

Overview

During the past three decades the developing world has made enormous economic progress. This can be seen most clearly in the rising trend for incomes and consumption: between 1965 and 1985 consumption per capita in the developing world went up by almost 70 percent. Broader measures of well-being confirm this picture—life expectancy, child mortality, and educational attainment have all improved markedly. Viewed from either perspective—income and consumption on the one hand, broad social indicators on the other—the developing countries are advancing much faster than today's developed countries did at a comparable stage.

Against that background of achievement, it is all the more staggering—and all the more shameful—that more than one billion people in the developing world are living in poverty. *World Development Report 1990* estimates that this is the number of people who are struggling to survive on less than \$370 a year. Progress in raising average incomes, however welcome, must not distract attention from this massive and continuing burden of poverty.

The same is true of the broader measures of well-being. Life expectancy in Sub-Saharan Africa is just 50 years; in Japan it is almost 80. Mortality among children under 5 in South Asia exceeds 170 deaths per thousand; in Sweden it is fewer than 10. More than 110 million children in the developing world lack access even to primary education; in the industrial countries anything less than universal enrollment would rightly be regarded as unacceptable. The starkness of these contrasts attests to the continuing toll of human deprivation.

This Report is about poverty in the developing world—in other words, it is concerned with the

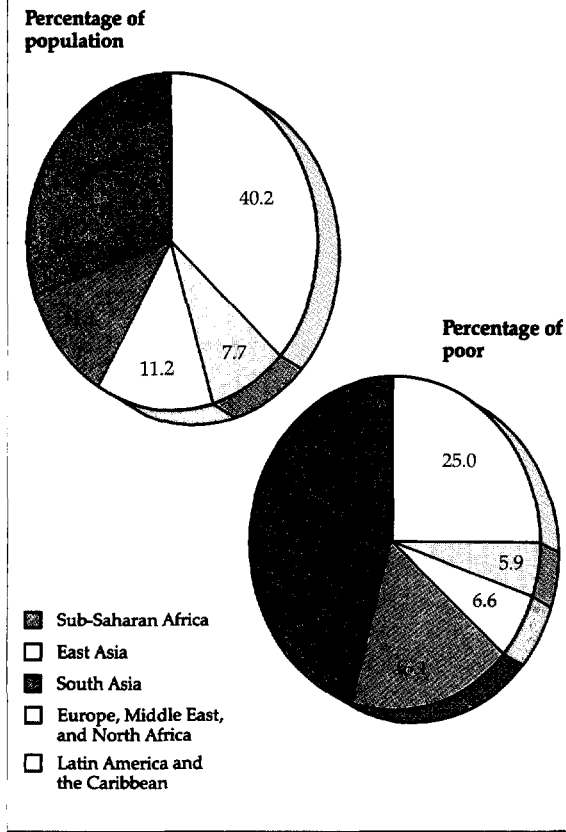
poorest of the world's poor. It seeks first to measure poverty, qualitatively as well as quantitatively. It then tries to draw lessons for policy from the experience of countries that have succeeded in reducing poverty. It ends with a question that is also a challenge: what might be achieved if governments in rich and poor countries alike made it their goal to attack poverty in this closing decade of the twentieth century?

Poverty today

In the countries that have participated in the overall economic progress that has taken place since the 1960s, poverty has declined and the incomes even of those remaining in poverty have increased. In some cases this change has been dramatic. Indonesia, for example, took less than a generation in the 1970s and 1980s to reduce the incidence of poverty from almost 60 percent of the population to less than 20 percent. On a variety of social indicators, some developing countries are now approaching the standards of the developed world. In China, which accounts for a quarter of the developing world's people, life expectancy reached 69 in 1985. But in many countries economic performance was weaker, and the number in poverty fell more slowly. Where rapid population growth was an important additional factor, as in much of Sub-Saharan Africa, consumption per head stagnated and the number in poverty rose.

The 1980s—often called a "lost decade" for the poor—did not, in fact, reverse the overall trend of progress. The incomes of most of the world's poor went on rising, and under 5 mortality, primary school enrollment ratios, and other social indicators also continued to improve. The setbacks of the

Figure 1 Population and poverty in the developing world, 1985



1980s fell heavily on particular regions. For many in Sub-Saharan Africa and Latin America incomes fell during the decade, and the incidence of poverty increased—although the social indicators, at least in Latin America, proved somewhat more resilient.

