector associated with informal subsistence activities.

The main employment gains from structural reforms came from the self-employed subsistence-based agriculture which employs the bulk of the labour force (Table 4).

Key sectors such as manufacturing, construction and trade have also contributed to growth in employment, but the overall employment gains have been constrained by the downsizing of the number of civil service employees. There still remains a large proportion of disguised unemployed in the subsistence sector.

Access to Social Services

A survey of household and community living conditions conducted by the Economic Policy Research Centre and Department of Statistics indicated that both “type of housing” and “distance from the main road” are regarded as major indicators of household welfare¹. At mid-income levels, good housing is regarded as a measure of improved living condition, while access to a main road is regarded as very important in service provision. Although distance from primary school and source of energy were also regarded as important, they were not as significant as the former. Contrary to expectations, access to clean water was not found to be so significant in determining improvement in standard of living.

The survey also suggests that more than 50 per cent of households believe that SAP’s introduction has improved their living standards. This has resulted from 57 per cent gaining access to the main roads within less than one kilometre, 30 per cent gaining access to protected water supply and 12.6 per cent to tap water, 17.4 per cent using a combination of electricity/kerosene. However, a large proportion of the population (38.3 per cent) still use firewood and kerosene as the main source of energy.

Other social services considered to have improved included health and education services. Up to 61.1 per cent indicated they use hospitals/public clinics compared to 32.1 per cent who preferred private clinics and 4.8 per cent who indicated they use the services of traditional healers. Access to educational facilities was also rated high, although only 57 per cent indicated that they lived within less than one kilometre from the nearest primary school compared to 32.4 per cent living between 1 and 2 kilometres from the nearest primary school and less than 2 (1.8) per cent living more than 5 kilometres from the nearest school.

There has been a significant effort by the government to assist the disadvantaged and disabled. Uganda’s legacy of civil strife for over two decades has affected the poorest segments of the society most, and hence their ability to survive has generally diminished. Included in this category are the female-headed households, orphans, street children, widows, handicapped, the aged and the landless.

Female-headed Households and Widows

About 25 per cent of households are headed by females, and this proportion is expected to increase given the high incidence of HIV/AIDS, high divorce rate and continued civil strife in the northern and southern parts of the country. Widowed and divorced women are often deprived of their household property and sometimes evicted

from their homes by relatives, hence making them unable to meet basic needs. However, the government has instituted legal guidelines to protect widows and divorced single parents. In addition, a local NGO, Action for Development, is providing legal advice, and there are several women's organisations assisting disadvantaged women and widows.

Orphans, Street Children and Displaced Persons

The 1990/91 census estimated that 10 per cent of the children below the age of 15 were classified as orphans. While the number of street children is expected to increase, the government has not yet developed a mechanism to rehabilitate them but it does provide some assistance (free education, health service etc.) to orphans. However, several NGOs such as the Uganda Women Efforts to Save the Orphans (UWESO) have initiated programmes to rehabilitate street children. Traditionally, orphans have relied on the extended family safety nets but due to increasing poverty these safety nets are disappearing rapidly.

The Handicapped and Aged

Uganda has one of the highest numbers of physically handicapped persons in sub-Saharan Africa, due to civil war and limited access to health care. Several associations serve the handicapped while the government created a constitutional provision to reserve 20 seats in parliament for the disabled. This has encouraged many disabled persons to express their views in Parliament through their representatives.

The traditional extended family system where children care for their aged relatives is gradually being eroded by the urban drift and change in attitudes. Thus, the aged who generally prefer to live in the rural areas are often abandoned without any assistance either from the family or from government.

Landless Peasants

Few Ugandans own land, but many have access to land under a customary system where land is communally owned without individual ownership rights. However, in certain districts some land is held under a freehold system, often by absentee owners who leave squatters on their land, some of whom have become bona fide tenants but have no rights to the land. The new land bill recently tabled in Parliament is expected to provide security of tenure and rights to land ownership and cater for the bona fide tenants as well.

External Assistance

Uganda has benefited from continued support from various international agencies, bilateral donors and NGOs since independence in 1962, and increasingly so in the 1980s. In 1988 external assistance amounted to 17.1 per cent of GDP. It has gradually declined since to 14.1 per cent in 1990 and around 10 per cent in 1996, with project aid accounting for over 70 per cent of the total external assistance.

