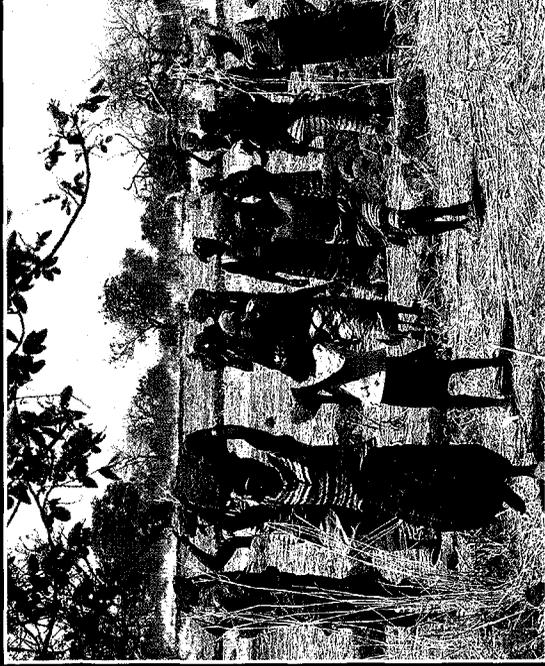
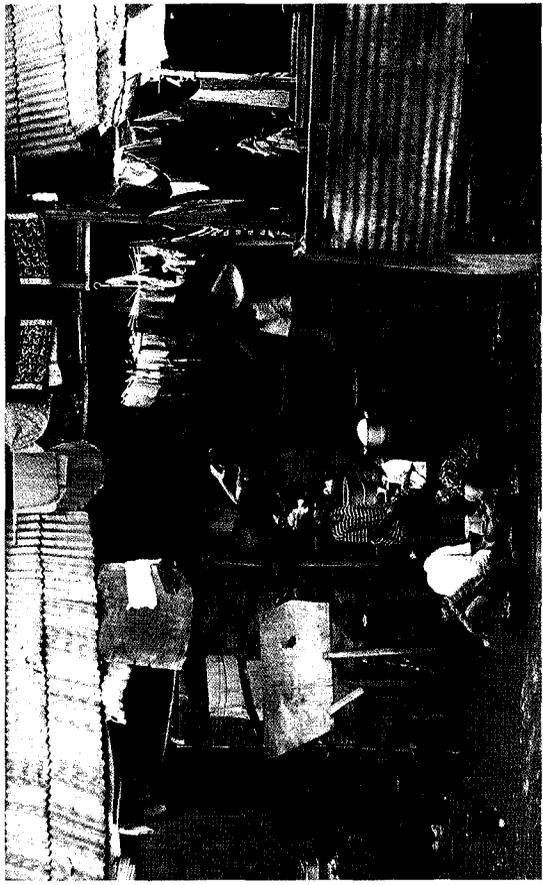


Poverty Reduction and the World Bank Progress in Fiscal 1998



19574
June 1999



The World Bank

Poverty Reduction and the World Bank

Progress in Fiscal 1998

The World Bank
Washington, D.C.

Copyright © 1999
The International Bank for Reconstruction
and Development / THE WORLD BANK
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

All rights reserved
Manufactured in the United States of America
First printing June 1999

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s) and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent. The World Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use. The boundaries, colors, denominations, and other information shown on any map in this volume do not imply on the part of the World Bank Group any judgment on the legal status of any territory or the endorsement or acceptance of such boundaries.

The material in this publication is copyrighted. The World Bank encourages dissemination of its work and will normally grant permission promptly.

Permission to photocopy items for internal or personal use, for the internal or personal use of specific clients, or for educational classroom use, is granted by the World Bank, provided that the appropriate fee is paid directly to Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, U.S.A., telephone 978-750-8400, fax 978-750-4470. Please contact the Copyright Clearance Center before photocopying items.

For permission to reprint individual articles or chapters, please fax your request with complete information to the Republication Department, Copyright Clearance Center, fax 978-750-4470.

All other queries on rights and licenses should be addressed to the World Bank at the address above or faxed to 202-522-2422.

Cover photos, clockwise from top left: "People carrying stones to build contour walls in Burkina Faso," "Uzbekistani woman in a marketplace," "Stilt slums in Indonesia," and "A good harvest in Bangladesh," all from the World Bank photo archive.

Library of Congress Cataloging-in-Publication Data has been applied for.

Contents

Foreword vii

Acknowledgments viii

Abbreviations ix

Executive Summary 1

1	Poverty Reduction in Fiscal 1998: Strategy and Implementation	5
	Progress in poverty reduction	5
	The World Bank's contribution to poverty reduction	9
	The World Bank's poverty reduction strategy	10
	Formulating strategies and placing poverty reduction at the center of assistance strategies	12
	Focusing on poverty outcomes	18
	Moving the frontier and disseminating the knowledge	24
2	Focusing Assistance Strategies on Poverty: Facing Crises	28
	Impact of crises and policy responses on the poor	28
	Bank assistance to countries in crisis	34
3	Monitoring Poverty Outcomes: Integrating Different Methods in Poverty Assessments	38
	Different methodological approaches	38
	Recent experience with different approaches to poverty analysis	40
	Challenges for the future	43
4	Rethinking Poverty Reduction: <i>World Development Report 2000/01</i> on Poverty and Development	45
	Context: moving the frontier of knowledge	45
	Content: challenges and opportunities	45
	Process: consulting broadly with stakeholders around the world	47

Annexes 49

A	Summaries of Completed Poverty Assessments, Fiscal 1998	50
	Bangladesh	50
	Chad	53
	Chile	59
	Djibouti	62
	India	66
	Kazakhstan	69
	Rwanda	73
B	Poverty Assessments, Completed and Scheduled, Fiscal 1989–2001	78
C	Poverty Assessments Completed, Fiscal 1989–1998	79
D	Program of Targeted Interventions, Fiscal 1998	82
E	Poverty-Focused SALs and SECALs, Fiscal 1998	100
F	Poverty-Focused ERLs, Fiscal 1998	109
G	Annual Lending to Selected Sectors, Fiscal 1998	112

References 115**Boxes**

1.1	Indicators for the International Development Goals	7
1.2	Development of the World Bank's strategy on poverty reduction	11
1.3	Participation in the preparation of country assistance strategies	11
1.4	Partnership and country assistance strategies	12
1.5	Examples of good practice in impact evaluation	23
1.6	World Bank thematic groups related to poverty	25
4.1	Findings of the workshops in Marrakech and Buenos Aires	48

Figures

1.1	Projections of poverty incidence for East Asian countries under different assumptions about growth and inequality	8
1.2	Distribution of fiscal 1998 projects by category of evaluation plans	21
A.1	Cotton fiber (lint) yields in Chad	54
A.2	Chad: Producer of shares of crop prices	55
A.3	Chad: Cotton prices, 1983–97	56
G.1	Trends in lending for human capital development, fiscal 1981–98	112

Tables

1.1	Population in developing and transition economies living on less than a dollar a day, by region, 1987–93	6
1.2	Trends in infant mortality rates by region, 1990–97	9
1.3	Evaluation of country assistance strategies based on poverty focus, fiscal 1996–98	12
1.4	Proposed country assistance strategy core benchmarks for Bolivia	16
1.5	Data availability according to 1995 and 1998 censuses of household surveys	19
1.6	Capacity and data initiatives, 1995 and 1998 censuses of household surveys	20
1.7	Fiscal 1998 investment projects with good evaluation plans or the potential for good evaluations	21

1.8	Number and amount of loans for Program of Targeted Intervention projects, fiscal 1992–98	24	
1.9	Number and amount of IDA loans for Program of Targeted Intervention projects, fiscal 1992–98	24	
1.10	Number and amount of poverty-focused adjustment operations, fiscal 1992–98		25
1.11	Number and amount of IDA loans for poverty-focused adjustment operations, fiscal 1992–98	25	
A.1	Bangladesh: Headcount indices of poverty with the cost of basic needs methods, 1983–84 to 1995–96	51	
A.2	Bangladesh: Priority poverty indicators	52	
D.1	Program of Targeted Interventions (PTIs), fiscal 1992–98	82	
D.2	Program of Targeted Interventions by sector, fiscal 1992–98	86	
D.3	Program of Targeted Interventions lending by region, fiscal 1998	86	
D.4	Program of Targeted Interventions, fiscal 1998	87	
E.1	Poverty-focused adjustment operations, fiscal 1998	100	
E.2	Poverty-focused components of adjustment operations, fiscal 1998	103	
E.3	Poverty-focused adjustment lending, fiscal 1992–1998	104	
E.4	Poverty-focused SALs and SECALs, fiscal 1998	105	
F.1	Poverty-focused ERL lending, fiscal 1992–1998	109	
F.2	Poverty-focused ERLs, fiscal 1998	110	
G.1	Average lending to selected sectors, fiscal 1981–1998	113	
G.2	Annual lending to selected sectors, fiscal 1992–1998	114	

Foreword

The financial turmoil of the past two years has dealt a blow to the expectations we had for reducing poverty. Just a short time ago we had confidence that the international development goal of halving poverty would be met in the next 20 years in most areas of the world. Today, countries that until recently believed they were turning the tide in the fight against poverty are witnessing its reemergence, along with hunger and the human suffering it brings. In 1987, 1.2 billion people lived on less than \$1 a day; in 1993, that number was closer to 1.3 billion. As the absolute number of poor people continues to rise, we cannot be complacent.