The burden of poverty is spread unevenly—among the regions of the developing world, among countries within those regions, and among localities within those countries. Nearly half of the world's poor live in South Asia, a region that accounts for roughly 30 percent of the world's population (Figure 1). Sub-Saharan Africa accounts for a smaller, but still highly disproportionate, share of global poverty. Within regions and countries, the poor are often concentrated in certain places: in rural areas with high population densities, such as the Gangetic Plain of India and the island of Java, Indonesia, or in resource-poor areas such as the Andean highlands and the Sahel. Often the problems of poverty, population, and the environment are intertwined: earlier patterns of development

and the pressure of rapidly expanding populations mean that many of the poor live in areas of acute environmental degradation.

The weight of poverty falls most heavily on certain groups. Women in general are disadvantaged. In poor households they often shoulder more of the workload than men, are less educated, and have less access to remunerative activities. Children, too, suffer disproportionately, and the future quality of their lives is compromised by inadequate nutrition, health care, and education. This is especially true for girls: their primary enrollment rates are less than 50 percent in many African countries. The incidence of poverty is often high among ethnic groups and minorities such as the indigenous peoples in Bolivia, Ecuador, Guatemala, Mexico, and Peru and the scheduled castes in India.

In many but not all cases low incomes go hand in hand with other forms of deprivation. In Mexico, for example, life expectancy for the poorest 10 percent of the population is twenty years less than for the richest 10 percent. In Côte d'Ivoire the primary enrollment rate of the poorest fifth is half that of the richest. National and regional averages, often bad enough in themselves, mask appallingly low life expectancy and educational attainment among the poorest members of society.

Policies for attacking poverty

In the 1950s and 1960s many saw growth as the primary means of reducing poverty and improving the quality of life. For example, the Indian Planning Commission viewed rapid growth as the main (although not the only) instrument for achieving this objective. In the 1970s attention shifted to the direct provision of health, nutritional, and educational services. This was seen as a matter for public policy. *World Development Report 1980*, marshaling the evidence available at the time, argued that improvements in the health, education, and nutrition of the poor were important not only in their own right but also to promote growth in incomes, including the incomes of the poor.

The 1980s saw another shift in emphasis. Countries, especially in Latin America and Sub-Saharan Africa, struggled to adjust after the global recession. The constraints on public spending tightened. At the same time, many began to question the effectiveness of public policy, and especially policy toward the poor. Against this background, *World Development Report 1990* reexamines how policy can help to reduce poverty and explores the prospects for the poor during the 1990s.

The evidence in this Report suggests that rapid and politically sustainable progress on poverty has been achieved by pursuing a strategy that has two equally important elements. The first element is to promote the productive use of the poor's most abundant asset—labor. It calls for policies that harness market incentives, social and political institutions, infrastructure, and technology to that end. The second is to provide basic social services to the poor. Primary health care, family planning, nutrition, and primary education are especially important.

The two elements are mutually reinforcing; one without the other is not sufficient. In some countries, such as Brazil and Pakistan, growth has raised the incomes of the poor, but social services have received too little attention. As a result, mortality among children remains unusually high and primary enrollment unusually low, and the poor are not as well equipped as they might be to take advantage of economic opportunities. Some other countries, by contrast, have long stressed the provision of social services, but growth has been too slow. In Sri Lanka, for example, primary enrollment rates and under 5 mortality rates are exceptionally good, but the potential for raising the incomes of the poor has gone to waste for lack of economic opportunity.

Progress has been greatest in the countries that have implemented both parts of the strategy. By promoting the productive use of labor these countries have furnished opportunities for the poor, and by investing in health and education they have enabled the poor to take full advantage of the new possibilities. In Indonesia and Malaysia this approach has brought about a substantial reduction in poverty along with rapid improvements in nutrition, under 5 mortality, and primary enrollment.

Even if this basic two-part strategy is adopted, many of the world's poor—the sick, the old, those who live in resource-poor regions, and others—will continue to experience severe deprivation. Many others will suffer temporary setbacks owing to seasonal variations in income, loss of the family breadwinner, famine, or adverse macroeconomic shocks. A comprehensive approach to poverty reduction, therefore, calls for a program of well-targeted transfers and safety nets as an essential complement to the basic strategy.

During the 1980s many developing countries had to cope with macroeconomic crises. Their experience drew attention to a new concern: the need to frame adjustment policies that give due weight to the needs of the poor. In many develop-

ing countries a period of painful macroeconomic adjustment was unavoidable. In the longer term the economic restructuring associated with adjustment is perfectly consistent with the two-part strategy. In the short term, however, many of the poor are at risk. During the transition period the poor can be protected through a judicious mix of macroeconomic policies (for example, pricing policy reforms that benefit poor farmers) and measures to moderate declines in private consumption. Experience also shows that it is possible to shift public spending in favor of the poor, even within an overall framework of fiscal discipline, and to target transfers more accurately. In addition, increased capital inflows can be used to help cushion the impact of adjustment on the poor.