From 1987, the new government, having recognised the potential benefits of structural adjustment, was supported by the World Bank and IMF under the Economic Recovery Programme, Structural Adjustment Credits and Enhanced Structural Adjustment Facility to rehabilitate and stabilise the economy and to promote growth. The support, although it may have indirectly contributed to poverty reduction was not strategically designed to do so.

However, assistance from the United Nations Development Programme through UNICEF, the World Food Programme, the Food and Agriculture Organisation, etc., has been directed mostly to various poverty reduction programmes.

The contribution of donors to poverty reduction has been varied but quite significant. The most notable donor assistance has been in the provision of social services (health, education and infrastructure). The recently introduced universal primary education, child immunisation programme, the HIV/AIDS awareness and many other programmes can only be regarded as successful thanks to donor support.

Both local and international NGOs have directed their efforts towards poverty alleviation in Uganda. Around 1 500 NGOs are involved in poverty-related activities. The notable international ones include Oxfam, Action Aid, Accord, SNV, the Red Cross and many church organisations. The NGOs are community-based and tend to operate at the grassroots. As such, they have been able to reach the poor. However, despite their ubiquity NGOs' impact has been reported to be marginal (Opio, 1996). Lack of co-ordination appears to be the main factor limiting the perception of NGOs' role in poverty reduction (Table 5).

Conclusion

While Uganda has made significant progress in rehabilitating the economy, and has achieved relatively rapid economic growth, there has been little progress in poverty reduction. No strategic poverty reduction programmes had been initiated, based on the assumption that the benefits arising from rapid economic growth would trickle down to the poor. While absolute poverty has marginally declined, relative poverty has in effect increased. This suggests that the impact of the structural reforms and any poverty reduction programmes have not fully trickled down to the majority of the poor who live in rural areas. Hence, the trickling down process is insufficient to improve the poverty situation. We therefore conclude:

- i) Uganda needs to attain and sustain high GDP growth (8–10 per cent per annum) and stabilise the economy over a longer period (15–20 years) in order to achieve a substantial reduction in poverty. This will require maintaining and consolidating the existing macroeconomic policy in order to provide economic opportunities to enable the poor to participate in the growth process.

- ii) The government has adopted a two-pronged approach to economic management and poverty reduction. Firstly, by maintaining a tight fiscal policy and sustaining macroeconomic stability. Secondly, by creating an enabling environment for individuals and communities to participate in poverty reduction programmes. Essentially this includes:
- adoption of pro-poor strategies and programmes in line with the Poverty Eradication Action Plan (launched on 25 July 1997) which is a step in the right direction.
 - maintenance of strict budgetary control;
 - reducing aid dependency and increasing tax revenues through broadening of the tax base and expanding other revenue sources while reducing the budget deficit;
 - increasing the productive capacity of the private sector and of farm households; and
 - promoting good governance through transparency and accountability.
- iii) Given that the social sectors have not significantly benefited directly from the high growth performance, there is now a need to rationalise the budget allocations in favour of the social sectors, if government policies and programmes are to be effectively pro-poor. In this regard, it is proposed that budget allocations to health, education and agriculture be significantly increased in terms of their GDP share.
- iv) The government of Uganda should review its education policy. To reduce poverty, it is necessary to provide universal primary education. Although free-education for up to four children per family has been introduced, not all children will benefit from the scheme given the polygamous culture in Uganda. Hence, to maximise the social benefits of education, free primary education should be offered to all children irrespective of their parentage.
- v) The high rates of school drop-out at very young ages (6–13 years), indicates that vocational training centres should be established in each county. The government, NGOs and the private sector should be involved in establishing and operating such centres.
- vi) The private sector should be encouraged to invest in rural areas to create job opportunities. Small, medium and large-scale rural enterprises should be created to spearhead the modernisation of agriculture.
- vii) Community participation in poverty reduction programmes should be encouraged and facilitated.

Note

1. The survey covered seventeen districts (out of 45) including Kampala with an overall sample size of 5 000 households. Each district had 300 sample households (and Kampala had 200 households). The study was conducted in 1995/96 and was considered reasonably representative. Note that there used to be only 16 districts plus Kampala, but in the last four years, the number of districts has increased as a result of subdivisions for the decentralisation process.

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