The recent economic setbacks have added still greater urgency to the Bank's mission of reducing poverty. Stagnant growth, falling commodity prices, slowing world trade, and declining capital flows will make our work all the more difficult. Historically low levels of overseas development assistance add further to the challenge. Although for many people there are promising signs that the worst of the crisis is over, for the extremely poor and marginalized dire poverty persists. Ensuring that the poor will reap some benefit from this much anticipated post-crisis recovery period will require the efforts and collaboration of governments, international financial

institutions, the private sector, and civil society, both in crisis and noncrisis countries.

Facing up to this tremendous challenge has prompted the World Bank to recommit itself to fighting poverty. We have embraced an approach that measures our progress in terms of real outcomes, much in keeping with the outcome-oriented international development goals. Our true measure of success is not how much money we devote to poverty alleviation efforts, but how many people's lives these efforts improve. There is no doubt that focusing on outcomes raises the bar and makes success more difficult to achieve. But for the poor—both current and future—the consequences of failure are too severe to fathom. They are the people who motivate our work.

Knowing how much progress we have—or have not—made toward poverty reduction is critical to the success of our efforts. Armed with this information, we can target our work most effectively. *Poverty Reduction and the World Bank: Progress in Fiscal 1998* looks at our efforts during the past year to deliver results on poverty reduction. It is an important contribution to implementing our strategy so as to ensure that tomorrow's poor will not outnumber today's.

James D. Wolfensohn
President
The World Bank

Acknowledgments

This report was prepared by Giovanna Prennushi under the direction of Michael Walton and Masood Ahmed. Lynne Sherburne-Benz and Parita Suebsaeng contributed the sections on country assistance strategies and poverty assessments. The annexes were prepared by Parita Suebsaeng with assistance from Alexander Arenas, Stella Tamayo, and Jean-François Wipf.

The report benefited from comments from the World Bank's vice presidencies and the International Monetary Fund, and from members of the Poverty Reduction Board: Lionel Demery, Ariel Fiszbein, Norman Hicks, Steen Jorgensen, Valerie Kozel, Nicholas Prescott, Martin Ravallion, Ana Revenga, and Willem van Eeghen. Additional input and comments were

provided by Nora Dudwick, Kene Ezemenari, Zuzana Feachman, Alan Gelb, Ashraf Ghani, Jesko Hentschel, Chris Jones, Sanjay Kathuria, Shahnaz Kazi, Michael Lav, William Maloney, Patty L. Petesch, Gloria Rubio, Anders Rudqvist, Joanne Salop, K. Subbarao, Quentin Wodon, and Ulrich Zachau. Comments from members of the World Bank's Committee on Development Effectiveness are gratefully acknowledged. Alexander Arenas and Precy Lizarondo provided excellent technical support. The report was edited by Meta de Coquereaumont, laid out by Garrett Cruce, and proofread by Daphne Levitas of Communications Development.

The poverty assessment summaries in annex A come from completed poverty assessment reports.

Abbreviations

CEPAL	Comisión Económica para América Latina y el Caribe	IDF	Institutional Development Fund
CGIAR	Consultative Group on International Agricultural Research	LSMS	Living Standards Measurement Survey
DAC	Development Assistance Committee	MECOVI	(Programa de) Mejoramiento de Condiciones de Vida
ECA	Europe and Central Asia	NGO	Nongovernmental organization
ERL	Emergency Reconstruction Loan	OECD	Organisation for Economic Co-operation and Development
GDP	gross domestic product	OED	Operations Evaluation Department (World Bank)
GNP	gross national product	PPA	Participatory Poverty Assessment
IBRD	International Bank for Reconstruction and Development	PTI	Program of Targeted Interventions
IDA	International Development Association	SAL	Structural Adjustment Loan
IDB	Inter-American Development Bank	SPA	Special Program of Assistance for Africa

Executive Summary

This report is the sixth in a series of assessments of how well World Bank activities support the institution's overarching goal of reducing poverty. It finds progress in some areas and concludes that, relative to past benchmarks, performance has been good. But the World Bank, along with much of the development community, has raised its ambitions for poverty reduction. Meeting these higher expectations will take time, and the past year was just the beginning. The report highlights areas needing more work to increase the Bank's contribution to the fight against poverty.

At the 1995 Social Summit, the international community reaffirmed its commitment to fighting poverty in all its aspects by committing to a set of targets for poverty reduction. The World Bank worked closely with the United Nations, the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD), and developing country partners to define a set of indicators for tracking progress. Has progress been made?

Recent trends in income poverty are hard to assess with precision because of data lags. But a preliminary assessment can be made using evidence from the mid-1990s, the initial distribution of poverty, and average per capita growth rates of income. The global picture that emerges is one of likely gains for the extreme poor in China, possible stagnation in India, and sharp declines in living standards in countries hit by financial crisis, natural disasters, and conflicts in East Asia, Africa, and the former Soviet Union. Overall, the target of halving extreme poverty by 2015 still seems achievable, but making that deadline will take greater progress in future years. Among other indicators, information is available up to 1997 for infant mortality. Here, there is steady progress for most countries, but the trend has been too slow to reach the international development targets in most of the world. Without intensified efforts, the targets may not be met.

Assessing the World Bank's performance in reducing poverty is part of the broader question of whether foreign assistance helps in this endeavor. A recent research project on aid effectiveness found that the impact of aid on poverty reduction is much greater in countries with good policies and institutions than in countries with poor policies and institutions (World Bank 1998b). Consistent with these findings, the Bank is allocating more of its International Development Association (IDA) funds to countries with good policies and governance. Attributing changes in living conditions at the country and global level to Bank activities is very difficult, but there are many examples of successful projects and programs supported by the World Bank—from education of girls in Bangladesh to the fight against river blindness in Africa and from successful economic reforms in Uganda to the economic transition in Vietnam.

Assessing Bank performance: strategy shifts and new criteria

As we turn to a specific assessment of the World Bank's performance in support of poverty reduction, it is important to emphasize that the criteria for evaluating the institution's efforts have changed significantly since the mid-1990s, as crystallized in the shifts in direction laid out in the last progress report. Before then the benchmarks for assessing the Bank's performance were primarily in two areas: progress in implementing the major program of poverty assessments initiated at the end of the last decade and progress in the subset of interventions that were specifically targeted to the poor (the Program of Targeted Interventions). There was also increasing emphasis on the extent to which World Bank country strategies, or *intended* plans, were coherently based

on a diagnosis of the links between poverty, policies, and investment strategy—but this was framed in general terms and unlinked to outcomes. The progress report for fiscal years 1996 and 1997 laid out two shifts in direction:

- From describing poverty to formulating strategies and placing poverty reduction at the center of assistance strategies and country dialogue
- From tracking inputs to assessing outputs in evaluating Bank performance.

These shifts are in line with the international emphasis on outcome-based targets noted above. They substantially, and correctly, raise the bar for assessing performance. When these two new directions were presented to the Bank's Board of Executive Directors during discussion of the last progress report, the board endorsed them both but recognized that moving to an outcome-oriented approach would be difficult and would take time.

In substantive approach World Bank activities in fiscal 1998 continued to be broadly guided by the strategy proposed in the *World Development Report 1990: Poverty*, the 1991 policy paper on *Assistance Strategies to Reduce Poverty*, and Operational Directive 4.15. That strategy stressed fostering labor-based growth while investing in human capital and providing safety nets for those unable to benefit from growth. However, several new themes have emerged since the early 1990s that have influenced implementation of the strategy: the vulnerability of the poor to shocks, the role of institutions in implementing policies and providing services, and greater recognition of the importance of participation, partnerships, and social capital. These new themes can be seen throughout Bank work.

Activities in fiscal 1998 also reflected the impact on poverty of some of the key events of the year: persistent conflict in some of the poorest African countries, the sudden impoverishment of millions in East Asia as a consequence of the financial crisis, the continuing pain of transition in former socialist economies, and the tenuous situation of the millions of poor people in China and India. These themes will be brought together in a major new synthesis of the underlying determinants of poverty reduction in *World Development Report 2000/01*, and a subsequent policy paper will discuss the implications of the report's findings for the Bank's policy and operational work.

From describing poverty to formulating strategies and placing poverty reduction at the center of country assistance strategies

The first strategic shift—from describing poverty to formulating strategies and placing poverty reduction at the center of assistance strategies and country dialogue—is being implemented through better formulated country assistance strategies and poverty assessments. Fifty-six percent of country assistance strategies presented to the Board of Executive Directors in fiscal 1998 were judged fully satisfactory in their integration of poverty issues into the framing of the forward-looking strategy, up from 20 percent two years ago; only 7 percent were judged unsatisfactory. This record reflects substantial progress in making poverty reduction the cornerstone of assistance strategies. The Comprehensive Development Framework recently proposed by President James Wolfensohn is a key instrument for piloting a holistic approach to designing and implementing better poverty reduction strategies.

As for poverty assessments, 101 were completed by the end of fiscal 1998, covering approximately 90 percent of the world's poor. Most of the countries not yet covered became members in the 1990s (especially in Europe and Central Asia) or are countries where conflict or other factors have led to limited or difficult relations. The Bank remains fully committed to completing all first-round assessments over the next three years, though continuing conflict may delay this in some cases.

