# Broadening the agenda for poverty reduction: opportunity, empowerment, security

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*Experience from the 1990s has led to a poverty reduction agenda that, on top of promoting economic growth, addresses ingrained inequalities, institutional failures, social barriers, and risks.*

Based on new evidence and a deeper understanding of the meaning and causes of poverty, the World Bank's *World Development Report 2000/1: Attacking Poverty* argues that major reductions in world poverty are indeed possible. Economic development continues to be central to success in reducing poverty. But poverty is also an outcome of economic, social, and political processes that interact with and reinforce each other in ways that can ease or exacerbate the state of deprivation in which poor people live. To conquer poverty requires actions--at the local, national, and global levels--to expand the opportunities of the poor, empower them and increase their security.

## Poverty in the 1990s and the international development goals

Between 1987 and 1998 the share of the population in developing and transition economies living on less than $1 a day fell from about 28 percent to 24 percent, but the number of people in poverty hardly changed. There are large regional variations in performance. East Asia saw a sharp reduction in the number of poor, while in Europe and Central Asia the number in poverty soared, rising by more than 20 times. Seventy percent of the population living on less than $1 a day are in South Asia and Sub-Saharan Africa, up 10 percentage points from 1987.

In the poorest countries of the world as many as a fifth of children do not reach their fifth birthday. In Latin America, the indigenous groups have a much higher incidence of income poverty. In the inner cities of the United States, white married couples have an incidence of poverty of 5.3 percent, while black or Hispanic single-mother households have an incidence of more than 45 percent. In Benin, Nepal and Pakistan, for example, the gap between male and female enrollment rates is more than 20 percentage points, and in Morocco, 18.

**Table 1.1**
**Income poverty by region, selected years, 1987–98**

| Region | Population covered by at least one survey *(percent)* | People living on less than $1 a day *(millions)* 1987 | 1990 | 1993 | 1996 | 1998[a] |
|---|---|---|---|---|---|---|
| East Asia and Pacific | 90.8 | 417.5 | 452.4 | 431.9 | 265.1 | 278.3 |
| Excluding China | 71.1 | 114.1 | 92.0 | 83.5 | 55.1 | 65.1 |
| Europe and Central Asia | 81.7 | 1.1 | 7.1 | 18.3 | 23.8 | 24.0 |
| Latin America and the Caribbean | 88.0 | 63.7 | 73.8 | 70.8 | 76.0 | 78.2 |
| Middle East and North Africa | 52.5 | 9.3 | 5.7 | 5.0 | 5.0 | 5.5 |
| South Asia | 97.9 | 474.4 | 495.1 | 505.1 | 531.7 | 522.0 |
| Sub-Saharan Africa | 72.9 | 217.2 | 242.3 | 273.3 | 289.0 | 290.9 |
| Total | 88.1 | 1,183.2 | 1,276.4 | 1,304.3 | 1,190.6 | 1,198.9 |
| Excluding China | 84.2 | 879.8 | 915.9 | 955.9 | 980.5 | 985.7 |

| Region | Share of population living on less than $1 a day *(percent)* 1987 | 1990 | 1993 | 1996 | 1998[a] |
|---|---|---|---|---|---|
| East Asia and Pacific | 26.6 | 27.6 | 25.2 | 14.9 | 15.3 |
| Excluding China | 23.9 | 18.5 | 15.9 | 10.0 | 11.3 |
| Europe and Central Asia | 0.2 | 1.6 | 4.0 | 5.1 | 5.1 |
| Latin America and the Caribbean | 15.3 | 16.8 | 15.3 | 15.6 | 15.6 |
| Middle East and North Africa | 4.3 | 2.4 | 1.9 | 1.8 | 1.9 |
| South Asia | 44.9 | 44.0 | 42.4 | 42.3 | 40.0 |
| Sub-Saharan Africa | 46.6 | 47.7 World Bank 2000s. | 49.7 | 48.5 | 46.3 |
| Total | 28.3 | 29.0 | 28.1 | 24.5 | 24.0 |
| Excluding China | 28.5 | 28.1 | 27.7 | 27.0 | 26.2 |