The politics of poverty

The framework of political and economic institutions is important because policies to reduce poverty involve a tradeoff. This tradeoff is not, in the main, between growth and the reduction of poverty. Switching to an efficient, labor-intensive pattern of development and investing more in the human capital of the poor are not only consistent with faster long-term growth; they contribute to it. Since these actions mean that a larger share of income and more public spending will go to the poor, the principal tradeoff, especially in the short run, is between the interests of the poor and those of the nonpoor. The two-part strategy is, therefore, more likely to be adopted in countries where the poor have a say in political and economic decision-making.

Although the two-part strategy does involve a politically sensitive tradeoff between the poor and the nonpoor, it is likely to prove more feasible than other strategies. Large-scale redistributions of land have sometimes been successful. In Japan and the Republic of Korea, for example, land redistribution was central to the reduction of rural poverty and laid the basis for the other policies advocated in this Report. Where it can be done, redistribution of land should be strongly supported. But the political obstacles to such reform are great. In most countries the two-part strategy outlined here, which sees investment in education as the best way of augmenting the assets of the poor, is more likely to succeed.

Reaching the poor

Even when macroeconomic adjustment is not a primary issue, the strategy requires an increase in certain categories of public spending that specifi-

cally benefit the poor. If these are to be affordable and hence sustainable, they must be cost-effective. Experience since the 1970s shows, however, that reaching the poor with targeted programs can be difficult. Nongovernmental organizations have made important contributions here. Self-selecting programs, which exclude the nonpoor by offering benefits that are of interest only to the poor, are another promising approach. Low-wage public employment programs, for instance, have provided an effective safety net for the poor in certain parts of South Asia and have been especially valuable in preventing famine. Chile's experience suggests that such schemes may also be helpful during recessions.

To be truly cost-effective, interventions must be not merely well targeted but also carefully designed to meet the specific needs of poor people. This means developing technologies suited to the risky environment that confronts small farmers, devising credit schemes to serve small borrowers, combining feeding programs for especially vulnerable groups with education on health and nutrition, and so on. Successful programs have usually involved the poor both at the design stage and during implementation.

Public spending that is well designed and accurately targeted can play an important part in the fight against poverty. But such programs, however cost-effective, are no substitute for efforts to attune the broad stance of economic policy to the needs of the poor. Attacking poverty is not primarily a task for narrowly focused antipoverty projects, vital though these may be. It is a task for economic policy in the large.

Aid

Aid has often been an effective instrument for reducing poverty—but not always. Donors sometimes have other objectives. In 1988 about 41 percent of external assistance was directed to middle- and high-income countries, largely for political reasons. Even when aid has been directed to the poor, the results have sometimes been disappointing—especially in countries in which the overall policy framework has not been conducive to the reduction of poverty.

The world is at a turning point: the geopolitical tensions that have prevailed since World War II are easing rapidly. This offers a unique opportunity to cut military spending and increase international assistance. A cut of just 10 percent in military spending by the countries of the North Atlantic

Treaty Organization would pay for a doubling of aid. The resources can be made available—although little will be achieved unless they are used effectively.

The analysis in this Report provides the basis for a better aid strategy. External assistance should be more tightly linked to an assessment of the efforts that would-be recipients are making to reduce poverty. This principle already underlies procedures for allocating the resources of the International Development Association (IDA). Carrying out this principle would mean that countries committed to the two-part strategy would be the main recipients of aid. This reflects the conviction that aid works well only when it complements a sound development strategy.

In countries where policies (on prices and public spending, for instance) are inconsistent with efforts to reduce poverty, external resources would achieve far less. Yet there are many poor people in such countries. Indeed, these are the very countries in which poverty is going to get worse. The judgments that have to be made in such cases will be extremely difficult. Aiming moderate quantities of aid directly at highly vulnerable groups seems the appropriate response. Health clinics that serve the poor, immunization programs for children, and targeted nutrition programs are the sorts of intervention that might be supported by the aid community in such circumstances.

Many countries will fall between these two extremes. In such cases, intermediate amounts of assistance would be appropriate. Careful judgment is needed to determine how this aid can best be used to make policy more responsive to the needs of the poor.

These principles certainly bear on the operations of the World Bank, but they should be regarded as applicable to the aid community as a whole. If the aid strategy outlined here were adopted and followed consistently by bilateral donors, nongovernmental organizations, and multinational agencies, its effectiveness would be greatly increased.

What can be achieved?

The Report projects that if, over the next ten years, the industrial countries grow at about 3 percent a year (the historical trend) and real aid flows increase at a similar rate, per capita incomes in the developing countries will grow by between 5.1 percent a year in East Asia and 0.5 percent a year in Sub-Saharan Africa. With some progress toward adopting the strategy advocated by the Re-

port, the number of poor in the developing world could fall—counting gains and setbacks—by more than 300 million by the end of the century. More determined efforts to reduce poverty could see even greater progress.