The *process* of undertaking poverty assessments (first round and updates) slowed a bit in fiscal 1998. Only six assessments were completed, and their quality is uneven. Why are poverty assessments often subject to delays? There are three primary reasons:

- Poverty work, especially good poverty work, is often complex and unpredictable in execution, especially with the rising emphasis on participatory processes—participation by the poor themselves and by a range of civil society and other stakeholders. For example, poverty assessments in South Africa, India, and Vietnam took longer than planned because of a heightened commitment to the use of participatory and consultative methods.
- Poverty analysis is sometimes politically contentious—some governments do not even want to use the term *poverty* and some place low priority

on poverty issues, making implementation of poverty analysis more difficult and delays more likely.

- Poverty assessment skills remain in relatively scarce supply. When other aspects of the work program acquire greater urgency, research work on poverty may be delayed—the diversion of staff to work on social responses to the East Asia crisis is the main reason for the delay in the Cambodia poverty assessment, for example.

Different remedies are required for each of these reasons for delay. While it would make little sense to push “timely” completion of poverty assessment for its own sake, more active management is desirable. The regional vice presidencies are setting up mechanisms for keeping a close watch on poverty assessments, to ensure that the factors that have delayed completion in fiscal 1998 do not prevent timely access to the information needed for developing poverty reduction strategies. The Poverty Reduction Board is taking a more active role in monitoring the quality and timeliness of poverty work and expects 12 poverty assessments to be completed in fiscal 1999, twice as many as in fiscal 1998. New guidelines for second-generation poverty assessments are now being prepared, to ensure that country strategies are based on up-to-date and relevant poverty analysis. At the same time, increasing emphasis will be placed on building capacity for undertaking this analysis within developing countries.

From tracking inputs to assessing outcomes

The second shift in direction for assessing Bank performance—from tracking inputs to focusing on outcomes—is harder to implement and will take several years. Efforts are under way to monitor national and global trends in the multidimensional indicators of poverty identified in the International Development Goals and to carefully evaluate the impact of specific interventions. But much more remains to be accomplished.

Substantial progress has been made in both the coverage and the availability of data on poverty. A 1998 census of available survey data on household consumption, income, and other indicators of living standards found survey data for most countries. It also found that more countries have comparable data sets than at the time of the previous survey census in 1995, making it possible to assess trends over

time, and that more data sets are openly accessible to civil society. Impressive strides have been made in Sub-Saharan Africa. At the time of *World Development Report 1990* data were available for only 6 percent of the population; for the *World Development Report 2000/01* data will be available for a full two-thirds of the population. Moreover, much more information is available from participatory poverty studies, and in-country poverty monitoring capacity is being built.

Much less progress has been made in evaluating the impact of specific interventions. In still too few cases is it possible to tell whether a project actually reduced poverty and improved the lives of intended beneficiaries. This is clearly an area needing greater attention as we move to a culture based on implementation and results. The Bank is raising awareness among managers and country counterparts of the importance of evaluating the impact of interventions, so as to learn what works and what does not. The Bank will also be strengthening capacity, among its staff and in the countries it assists, to conduct good evaluations, through training and dissemination activities. Management will monitor—through prior reviews of inputs and retrospective reviews of performance—all lending operations, large adjustment loans in particular, to ensure that designs take into account the impact on the poor and that, where appropriate, lending operations contain adequate monitoring and evaluation mechanisms.

While pushing for more evaluations of the impact of projects on poverty, the Bank continues to track the amount of lending that is targeted to the poor through the Program of Targeted Interventions and poverty-focused adjustment lending. In fiscal 1998, the amount lent under the Program of Targeted Interventions increased from 29 to 40 percent of total investment lending. The amounts lent for poverty-focused adjustment operations also increased, from 52 to 64 percent of total adjustment lending.

Much remains to be done also in assessing the impact of Bank activities at the country level. Very few country assistance strategies now contain indicators against which to assess Bank performance. This is a fundamental issue, and the standards for assistance strategies need to be raised in line with the shift toward results-based management. Country assistance strategies should set explicit benchmarks for measuring progress in poverty reduction and discuss the systems in place to monitor and evaluate performance

in reaching these benchmarks. To this end, a system combining initial support to country teams with retrospective reviews to assess the impact of country assistance strategies will be set up, following guidelines now being drafted.

New themes: Response to crises, methods of analysis, and *World Development Report 2000/01*

In addition to reviewing Bank activities, this year's report focuses on three additional themes: response to crises, methods of poverty analysis, and the upcoming *World Development Report 2000/01* on poverty.

First, the report looks more in depth at Bank assistance to countries in crisis. It outlines some general considerations to guide pro-poor policy responses during a crisis and looks at issues of preparedness before crises. A forward-looking approach is essential. Appropriate safety nets and systems for monitoring the extent of poverty and vulnerability need to be set up or strengthened *before* a crisis, because it is far more difficult to set up such programs *during* a crisis. Setting up such systems in periods of robust growth requires special efforts, since countries are less likely to plan for crises when everything is going well. The report reviews Bank-assisted activities in East Asia and finds that greater attention was paid to the impact of the crisis on the poor than during earlier crises in Africa and Latin America.

Second, the report takes a closer look at the poverty assessment work that underpins country assistance strategies, focusing in particular on one of the new directions in this work—the integration of quantitative and participatory methods. The rationale is that different methods contribute different insights and that integration can bring about a deeper understanding of the nature of poverty and a better design of poverty reduction strategies. The report reviews some recent examples of participatory poverty assessments that used integrated approaches.

Third, the report explores the initial thinking behind *World Development Report 2000/01* and the process leading to its preparation.¹ *World Development Report 2000/01* starts from the premise that global trends in trade, financial, and technological in-

tegration provide an unprecedented opportunity for poverty reduction, but they also carry considerable risks of marginalization, impoverishment, and exclusion. The initial thinking is that an effective poverty reduction strategy will require action on three fronts. First, it requires ensuring empowerment of the poor by increasing their voice and participation in decisionmaking; this has to be viewed both as an important outcome and as a vital *input* to improving policies, institutions, and service delivery and as the political basis for the pursuit of pro-poor growth. Second, it requires providing security against shocks, for individuals and nations, and safety nets for those left behind by rapid change. And third it requires providing the material basis for poverty reduction, by creating opportunities for the poor and putting in place the conditions for sustainable economic expansion, including the growth of the poor's own assets.

The process leading to *World Development Report 2000/01* is as important as the report itself—perhaps even more so. The draft outline is being discussed broadly, as part of a process of consultations that will continue throughout the preparation process. The participatory method used in preparing the report fits well with the approach proposed by President Wolfensohn in his speech at the 1998 Joint World Bank–International Monetary Fund Annual Meetings and further elaborated in the Comprehensive Development Framework, in which all development actors join hands to address performance gaps identified in a country, building on each participant's comparative advantage. *World Development Report 2000/01* will shed light on the links between performance gaps, policy responses, and the overarching goal of ensuring a better future for those who now live in poverty.

Continuing its current practice, the World Bank will prepare a progress report for fiscal 1999 that will revisit the issues raised in this year's report.

Note

1. *World Development Report 2000/01* follows a tradition begun in 1980 of preparing a major *World Development Report* on poverty every 10 years. The report year is 2000/01 because the numbering system was changed in September 1998 to better reflect the year of dissemination. This change in numbering does not imply any change in the preparation schedule for the report.

CHAPTER 1

Poverty Reduction in Fiscal 1998: Strategy and Implementation

Progress in poverty reduction

Living standards have improved dramatically over the past quarter century, particularly health and education status. Infant mortality rates fell from 104 per 1,000 live births in 1970–75 to 59 in 1996. Life expectancy has risen by an average of four months each year since 1970. Governments report rapid progress in primary school enrollment, and adult literacy has risen from 46 percent in 1970 to 70 percent in 1996. Gender disparities have narrowed, at least along some dimensions, with the average ratio of girls to boys in secondary schools rising from 70 to 100 in 1980 to 82 to 100 in 1993 (World Bank 1998f). GNP per capita growth of some 1.3 percent a year over this period has likely brought reductions in the incidence of income poverty, but progress has been highly variable, with dramatic gains in East Asia, slow progress in South Asia, and stagnation or even retrogression in parts of Sub-Saharan Africa. Latin America and the Middle East and North Africa have experienced a roller coaster ride, while the countries of the former Soviet Union have seen a major increase in income poverty since the beginning of the transition.

Poverty, in all its manifestations, remains unacceptably high. Too many children are born into extreme poverty from which they never escape. Because of population growth, the number of people living on less than a dollar a day increased from 1.2 billion in 1987 to 1.3 billion in 1993, even as their share of the population held steady at just under one-third.¹ The AIDS epidemic in Africa and, to a smaller degree, the economic transition in the countries of the former Soviet Union have even resulted in *declines* in life expectancy. And women everywhere continue to experience harsher living conditions than do men.

Of the 1.3 billion people living in extreme poverty (on less than a dollar a day) in 1993, roughly 40 percent were in South Asia, 34 percent in East Asia (80

percent of those in China), and 17 percent in Sub-Saharan Africa (table 1.1). Fourteen countries—Bangladesh, Brazil, China, Democratic Republic of Congo, Ethiopia, India, Indonesia, Kenya, Mexico, Nepal, Nigeria, Pakistan, Peru, and the Philippines—had upwards of 10 million people living on less than a dollar a day and accounted for more than 80 percent of the total number of extreme poor. (Updated figures for 1996 will be available in fall 1999 and will be included in the next progress report.)