*Note:* The poverty line is $1.08 a day at 1993 PPP. Poverty estimates are based on income or consumption data from the countries in each region for which at least one survey was available during 1985–98. Where survey years do not coincide with the years in the table, the estimates were adjusted using the closest available survey and applying the consumption growth rate from national accounts. Using the assumption that the sample of countries covered by surveys is representative of the region as a whole, the number of poor people was then estimated by region. This assumption is obviously less robust in the regions with the lowest survey coverage. For further details on data and methodology see Chen and Ravallion (2000).
a. Preliminary.
*Source:*

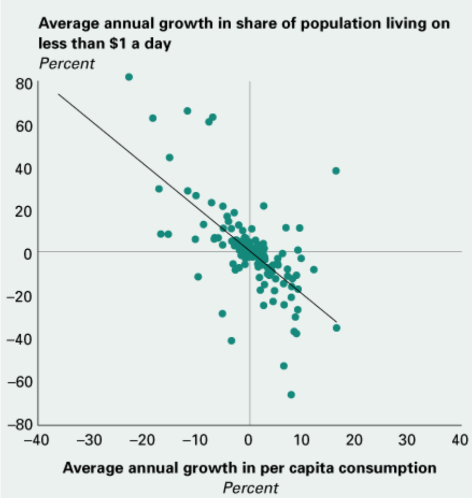
Attaining the international development goal of halving the number of people living on less than $1 a day between 1990 and 2015 will require actions to spur economic growth and reduce inequality. But more equitable growth will not, by itself, be enough for the achievement of the goals for health and education. Reducing infant and child mortality by two-thirds depends on halting the spread of HIV/AIDS, controlling malaria and tuberculosis, increasing the capacity of developing countries' health systems to deliver more health services to poor people, and ensuring that technological progress in the medical field reaches the developing world. And meeting the gender equity goal of eliminating gender disparities in primary and secondary education by 2005 will require specific policies to address the cultural, social, and economic barriers that prevent girls from attending school.

## Lessons from the 1990s

A decade ago, the *World Development Report* was defined by the contrast in the 1970s and 1980s between East Asia, where poverty had fallen sharply, and Africa, Latin America, and South Asia, where poverty had declined less or even risen. The 1990 report proposed a two-part strategy for tackling poverty: promoting labor-intensive economic growth and investing in the health and education of poor people. The report noted that people who were vulnerable to shocks and unable to benefit from the strategy required further protection in the form of safety nets. Economic development--liberalizing trade and markets in general, promoting sound macroeconomic policy, and investing in infrastructure and in poor people--was seen as key to reducing poverty.

While study after study confirms that economic growth is positively associated with reductions in poverty and better outcomes in human development (Figure 1), the experience of the 1990s reconfirmed that growth cannot be switched on or off at will. Wide divergences in growth reflect the outcome of interactions among a number of forces: a country's history and geography, its institutions and policy choices, and the external shocks it experiences. Sound economic policies are strongly conducive to growth, but so is sound social policy--for example, education for girls. Aid can boost growth only if good policies are in place. Wars, civil unrest, and natural disasters all have a devastating impact on economic performance. Macroeconomic volatility, adverse terms of trade shocks, and slower growth among trading partners are also obstacles to growth.

**Figure 3.3 (cont.)**
**Poverty trends tracked growth trends in the 1980s and 1990s**




*Note:* The data cover 65 developing countries.
*Source:* World Bank staff estimates based on data from Chen and Ravallion (2000).