This relatively favorable outcome hides marked differences among regions (Figure 2). The number of people in poverty would fall most sharply in East Asia. Progress would be good in South Asia, modest in Latin America and the Caribbean, and negligible in developing Europe, the Middle East, and North Africa. Compared with a reduction of 400 million in poverty elsewhere in the developing world, in Sub-Saharan Africa slow economic growth and rapid population growth would mean an increase of nearly 100 million in the number of poor people. By the end of the century Sub-Saharan Africa will account for more than 30 percent of the developing world's poor, as against 16 percent in 1985.

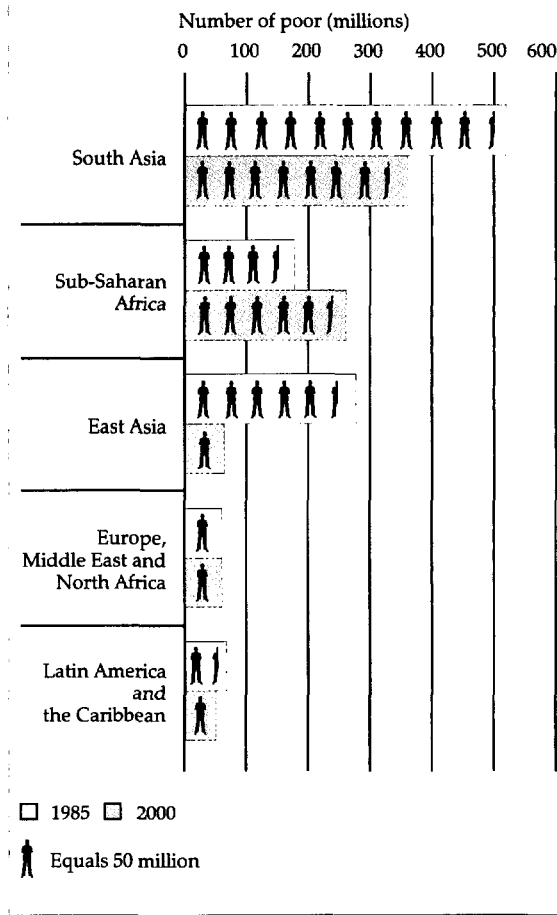
Progress in other aspects of living standards is expected to continue. By 2000 mortality for children under 5 will range from about 30 deaths per thousand in East Asia to a still-high 135 per thousand in Sub-Saharan Africa. Most regions will be able to achieve universal primary school enrollment with, at most, a modest increase in the share of gross domestic product (GDP) allocated for this purpose. Again, Sub-Saharan Africa is the exception. Universal primary enrollment can be achieved by 2000, but it will cost more than 2.5 percent of GDP, compared with current spending of less than 1.5 percent.

Progress in Asia depends critically on developments in China and India. If economic reform falters in China or if India is unable to maintain its recent momentum, the prospects for reducing poverty will be far less bright. Alternative projections based on slower growth and policies less favorable to the poor show an additional 150 million poor, mainly in India.

The plight of Sub-Saharan Africa is unfortunately all too clear. Even to hold the number of poor at the 1985 level will require a massive effort: GDP growth of 5.5 percent a year, a radical restructuring of industry, improved incentives and technology for agriculture, and increased allocations of resources to primary education, health care, nutrition, and family planning. This cannot be achieved unless governments strengthen their reform efforts and donors increase their assistance.

Slower growth in the industrial countries, higher interest rates, and a smaller-than-expected rise in the terms of trade could combine, as in the 1980s,

Figure 2 Poverty in the developing world, 1985 and 2000



to pose further obstacles to the reduction of poverty. Trends in regional growth would then diverge more noticeably. Although progress in East and South Asia—the regions with the greatest number of poor—would be relatively unaffected, Latin America would face a serious setback, and an already intolerable situation in Sub-Saharan Africa would deteriorate still further.

The challenge for the 1990s

No task should command a higher priority for the world's policymakers than that of reducing global poverty. In the last decade of the twentieth century it remains a problem of staggering dimensions. Despite the difficulties, which are especially daunting in Sub-Saharan Africa, the means for reducing poverty are at hand. This Report argues that the

principal elements of an effective strategy are well understood and that the external resources needed to support it could be made available at little cost to the industrial countries. Where developing countries are committed to reducing poverty, the industrial countries should respond with increased assistance.

Containing the number of poor in Africa and reducing the number elsewhere by almost 400 million (compared with 1985) would be a substantial achievement. It is an ambitious goal—but one that is within reach by the end of the century.