International development goals

Over the past few years, especially since the 1995 Social Summit, the international community has focused on establishing explicit targets for reducing the various dimensions of poverty. In partnership with developing countries, the Organisation for Economic Co-operation and Development (OECD), the United Nations, and the World Bank agreed on a set of goals, known as the International Development Goals, to guide official development assistance into the next century (DAC/OECD 1996):

For economic well being

- Reducing by half the proportion of people living in extreme poverty by 2015

For social development

- Achieving universal primary education in all countries by 2015
- Making progress toward gender equality and the empowerment of women by eliminating gender disparities in primary and secondary education by 2005
- Reducing by two-thirds the mortality rates for infants and children under five and by three-quarters the mortality rates for mothers by 2015

TABLE 1.1

Population in developing and transition economies living on less than a dollar a day, by region, 1987–93

Region	Population covered by at least one survey (percent)	Number of poor (millions)			Headcount index ^a (percent)			Poverty gap ^b (percent)		
		1987	1990	1993	1987	1990	1993	1987	1990	1993
East Asia and the Pacific	88.0	464.0	468.2	445.8	28.2	28.5	26.0	8.3	8.0	7.8
Excluding China	61.5	109.2	89.3	73.5	23.2	17.6	13.7	3.8	3.1	3.1
Europe and Central Asia	85.9	2.2	—	14.5	0.6	—	3.5	0.2	—	1.1
Latin America and the Caribbean	83.9	91.2	101.0	109.6	22.0	23.0	23.5	8.2	9.0	9.1
Middle East and North Africa	46.7	10.3	10.4	10.7	4.7	4.3	4.1	0.9	0.7	0.6
South Asia	98.4	479.9	480.4	514.7	45.4	43.0	43.1	14.1	12.3	12.6
Sub-Saharan Africa	65.9	179.6	201.2	218.6	38.5	39.3	39.1	14.4	14.5	15.3
Total	85.0	1,227.1	—	1,313.9	30.1	—	29.4	9.5	—	9.2
Total, excluding Europe and Central Asia	85.0	1,224.9	1,261.2	1,299.3	33.3	32.9	31.8	10.8	10.3	10.5

— Not available.

Note: The numbers are estimated from countries in each region for which at least one survey was available for the period 1985–94. Survey dates often do not coincide with the dates in the table. To line up with the table dates, the survey estimates were adjusted using the closest available survey for each country 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 numbers of poor are then estimated by region. This assumption is less robust in the Middle East and African regions.

a. Percentage of the population below the poverty line.

b. Difference between the poverty line and the mean consumption or income of the poor, expressed as a ratio of the poverty line.

Source: World Bank 1996a; Ravallion and Chen 1996.

- Providing access to reproductive health services for all individuals of appropriate age by 2015.

These goals reflect the conviction that poverty is multidimensional, encompassing not only lack of control over resources but also illiteracy, poor health, and lack of access to services. Indicators for these goals have also been developed (box 1.1).

Can the targets set for the International Development Goals be achieved? Initial analysis for two of the indicators, income poverty and infant mortality, carried out before the full impact of the crisis was known, found that for much of the developing world the goal of cutting income poverty in half was achievable provided good policies underpinned widely shared, sustained growth, but that in some countries, especially in Sub-Saharan Africa, a substantial rise in growth—without increases in inequality—would be necessary (Demery and Walton 1998; this analysis is now being revised). Achieving the goal of a two-thirds reduction in infant and child mortality, by contrast, looks unlikely given past trends.²

Recent trends

How does progress in the recent past, including fiscal 1998, the focus of this report, measure up against these targets? Information on income poverty, mortality, and education status is generally available only after a lag of a year or two—much longer for some countries. For the future the Bank is exploring tools for as-

sessing trends in income poverty based on more readily available data, such as per capita GDP growth and the distribution of income. For the time being, however, it is possible to make only qualitative judgments based on trends in GDP growth and inequality (per capita GDP growth translates into declines in income poverty if inequality does not increase, that is, if the poor benefit from growth as much as do the better off).³

The global picture that emerges is one of likely gains for the extreme poor in China, possible stagnation in India, and sharp declines in living standards in countries hit by financial crises, natural disasters, and conflicts in East Asia, Africa, and the former Soviet Union. Overall, the target of halving extreme poverty by 2015 still seems achievable, but it will require greater progress in future years.

From a social perspective the most dramatic event of fiscal 1998 was the financial crisis that began in East Asia in the summer of 1997 and then spread across the globe. We focus on the crisis here and in chapter 2 because of its devastating impacts on the poor and near-poor. The financial crisis brought to an end a long period of rapid growth in East Asia and led to significant increases in poverty. Projections for poverty reduction in East Asia (Indonesia, Malaysia, the Philippines, and Thailand) under various scenarios paint a somber picture (figure 1.1).

Starting from 1997 poverty levels in each country (using international poverty lines of \$1 and \$2 a day in 1985 purchasing power parity prices), poverty lev-

BOX 1.1

Indicators for the International Development Goals*Goal*

Reduce extreme poverty by half

Achieve universal primary education
Eliminate gender disparities in primary and secondary education

Reduce infant and child mortality

Reduce maternal mortality
Provide universal access to reproductive health services

Other indicators

*Indicator*Incidence of extreme poverty (population below a dollar a day)
Poverty gap ratio (difference between the poverty line and the mean consumption or income of the poor, expressed as a ratio of the poverty line)
Inequality (poorest fifth's share of national consumption)
Child malnutrition (prevalence in children under five, based on weight for age)Net enrollment in primary education
Completion of 4th grade of primary education
Literacy rate of 15- to 24-year olds
Ratio of girls to boys in primary and secondary education
Ratio of literate women to men (15- to 24-year olds)Infant mortality rate (per 1,000 live births)
Under-five mortality rate (per 1,000 live births)
Maternal mortality ratio (per 100,000 live births)
Births attended by skilled health personnel
Contraceptive prevalence rate
HIV prevalence in 15- to 24-year old pregnant womenGNP per capita
Adult literacy rate
Total fertility rate
Life expectancy at birth
Aid as percentage of GNP
External debt as percentage of GNP
Investment as percentage of GNP
Trade as percentage of GNP

els were projected for 2000 based on the most likely growth scenario (as of September 1998) and again based on a 10 percent decline in output coupled with different assumptions on inequality. Indonesia, which is forecast to experience the biggest drop in output, would experience the sharpest increase in poverty. Assuming no changes in income distribution, the share of people living on less than a dollar a day could increase from 6.6 to 16.3 percent of the population, an increase from 13 million poor people in 1997 to 34 million in 2000. This level of poverty is comparable to that of the late 1980s and early 1990s, meaning that Indonesia could suffer a 10-year setback. Thailand and Malaysia are also expected to be hit hard, with increases in the incidence of poverty of 20 percent for Thailand (from 14.7 to 17.6 percent) and 10 percent for Malaysia (from 19.9 to 21.8 percent), using a \$2 a day poverty line, which is more appropriate for these countries. This would be a several-year setback for both countries. In the Philippines, where growth rates are expected to re-

main positive, progress in poverty reduction is expected to slow but not to be reversed. The projections based on a given GDP reduction of 10 percent also show how changes in inequality would affect poverty, with poverty increasing significantly less when reductions in GDP growth are accompanied by decreases in inequality (see figure 1.1).

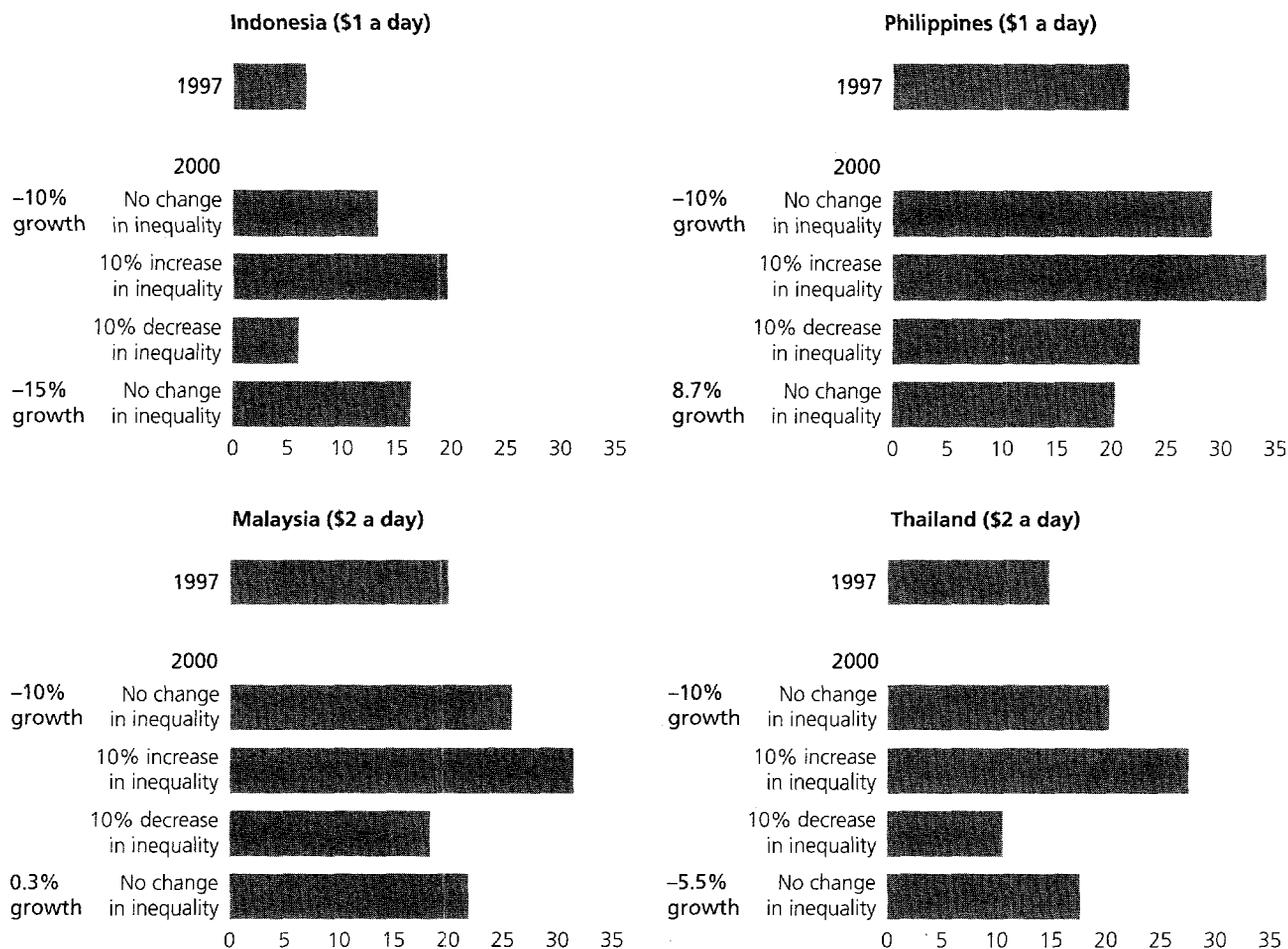
Recent data for the region indicate that poverty increased significantly in both the Republic of Korea and Indonesia. In Indonesia the urban middle class seems to have been the hardest hit.⁴ Recent results for Vietnam have been better than expected. China has so far not been hurt by the crisis; the number of people living below \$1 a day declined from 200 million in 1995 to 125 million in 1997.