How much poverty reduction occurs at a given rate of economic growth, however, varies significantly across countries and over time. In countries where income inequality is low, growth is twice as effective in reducing poverty as in countries with high inequality. And in countries where the distribution of income worsens during growth, the impact of growth on poverty is not as strong. For example, it has been estimated that the poverty rate in Bangladesh would have been about 7-10 percentage points lower (than 53 percent) in 1995-96 if inequality had not increased between 1992 and 1996. Furthermore, there is evidence that reducing inequalities in people's assets, including land and education, can improve efficiency and growth.

Inequality in income or physical assets is not the whole story, however. People confined by social inequities--like the caste system in India or discriminatory practices against women or certain ethnic and racial groups--to low-skill/low-paying jobs will benefit less from growth. Some studies for Latin America have found that indigenous groups receive lower wages than nonindigenous groups with the same experience and skills, suggesting that discrimination in the marketplace may be to blame.

*Economic reforms and poverty.* Market-friendly reforms have generally been associated with better economic performance. For example, average inflation rates in developing countries fell from about 15 percent in the early 1980s to 7 percent in 1997, indicating a broad trend toward more disciplined fiscal and monetary policy. In Latin America, studies show that reforms resulted in an average growth rate in the first part of the 1990s roughly 2 percentage points higher than it would have been if no reforms had been implemented. Similar studies of the transition economies of Eastern Europe and the former Soviet Union, where success with market reforms has varied widely, found that countries that implemented reforms early and forcefully achieved stronger growth. In China, the introduction of market mechanisms first in agriculture and then in the rest of the economy resulted in spectacular growth.

To the extent that reforms have brought lower inflation and higher growth rates, they have been good for the poor. Despite the reforms, however, growth in the developing world has been disappointing. Part of the problem is that many of these countries have faced large external shocks, such as higher world interest rates, volatile capital flows, and falling terms of trade. Another part of the problem is that, in some countries, reforms have failed to deliver as much as expected or, at times, have failed entirely. For example, financial and capital account liberalization, accompanied by weak financial institutions and supervision, is a significant determinant of banking crises worldwide. In other cases--notably in some countries of the former Soviet Union--reforms failed because of "state capture"; that is, firms and powerful individuals were able to influence government actions, including in formulating new laws and regulations to their own advantage. This capture results in special privileges and monopoly rights that both undermine the workings of a free and competitive market economy and increase inequality.

Country-focused studies find that the impact of reforms on poor people can be quite diverse. For example, market reforms in agriculture have generally resulted in higher growth rates in agriculture, and many poor people have benefited from these reforms. Case studies of Chile, China, Ghana, Uganda, and Vietnam show that reforms have helped raise producer prices for small farmers by eliminating marketing boards, changing real exchange rates, lowering tariffs, and eliminating quotas. However, in some countries, liberalization and privatization in agriculture have hurt poor rural farmers. In Cameroon, the marketing board had been maintaining rural roads, but the responsibility was not reassigned after the reforms. In Zambia, remote farmers had been implicitly subsidized by a uniform pricing policy that did not take into account transport costs, while small farmers without storage facilities were implicitly subsidized by prices held constant across seasons. After the reforms, market forces eliminated the implicit subsidies, transport infrastructure deteriorated significantly, and agricultural credit and marketing became more erratic, leaving many farmers worse off.

*Quality of institutions and social services.* The emphasis on social services has, in the past, been perhaps too optimistic about institutional, social, and political realities. Public investment in basic education and health care in developing countries has been rising, although not as fast as GDP in many, suggesting a possible lack of commitment to expanding social services. Moreover, such investment has been less effective than expected, in part because of the poor quality of the services provided [?] and the lack of responsiveness to poor people's. Another issue is the effectiveness of the delivery of services, which is highly dependent on local institutional capabilities, community involvement, market structure, and patterns of political influence.