The picture for South Asia is more mixed. Growth rates for the region have remained positive, with per capita GDP growth of 2.7 percent expected for 1998. But recent data on rural wages in India suggest stagnation; the poor may not have benefited from growth

FIGURE 1.1

Projections of poverty incidence for East Asian countries under different assumptions about growth and inequality

Percent



Note: The GDP growth rates in the figure are cumulative rates over the three-year period 1998–2000.

Source: Ravallion and Chen 1998.

as much as hoped for. Bangladesh, which had been performing well, has been hit by devastating floods. And performance has been poor in Pakistan.

Prospects for Africa remain worrisome. Africa is less integrated into global financial markets than other regions and—with the notable exception of South Africa—has experienced less of the contagion effects of the financial shocks. Nevertheless, the crisis is already having an impact, with declining prices for many primary products, slower growth of world trade, and prospects of increased competition from countries with depreciated exchange rates. And conflicts continue to rage in some of the region's poorest countries. Crisis, conflict, and (in some cases) adverse weather have combined to cut growth in Sub-Saharan Africa. GDP growth in 1998 appears to have been below the rate of population growth, implying

a decline in per capita income. A small number of countries that are undertaking reform programs, Tanzania and Uganda among them, have fared better, but many more are ravaged by conflict.

Sharp declines in growth and increases in poverty are also anticipated in Russia, Ukraine, and Romania. Despite significant growth in other areas of the Europe and Central Asia region (most notably Poland and Hungary), growth in GDP per capita is expected to be zero for the Europe and Central Asia region.⁵ Negative GDP per capita growth is also expected in the Middle East and North Africa.

Prospects for Latin America and the Caribbean are clouded by the crisis in Brazil, but per capita GDP growth was significant in 1997 and still positive, albeit lower, in 1998. The region has recently suffered from devastating natural disasters—from the

TABLE 1.2

Trends in infant mortality rates by region, 1990–97
(deaths per 1,000 live births)

Region	1990	1992	1996	1997	Reduction 1990–97 (percent)
East Asia and Pacific	42	44	39	38	10
Europe and Central Asia	28	28	24	25	9
Latin America and the Caribbean	42	38	33	32	24
Middle East and North Africa	61	60	50	48	21
South Asia	87	85	..	77	12
Sub-Saharan Africa	100	97	91	90	10

Note: Data are shown only for some years, because of data availability.
Source: World Bank 1998f.

widespread effects of the El Niño weather patterns to the ravages of Hurricane Mitch in Honduras and Nicaragua. Moreover, recent evidence of rising inequality in some areas—most notably, in urban Brazil—adds to concerns about already high disparities in the region. Long-term increases in inequality had also been detected in East Asia before the crisis, and the trend toward higher inequality, which emerged in analyses for countries as diverse as Bangladesh and Brazil, highlights the need to look further into the nature of recent patterns of growth.

Estimates are also available for infant mortality up to 1997 for most countries. These indicate progress during 1990–97 in all regions, apart from Europe and Central Asia, where there was a slight deterioration in 1997. But reductions in infant mortality of around 10 percent in East Asia, Europe and Central Asia, South Asia, and Sub-Saharan Africa over the past seven years appear to be too slow to meet the targets set in the International Development Goals for 2015 (table 1.2).

The World Bank's contribution to poverty reduction

Does foreign aid help in reducing poverty? A recent research project on aid effectiveness found that the impact of aid on poverty reduction is much greater in countries with good policies and institutions than in countries with “bad” policies and institutions (World Bank 1998b). With sound policies that are well implemented, aid equivalent to 1 percent of GDP translates into a 1 percent decline in poverty and a similar decline in infant mortality.

With poor implementation, or poor policies, the impact of foreign aid is much smaller. The study estimates that an additional \$10 billion in aid allocated to countries with good policies could lift 25 million people a year out of poverty.⁶ The same resources would help only 7 million people escape poverty if the resources were distributed equally to all countries without discriminating between good and poor performers.⁷ Moreover, well-targeted aid can serve to attract, rather than displace, private capital. The study also found that policy and institutional changes cannot be successfully imposed from outside, but need to come from strong country leadership and to have solid political support. Where support for reforms is lacking, it is more effective for the international community to offer ideas than funds. Finally, the study stressed that projects, even if successful, have little impact in a distorted policy environment and that their main contribution in any environment should be to build capacity and to create and disseminate knowledge about what works. The results of the study, and its recommendations, are especially important in the current context of declining aid flows.

What is the World Bank doing to increase the effectiveness of its aid? The Bank has been strengthening the link between its assistance to the poorest countries, provided through the International Development Association (IDA), and indicators of policy performance. The total amount of potential IDA lending to a country is determined through assessments of macroeconomic and sectoral policies and institutions. Governance also affects a country's allocation: countries with high levels of corruption are allocated proportionally less resources. These assessment procedures and allocation criteria, which were discussed with the countries that provide funds for IDA, should ensure that World Bank aid is allocated to countries where its potential impact on poverty reduction is greatest.

Attributing changes in living conditions at the country and global level to Bank activities is very difficult. Final outcomes depend on a host of factors that are not under the Bank's control, including the actions of many other actors, from government agencies to project beneficiaries. Assessing impacts at the project level is a relatively easier task, but such assessments do not prove impact at the country level, because money is fungible: a successful project might have been un-

dertaken anyway without Bank funding, so it is the impact of the “marginal” project (one that, at the margin, would not have been funded without the additional Bank money) that measures whether the Bank contributed to poverty reduction.

These difficulties notwithstanding, there are many examples of successful projects and programs supported by the World Bank—from education of girls in Bangladesh to the fight against river blindness in Africa, from successful policy reforms in Uganda to the economic transition in Vietnam. A recent review of activities with either demonstrated impacts or good plans for conducting impact evaluations highlighted several projects. In Tamil Nadu, India, the Second Integrated Nutrition Project cut severe malnutrition and the incidence of low birth weight by half. In Argentina the Health, Nutrition, and Early Childhood Development Project rehabilitated primary health care centers, child feeding centers, and kindergartens in poor areas, enabling follow-up care for children with health problems and maternal education in good health and nutrition practices. The project expects to reach 20 percent of low-income mothers and children in urban areas, and the government is replicating the approach outside project areas. In Africa, IDA funds now support almost 50 education projects; more than 5 million textbooks have been delivered by 9 of these projects, and classrooms have been built with community participation to extend access to approximately 1.8 million children. In Uganda the World Bank supported the government’s economywide efforts to restore poverty-reducing growth and give priority to social services; recent data indicate a decline in income poverty and improved school enrollment rates.

The World Bank’s poverty reduction strategy

To increase the effectiveness of its assistance to client countries, the World Bank has directed its efforts over the past 18 months in the two directions laid out in last year’s progress report on poverty reduction (World Bank 1998e), shifting:

- From describing poverty to formulating strategies and placing poverty reduction at the center of assistance strategies and country dialogue
- From tracking inputs to assessing outcomes in evaluating Bank performance.

The World Bank poverty reduction strategy remains, at its core, the strategy proposed in *World Development Report 1990: Poverty*, the 1991 policy paper on *Assistance Strategies to Reduce Poverty*, and the 1991 Operational Directive 4.15 on Poverty Reduction: supporting policies that promote broad-based, labor-intensive growth, investments in human capital, and the provision of safety nets for those unable to share in the benefits of growth. Experience in a number of countries over the past decade has confirmed the validity of this approach. Nonetheless, since the early 1990s several themes have emerged that were not prominent in the 1990 strategy, but that are important to the success of poverty reduction. In 1996 the World Bank’s Strategic Compact reemphasized the importance of rural development, focused attention on social development (the role of institutions, social exclusion, social capital), and warned of the vulnerability of poor households and communities to shocks. Even before the East Asian crisis there was growing concern over inequality, which remained high in Latin America and appeared to be increasing in countries making the transition to market economies as well as in some East and South Asian countries—Bangladesh and Thailand, for example. The financial crisis heightened concern over inequality and vulnerability and brought to the fore concerns over governance, especially in Indonesia. *World Development Report 2000/01*, which will be published in September 2000, will focus on poverty and development and pull these themes together, synthesizing current thinking (see chapter 4 for more information on the upcoming *World Development Report 2000/01*). A policy paper will discuss the implications of the report’s findings for the Bank’s policy and operational work. Operational Directive 4.15 is also being revised (box 1.2).

The first strategic shift—from describing poverty to formulating strategies and placing poverty reduction at the center of assistance strategies and country dialogue—is being tackled through better formulated country assistance strategies and poverty assessments (see next section). Country assistance strategies are where the World Bank’s mission to “fight poverty with passion and professionalism” begins to be translated into programs and actions. The Comprehensive Development Framework, recently proposed by World Bank President James Wolfensohn, will be implemented in several countries on

BOX 1.2

Development of the World Bank's strategy on poverty reduction

The most recent major effort at conceptualizing the Bank's poverty reduction strategy took place in the early 1990s, a decade after the first *World Development Report* on poverty, and was developed in three key documents: *World Development Report 1990: Poverty* (World Bank 1990), the 1991 policy paper *Assistance Strategies to Reduce Poverty* (World Bank 1991), and Operational Directive 4.15 on Poverty Reduction (issued in December 1991).

Progress in the mid-1990s was tracked through the annual *Progress Reports on Poverty Reduction*, of which this is the sixth (see World Bank 1993, 1994, 1995a, 1996a, 1998e). The *Strategic Compact*, issued in 1996, reaffirmed the importance of rural development in line with *World Development Report 1990*, but recognized the importance of social and institutional factors (World Bank 1997).

We are now entering a new phase of strategy and policy formulation. Guidelines for country assistance strategies, poverty assessments, and other Bank operations are being revised. *World Development Report 2000/01*, now under preparation, will provide an opportunity to take stock of what has worked and what has failed in poverty reduction over the past decade and will recommend actions for the Bank and other international institutions. Finally, a new policy paper will explore the implications of the report for Bank policy.

a pilot basis, providing an opportunity to develop and test new approaches to achieving greater poverty reduction, in partnership with other development actors, which can then be replicated in a large number of countries.

The second shift—from tracking inputs to focusing on outcomes—is being tackled in two ways. First, efforts are under way to monitor the multi-dimensional indicators of poverty identified in the International Development Goals at the country and global levels. The World Bank has begun to work with client countries to include these goals among the benchmarks against which progress in implementing country assistance strategies will be measured. This requires adapting the indicators to reflect local conditions (for example, using national poverty lines to monitor poverty in a country instead of the international poverty line of a dollar a day). The work done in Colombia provides a good example of how this can be done (box 1.3).

BOX 1.3

Participation in the preparation of country assistance strategies

As an ongoing effort to build stronger partnerships and ensure that assistance strategies are firmly embedded in a country's development agenda, country assistance strategies are increasingly being designed in close consultation with a broad array of partners. A majority of the fiscal 1998 country assistance strategies included consultations on strategy design with stakeholders—the government, donors, community groups, NGOs, religious organizations, workers unions, academia, media, politicians, and private sector associations. In Bolivia, Peru, and Hungary, the poor were directly involved in the consultation process.

Such consultations often had a significant impact on country assistance strategy design and priorities. Colombia is a good example: a strong consensus emerged on the fact that the Bank could no longer stay on the sidelines with respect to issues of peace and development and that promoting peace and addressing the socioeconomic determinants of violence were key to poverty reduction in Colombia. As a result, the Bank's country program now includes:

- Social assessments with explicit recognition of conflict and fault lines of social tension as a core aspect of development planning
- Engagement with civil society following participatory approaches in the design and implementation of interventions, thereby developing social capital
- Focus on governance issues, incorporating elements of accountability and transparency
- Development of alternative dispute resolution mechanisms and conflict management capacity both for civil society and state
- Analysis of the costs of both random and organized violence in undermining the routine functions of socioeconomic activity.

To help reduce violence, the Bank, in collaboration with two well-respected NGOs, is beginning development of a project that will support the initial four years of a multisectoral program aimed at improving the well-being of the population in the 29 municipalities in the Magdalena Medio region, one of the poorest and most violent rural areas in the country. The project will involve local communities in participatory monitoring of its impacts. The Bank is also exploring the possibility of developing, in close collaboration with the Inter-American Development Bank, a project to reduce urban violence in the four most important cities in the country.

Second, more effort is being put into evaluating the impact of specific interventions, so as to learn which interventions are most successful. Initiatives in this area are discussed in the following section of this chapter.

Formulating strategies and placing poverty reduction at the center of assistance strategies

This first strategic shift is being tackled through better-formulated country assistance strategies and poverty assessments.

Country assistance strategies

The Bank uses country assistance strategies to assess its past performance and to plan the level and type of support to client countries. During the strategy formulation exercise, lessons from previous involvement in a country are evaluated; the Bank's comparative advantage relative to the government, other donors, and the private sector is identified; and the mix of lending and nonlending activities to be supported by the Bank is defined. To ensure that the strategy addresses the key developmental challenges faced by the country and takes into account the views of various stakeholders as well as the activities of other development partners, country assistance strategies are prepared in close consultation with the government and, increasingly, with a broad spectrum of civil society (see boxes 1.3 and 1.4).

Country assistance strategies should be based on a sound analysis of poverty, but they should move beyond analysis to strategy and discuss the expected impact of proposed activities on the living

BOX 1.4

Partnership and country assistance strategies

In supporting a country's development strategy, the World Bank works with partners—central and local government agencies, nongovernmental and community organizations, bilateral and multilateral donors, and the private sector. While discussion and testing of alternative approaches is useful, duplication of effort because of lack of coordination is wasteful. Hence, country assistance strategies discuss coordination with other development actors, and most country assistance strategy matrices now include the key activities of development partners in each sector. President Wolfensohn's January 1999 note on the Comprehensive Development Framework proposes an approach that builds effective partnerships at the country level, based on the comparative advantage and expertise of each partner. A matrix describing partnerships would become a key element of country strategy discussions.

conditions of the poor. Good poverty-focused country assistance strategies describe the poverty situation in a country, assess progress in reducing poverty, and present a coherent strategy for helping the country reduce poverty. They also discuss how poverty outcomes will be monitored over time and where careful project impact evaluation is needed to learn what works. Finally, they include benchmarks against which future performance can be assessed (both final outcomes and intermediate indicators linked to final outcomes).

The country assistance strategies discussed with the Bank's Board of Directors during fiscal 1996–98 were evaluated on the basis of their analysis of poverty and their formulation of a poverty reduction strategy. The share of country assistance strategies judged good or best-practice showed a marked improvement, rising from less than one-fourth to more than half. Similarly, the share judged unsatisfactory declined from more than a fourth to less than 10 percent (table 1.3).

The 30 fiscal 1998 country assistance strategies were also evaluated on the basis of more stringent criteria, in line with the shifts in emphasis from describing poverty to formulating strategies, and from tracking inputs to assessing outcomes:⁸

- Quality of the diagnosis presented in country assistance strategies and its link to strategy formulation
- Development of economywide and project-level information to monitor poverty and evaluate the impact of interventions on the poor
- Development and use of specific time-bound performance benchmarks related to outcomes, to ascertain the impact of strategies on the poor.

The first criterion was the only one considered in the past; the second and third were added this year.

TABLE 1.3

Evaluation of country assistance strategies based on poverty focus, fiscal 1996–98
(percent)

<i>Fiscal year</i>	<i>Best practice/ good</i>	<i>Acceptable/ minimally acceptable</i>	<i>Unsatisfactory</i>
1996	20	52	28
1997	25	71	4
1998	56	37	7

Source: World Bank staff calculations.

In another change, the quality of the diagnosis in fiscal 1998 country assistance strategies was evaluated in absolute terms (“is the strategy a good one and, if data for formulating a good strategy do not exist, is a program being set up to ensure the future development and monitoring of a good strategy?”) rather than relative to the information available, as in the past (“is the strategy the best that can be formulated in light of available information?”). Assessment of the diagnosis also covered some of the newer issues of social development, which received relatively less attention in the past.

QUALITY OF DIAGNOSIS AND ITS LINK TO THE STRATEGY. How well poverty diagnoses were incorporated into assistance strategy objectives varied, as in previous years. In many cases the links between the diagnosis of the poverty situation in the country and the proposed strategy were clear. In others the proposed strategy did not adequately address the problems identified in the poverty profile, or the rationale behind the strategy was unclear because constraints to economic and social progress were poorly identified.

Information basis for analysis. Just over three-quarters of the country assistance strategies had completed poverty assessments that could be used to build their poverty strategies.⁹ Over 40 percent of the country assistance strategies relied on information drawn from household survey data collected within the previous three years. A third of the country assistance strategies had data that were more than five years old, and four had no household survey data on which to build or to use as a baseline for future monitoring of poverty. Fourteen of thirty country assistance strategies could also draw on the results of participatory poverty assessments.