*Risk and poverty.* The 1990s were characterized by major financial crises, devastating natural disasters, brutal civil conflicts, and the spread of such diseases as HIV/AIDS, which have undermined growth in many parts of the world, particularly Africa. Poor people are generally the most vulnerable to poor health, unemployment, natural disasters, economic crises, harvest failures, disability, death, and all forms of personal violence. Because they are less able to save and accumulate assets, they are less able to deal with a crisis when one strikes. Furthermore, the effect of adverse shocks is not always transitory; such shocks can lock people in poverty by causing irreversible damage to the children of poor families, for example, as a result of malnutrition or withdrawal from school.

**Opportunity, empowerment, and security**

From the experiences of the 1990s, a broader poverty reduction agenda has emerged in which policies to address ingrained inequalities, institutional failures, social barriers, and personal vulnerabilities have become as central as promoting economic growth. A broadening of the agenda also follows from a growing understanding that poverty is more than low income, a lack of education, and poor health. A study conducted as background to the *World Development Report 2000/1* showed that the poor are frequently powerless to influence the social and economic factors that determine their well-being. Unresponsive state institutions, police brutality, and the arbitrariness of state employees were mentioned repeatedly, in addition to social barriers. In summary, poor people define their poverty in terms of a lack of opportunity, empowerment, and security. A broader definition of poverty requires a broader set of actions to fight it and increases the challenge of measuring poverty and comparing achievement across countries and over time.

*Opportunity*. Poor people consistently emphasize the centrality of material opportunities: jobs, credit, roads, electricity, and markets for their produce, as well as schools, clean water, sanitation services, and health care. Overall economic growth is crucial for generating opportunity. Investment and technological innovation are the main drivers of growth in jobs and incomes. Private investment is fostered by a positive climate characterized by stable fiscal and monetary policy, clear and stable investment regimes, and sound financial systems. Private investment is also more likely when bureaucratic harassment is curbed, the rule of law is ensured, and corruption is fought. Furthermore, private investment must be complemented by public investment, particularly in expanding infrastructure and communications and in educating and training the labor force to close the technological gap.

Market reforms can play a key role in expanding opportunities for poor people. In particular, international markets offer huge opportunities for job and income growth--in agriculture, industry, and services. All countries in which incomes have risen substantially have made use of international trade, and benefits have been strongest when countries have the infrastructure and institutions to underpin a strong supply response. But, because reforms to build markets sometimes fail and, during the transition, can hurt the poor, their design and sequencing need to take account of local conditions and institutions. Also, schemes neet to be in place to compensate the losers of reform, especially when they are poor.

Promoting opportunities for poor people will entail addressing ingrained inequalities in access to market opportunities and assets. To make markets work better for poor people, the reform agenda must embrace the concerns of small firms and producers. For example, reducing licensing requirements, simplifying tax systems and procedures for registration and tendering, lowering the minimum capital requirements for small rural banks and small thrifts, and reforming the legal and judicial system to reduce the risks of lending to small producers can create an environment in which small firms might flourish. Expanding access to financial systems is particularly important. Over the past two decades, new approaches--known collectively as microfinance--have emerged that apply sound economic principles in the provision of financial services to low-income clients. Pioneers like the Grameen Bank in Bangladesh and the village banks of Bank Rakyat Indonesia have been providing financial products matching the needs of low-income clients, using innovative collective monitoring to strengthen repayment performance and charging interest rates that cover operational costs.

Poor people's assets can be expanded by increasing the share of public spending on poor people, in particular, to expand basic social and economic services and relax constraints on the demand side. Examples are scholarships for poor children, land redistribution schemes (such as the negotiated, decentralized, and community-driven land reforms implemented in Brazil and the Philippines), land titling, and improvements in the land rental market. Special actions are needed to bring poor remote areas closer to market opportunities either physically or virtually. (For example, the Internet has given poor artisans in several countries of Latin America, North Africa and the Middle East and South Asia access to markets worldwide.)

*Empowerment.* Actions to improve the functioning of state and social institutions improve both growth and equity by reducing bureaucratic and social constraints to economic action and social mobility. Involving communities in setting budget priorities--as was done in Porto Alegre, Brazil--can help focus public action on social priorities. Decentralization, if accompanied by adequate financial and technical resources as well as participatory mechanisms to prevent domination by local elites, can make state institutions more responsive to poor people by increasing the interactions with them.