Quality of poverty diagnosis. Overall, more than three-quarters of the country assistance strategies contained a satisfactory analysis of the poverty situation, with about 40 percent judged to contain very good information. The quality of analysis did not depend entirely on whether a poverty assessment had been completed for a country: of the seven country assistance strategies without completed poverty assessments, five were considered to have a satisfactory diagnosis. Nevertheless, the presence of a poverty assessment raised the likelihood that a country assistance strategy contained good analysis. Analytic

shortcomings in about a quarter of the cases that did have poverty assessments resulted from either a poor-quality poverty assessment or poor mainstreaming of the poverty assessment results into the framework of the country assistance strategy—or both.

The analysis of *dimensions of poverty* continues to expand beyond money-metric measures (per capita income or consumption) and the traditional social indicators (literacy rates, access to water, and so on) to other dimensions of poverty, such as vulnerability, marginalization, violence, and ethnic tensions. In addition to the Colombia country assistance strategy mentioned in box 1.3, the country assistance strategies for Bolivia, Bosnia and Herzegovina, India, Nicaragua, and Peru also provided good treatment of these issues. For example:

- The *Bosnia and Herzegovina* country assistance strategy addresses the needs of refugees, displaced persons, and ethnic minorities, as well as of those who are vulnerable because they cannot find jobs.
- The *India* country assistance strategy analyzes issues of vulnerability, gender discrimination, caste, and the situation of the elderly and disabled.
- The *Peru* country assistance strategy highlights the government’s central theme of social integration and looks at such issues as the geographic isolation of the poor in remote areas and their lack of access to basic services and infrastructure, the disadvantages faced by women, and problems faced by indigenous peoples.

Links between analysis and strategy. Most country assistance strategies considered how the strategy for poverty alleviation presented in *World Development Report 1990: Poverty*—supporting broad-based economic growth that provides economic opportunities for the poor, improving the human capital of the poor through better health and education, and providing safety nets for vulnerable groups—could be applied in the country. In addition, several strategies integrated concerns about the social dimensions of poverty. Two country assistance strategies provided detailed descriptions of how the strategy related to poverty reduction:

- A matrix in the *Bangladesh* country assistance strategy discussed how the recommendations of the poverty assessment had been integrated into the strategy. For example, rural infrastructure investments would be targeted to poor areas.

- A matrix in the *Peru* country assistance strategy described how various planned activities would reduce poverty and increase social integration. For example, an ongoing project on basic education and nutrition would be expanded to three previously unserved poor departments and one poor district of Lima.

As in the past all of the country assistance strategies addressed *economic growth* as an essential element of a country's poverty reduction strategy. Approximately two-thirds explicitly discussed how the pattern of growth would provide economic opportunities for the poor, up from half in fiscal 1996 and a little more than half in fiscal 1997; approximately 40 percent did a very good job in this area. In most cases rural development was advocated to help reduce rural poverty, and emphasis was placed on balancing growth regionally to help poor areas—though specificity was often missing. For example:

- In *Ethiopia* the country assistance strategy noted that severe infrastructure shortcomings, notably the lowest road density in Sub-Saharan Africa, contribute to the isolation and vulnerability of the poor and severely limit their ability to create or participate in economic opportunities. The planned road and energy projects are thus expected to have a significant impact on poverty. The roads will improve the access of the poor to markets, social services, and, in times of drought, food; rural electrification should stimulate off-farm activities that can be crucial to enabling families to move out of poverty.
- In the *Kyrgyz Republic* the Bank proposed seven investment projects that will focus on increasing agricultural productivity and incomes in rural areas, where poverty is concentrated, as well as supporting the completion of the land reform program.

As in past years, all country assistance strategies addressed the issue of *developing human capital*. Over 90 percent looked specifically at the needs of the poor and discussed strategies for improving their access to health care and basic education. For example:

- In *Ghana* the Bank's support in the social sectors will focus on improving quality and access to basic education and primary health services, including community based nutrition programs, with special emphasis on correcting gender and regional inequities.
- In *India* extending primary education and basic health, nutrition, and family planning services to

cover the poorest sections of society is seen as crucial to continued poverty reduction.

- In *Nicaragua*, in addition to working with the government to review its allocation of resources for the social sectors and helping to catalyze additional donor support, the Bank is financing preschool and basic education, with the objective of enhancing quality and increasing access of primarily poor rural children, both extremely low following civil strife. Likewise, improving access to health services for the poor and the quality of service has been central to the Bank's involvement, with highly satisfactory outcomes for underserved populations in rural areas. A third social fund project under preparation will focus on project sustainability, community participation, decentralization, and coordination with municipalities in the provision of social services. Approximately three-quarters of the country assistance strategies addressed *safety net issues* in some depth, up from about half in fiscal 1997. For example:

- In *Armenia* the government intends to consolidate various social transfers programs, many of which are now universal, into a single program for vulnerable families, to ensure coverage and fiscal sustainability.
- In *Mongolia* the Bank is helping to strengthen the social safety net through more effective targeting of public funds to the poor. In addition, a Second Poverty Alleviation Project, planned as a follow-up to the ongoing Poverty Alleviation for Vulnerable Groups Project, will finance public works and rural small and medium-size enterprise development outside the capital

About a quarter of the country assistance strategies addressed the *social dimensions of poverty*—such as ethnicity, gender, and vulnerability. For example:

- The *Bosnia and Herzegovina* country assistance strategy responded to the needs of refugees, displaced persons, and the unemployed by including community development projects to assist vulnerable groups, microfinance programs, social sector projects, and reconstruction assistance, as well as a seminar on the return of refugees, sponsored by the World Bank Institute (formerly the Economic Development Institute).
- In *Nicaragua* most IDA projects include specific measures to address gender issues, such as promoting reproductive health, providing extension services to men and women according to their role in agricultural production, strengthening tenure

security for rural women by including mechanisms to promote joint land titling, and targeting women's participation in social fund and community driven project components.

- The Bank's program in *Peru* builds on the theme of social integration and includes an Institutional Development Fund grant to support preparation of an indigenous people development plan, analytical work to continue efforts to improve the targeting of social expenditures to the poor, and a policy note on trends in poverty followed by a broader poverty assessment and a workshop on poverty reduction policies, and a conference on women and family planning. In addition, the Bank is providing project support to primary education, basic health and nutrition, rural roads, rural water and sanitation, community-based water and soils management in indigenous communities in the High Sierra (a social fund), and urban property rights.

INFORMATION TO MONITOR POVERTY OUTCOMES AND EVALUATE PROJECT IMPACT. Economywide information systems for monitoring poverty are needed to effectively evaluate the impact of policies and programs on the poor. About 85 percent of country assistance strategies had specific plans for poverty monitoring, including the four countries for which no data were available when the strategy was prepared (*Bosnia and Herzegovina*, *Georgia*, *Lebanon*, and *Mozambique*), but which have surveys under way or in preparation.

- An in-depth household survey in *Cape Verde* will form the basis for a poverty assessment update. The Bank will also work with the government to establish and monitor key poverty indicators.
- In-depth household living standards surveys in *Ghana* will be undertaken every five years, with smaller annual surveys to monitor poverty.
- In *Lesotho* a trigger for higher lending from the Bank is satisfactory implementation of the government's poverty program and installation of a poverty monitoring system.
- In the *Kyrgyz Republic* an Institutional Development Facility grant is being used to help develop a poverty monitoring system.
- In *Uzbekistan* poverty monitoring will be strengthened through a poverty assessment and improvements in the family budget survey.

Another essential ingredient in a poverty-focused assistance strategy is a plan for learning which in-

terventions work and which do not through careful evaluations of their poverty impact. With the exception of *Bolivia*, none of the country assistance strategies contained discussions of a strategy for evaluating the impact of projects on poverty. This remains an area needing improvement.

USE OF SPECIFIC TIME-BOUND PERFORMANCE BENCHMARKS. Only 13 percent of country assistance strategies included monitorable benchmarks that are time-bound and output- or outcome-oriented with respect to poverty. Additionally, very few country assistance strategies differentiate between the objectives a government is trying to achieve and the subset of objectives that Bank support intends to help achieve. For example, a government may aim to raise secondary enrollment rates for girls and may receive Bank support for a secondary education project in a particular area of the country. The government's objective would be to raise average enrollment rates for girls, while the Bank's would be to raise rates in the area where the project operates. Country assistance strategies for *Bolivia*, *Colombia*, and *Nicaragua* are examples of good practice in setting benchmarks—something that was done even before benchmarks were formally required in country assistance strategies.

- At a Consultative Group meeting for *Bolivia* donors proposed monitoring progress against five indicators drawn from the International Development Goals. The government suggested that working groups be formed to operationalize the indicators and monitor progress. The proposed indicators and targets are included in the country assistance strategy, together with other project-level benchmarks (table 1.4).

While the links between inputs, outputs, and outcomes are not fully understood, and attribution problems remain, the Bank will need to define as best it can the expected impact of its activities if it is to become a results-oriented institution that learns from successes and failures. Specifying benchmarks against which to assess performance is a key element of the emerging results-oriented approach.