Disseminating information and community-based evaluations can make bureaucracies more accountable and responsive. In Uganda, for example, newspapers and the radio have begun announcing the amount of resources schools receive; since this practice has been in place, schools have kept close to 100 percent of nonwage funds compared with about 20 percent in the past. In India, the "report card" in Bangalore's public services shows how a public feedback mechanism can make public agencies more accountable to their clients. Streamlining bureaucratic hurdles--to make markets work better for poor people--can also reduce opportunities for corruption.

Poor people tend to lack the resources and the information to access the legal system. Supporting legal aid organizations that disseminate information on legal rights and procedures and help poor people defend their rights can reduce incidents of police brutality and state arbitrariness and protect the small amount of property poor people own. Empowerment also means making political systems more inclusive and participatory.

The norms and social institutions that reinforce inequalities between groups in society can become the basis of severe deprivation and conflict. Reforming legal systems that formalize customary practices limiting women's access to property, participation in political processes, and so on, can create real advances for women. Mandatory joint titling of land to married couples has reduced the male bias in access to land in Latin America. Group-based microfinance schemes have allowed poor women to participate in the market. Affirmative action programs in India have done much to lower the barriers faced by lower castes. Using subsidies to encourage families to send their girls to school and hiring women teachers have helped reduce the gender gap in education.

*Security.* Reducing the risk of epidemics or disease through public health campaigns, the risk of floods through dam construction, and the risk of economic crises through sound macroeconomic and financial policies are ways to address vulnerability. But adverse situations are likely to occur despite efforts to prevent them. Being prepared to respond to economy-wide shocks, financial or natural, is essential.

In economic or financial crises, when austerity measures are introduced, it is important to protect spending on programs important to poor people. For example, employment programs, cash transfers, and mechanisms of formal social insurance can help poor people cope with macro shocks and individual shocks. Equally important, countercyclical social protection programs should be permanent and ready to be deployed when countries are hit by a shock. A comprehensive approach to address risk and vulnerability should include "calamity funds" to finance relief efforts following natural disasters or budgetary rules that ensure financing for safety nets when they are needed.

**Need for international actions**

Action at the national and local levels will often not be enough for rapid poverty reduction. Many areas require international participation, especially by industrial countries. Industrial countries could expand opportunities by opening their markets more completely to imports from poor countries, particularly in agriculture, textiles, light manufactures, and services. It has been estimated that industrial country protectionism causes annual losses in welfare of about $43 billion in developing countries, equivalent to more than 80 percent of aid in 1998. Increasing the participation of poorer countries and poor people may lead to more equity in the rules that govern interactions in the world economy. Furthermore, donor countries could strengthen developing countries' ability to pursue poverty reduction by increasing aid to those with a policy environment that supports poverty reduction and, in addition, by financing the IMF and World Bank's enhanced Heavily Indebted Poor Countries (HIPC) Initiative, making debt relief deeper when necessary.

Jointly with governments and the private sector, the international financial institutions must improve their management to lessen economic volatility and reduce the likelihood of economic crises. Industrial country governments, often in cooperation with the private sector, should provide more support for international public goods--for developing and distributing vaccines for HIV/AIDS, tuberculosis, and malaria and for producing and disseminating agricultural advances for tropical and semiarid conditions. Protecting the environment and stemming armed conflicts will also require international cooperation. In particular, the international community could stem conflict by taking measures to reduce the international arms trade, promote peace, and support physical and social reconstruction after conflicts end.

The challenge of reducing poverty is indeed huge. But with our better understanding of what it takes to fight poverty and given the world's brighter economic prospects, rapid progress is feasible--as long as the political will and a true spirit of partnership among governments, civil society, and the private sector exist.

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