SUMMARY. Overall, the evaluation found progress on the first criterion—the quality of the poverty diagnosis presented has improved, and strategies are better linked to the underlying analysis. It also found some progress on the second criterion: a number of country

TABLE 1.4
**Proposed country assistance strategy core benchmarks
 for Bolivia**

Benchmark	1997	2000	2002
Poverty headcount ratio (percent)	67	63	59
Poverty gap ratio (percent)	32	29	26
Prevalence of child malnutrition (weight-for-age; percentage of children under five)	10	8.5	6
Infant mortality rate (per 1,000 live births)	69	63	57
Maternal mortality rate (per 100,000 live births)	390	340	290

Source: World Bank, "Fiscal 1998 Country Assistance Strategy for Bolivia."

assistance strategies recognized the importance of setting up economywide poverty monitoring systems. Much more remains to be done, however, on project-level evaluations. Similarly, most country assistance strategies do not specify performance benchmarks, thus failing the third criterion. To make progress in these two areas and ensure that country assistance strategies retain a strong poverty focus, the Poverty Reduction Family will provide support to country teams during preparation of country assistance strategies. In addition, a system of retrospective evaluations will be set up, based on criteria such as those explored here.

Poverty assessments

Poverty analysis, which is often undertaken in collaboration with governments, donors, NGOs, and other stakeholders, helps define more effective programs for poverty reduction. Among the Bank's many instruments for conducting analytical work on poverty (public expenditure reviews, country economic memorandums, sector studies, project preparation documents, research papers), poverty assessments usually include the most systematic and complete treatment, as well as an explicit poverty reduction strategy. As such, they remain a key tool to inform the Bank's operational work.

To date, 101 poverty assessments have been completed, covering approximately 90 percent of the world's poor. Of these, 86 were first-time assessments and 15 were updates. The Bank remains committed to completing initial poverty assessments in the 18 countries without them and to carrying out 21 additional updates by fiscal 2001 (see annexes B and C for details on scheduled and completed poverty assessments and updates).¹⁰

Guidelines are being prepared for poverty assessment updates as part of the revisions to Operational Directive 4.15. For countries for which a satisfactory poverty assessment has been completed, regular updates would be carried out (usually at least every three years, though more frequently if significant changes have occurred). The updates could be standalone documents, part of other analytical work or project preparation documents, included in the documentation of a workshop or conference, or part of poverty work done by a government agency, research institution, or other donor. Beyond updating the poverty profile, the content of updates would be determined by country conditions, with the emphasis on strategies rather than description.

Only seven poverty assessments were completed in fiscal 1998: three initial assessments (Chad, Djibouti, and Kazakhstan) and four updates (Bangladesh, Chile, India, and Rwanda; see annex A for summaries). Delays were severe in fiscal 1998: of the 20 poverty assessments scheduled, 13 were delayed and 3 were dropped (of the 7 completed, 3 were not in the original schedule).¹¹ Reasons for delays are similar to those of earlier years: upcoming elections or changes in government, delays in data collection or completion of analytical work, modifications in the Bank's work program due to staff or budget constraints, and delays in obtaining comments from government, NGOs, and other stakeholders. Twelve poverty assessments (seven new and five updates) are confirmed for completion in fiscal 1999.¹² The Poverty Reduction Board is actively monitoring delivery to avoid a recurrence of the delays that severely curtailed last year's plans.

The quality of poverty assessments completed in fiscal 1998 varies. On the positive side, poverty profiles are becoming more comprehensive as data from national household income and expenditure surveys are more readily available and as more contextual and participatory studies contribute to a richer picture of the dynamics of poverty (see below for a review of poverty profiles). Four of the seven poverty assessments completed in fiscal 1998 (Chad, Djibouti, India, and Rwanda) included a participatory poverty assessment—about the same share as in the two previous years. The integration of survey-based and participatory methodologies represents one of the new directions for poverty assessments (see chapter 3 for an in-depth look at integrated approaches).

On the negative side, the link between analysis and strategies too often remains vague and priorities for actions are not always clear. A recent review by the Bank's Quality Assurance Group confirmed that the quality of poverty assessments is uneven. In response, the Poverty Reduction Board is taking steps to strengthen commitment to poverty work in the countries and at the Bank, improve the quality and availability of data, build capacity for data analysis and policy formulation, and improve the overall quality of poverty work through a stronger peer review system. An ongoing Operations Evaluation Department study on the quality and effectiveness of poverty assessments will also offer recommendations on improving quality.

POVERTY PROFILES. Poverty profiles identify the most important economic, demographic, and social characteristics of the poor. As was the case in the previous two years, all seven poverty assessments included poverty profiles that defined at least one poverty line, and three of them distinguished between the poor and the extremely poor. Nearly all the profiles supplemented the headcount index with the poverty gap index, and more than half included the severity index.¹³ In addition, all the profiles covered urban-rural differences, regional variation, and gender concerns and provided supplemental data on other broad social and economic indicators of poverty. Beyond this, there were wide variations in the issues covered, often a reflection of data availability.

- The poverty assessments for *Bangladesh*, *Chile*, and *India* provided thorough analyses of the poverty situation based on good nationally representative household survey data. The poverty profiles discussed inequality, regional variations, and other trends over time. (The work done in Bangladesh is a good example of cooperation between the Bank and government officials on data collection and analysis. Capacity was strengthened through training and technical assistance, and an existing household budget survey was expanded to cover other indicators of living standards. As part of this long-term process of capacity building and cooperation, the Bangladesh Bureau of Statistics agreed to release the survey data publicly for the first time.)
- By contrast, the poverty profiles for *Chad* and *Rwanda* were weak because of the lack of nationally representative household income and

expenditure data. The Chad poverty assessment reported poverty rates by socioeconomic groups for the capital area based on the 1991 household expenditure survey for N'Djaména, which is out of date and of questionable quality. Only preliminary estimates of the food poverty rates for four other cities and adjoining rural prefectures were available from the 1995/96 household expenditure survey. In Rwanda the files from the most recent household budget survey (1985) were destroyed during the war, and estimates of the poverty headcount and poverty depth were based on GDP and population growth rates. Information from a 1996 sociodemographic survey, a 1995 nutritional survey, and a participatory poverty assessment were used to describe the characteristics of poor households.

- Poverty profiles for *Djibouti* and *Kazakhstan* relied on recent data from national household surveys and presented a good picture of the poverty situation.

POVERTY REDUCTION STRATEGIES. Poverty assessments recommend a poverty-reducing strategy specific to the needs and priorities of individual countries. All of the fiscal 1998 poverty assessments analyzed the *impact of macroeconomic and sector policies* on the poor. For example:

- The *Bangladesh* poverty assessment found that although growth has reduced poverty substantially, it has also been associated with higher inequality. The report suggested focusing on improving labor market performance to help prevent further rises in inequality. The proposed strategy would include variants of the current microfinance programs to increase employment opportunities through wage employment as well as self-employment, promote occupational shifts in rural areas from the farm to the nonfarm sector, encourage women's participation in the labor force, and further the cost-effective use of public works programs to help the rural poor.
- The *Chad* poverty assessment identified the wide gap between cotton producer prices and final consumer prices as a main factor perpetuating the poverty of small farmers. To raise producer prices, it recommended investments in road rehabilitation to lower transport costs and careful liberalization of the cotton market, with participation from communities.

- The *Chile* poverty assessment confirmed that between 1987 and 1994 the government's policy of growth with equity was effective in reducing poverty without exacerbating income inequality. Analysis of such labor market indicators as unemployment, earnings, and job and income security yielded specific recommendations on minimum wage legislation, unemployment compensation, education, and other social investments.

Inadequate human capital development is a major cause of chronic poverty. Poor health and lack of education perpetuate poverty. All the poverty assessments in fiscal 1998 adequately addressed *human capital development*. For example:

- The *Djibouti* poverty assessment recommended expanding children's access to schooling at the primary and lower secondary levels, with targeted subsidies for girls. It also recommended promoting birth control techniques to reduce the high fertility rate and developing strategies for reducing female genital mutilation.
- The *India* poverty assessment focused on policies for increasing public spending on basic education and health and for expanding the poor's access to quality education and health care. Recommendations for improving the quality of education include decentralization of control to local authorities and direct parental and community involvement. Recommendations in health services focus on combating communicable diseases, improving access to safe water and sanitation facilities, and raising awareness on health issues.
- In *Rwanda* the most pressing problems in the education sector include the high opportunity costs of schooling, lack of basic learning materials, the large number of orphans (20 percent in the study sample) who cannot pay school fees, and the poor quality of basic education. Lack of access to affordable health care is contributing to a rising incidence of respiratory diseases and endemic diseases such as malaria, as well as contagious diseases including AIDS. Recommendations for the short term include expanded teacher training programs and greater investment in teaching materials for primary schools. Lowering the cost of education for the poor requires targeted subsidies for the poorest households. Immediate interventions in health care include increasing the availability of skilled personnel and reorganizing pharmaceu-

tical distribution channels to avoid disruptions in the supply of basic medicines.

All poverty assessments discussed existing *safety nets* to protect the poor and vulnerable. For example:

- The 1998 *India* poverty assessment confirmed the 1997 findings that poverty programs are not effectively reaching intended beneficiaries. Evidence shows an urgent need to reexamine India's safety net strategy, to devise and fund a streamlined approach that makes the best use of scarce funds to provide the greatest assistance to those most in need. Different options were proposed to more effectively target the food subsidy and public works programs.
- The *Kazakhstan* poverty assessment recommended better targeting of child allowances and other social assistance to reduce leakage to the nonpoor, using information on household characteristics correlated with poverty. It also recommended maintaining an adequate income floor for pensioners and strengthening the system of unemployment compensation.

Focusing on poverty outcomes

Monitoring poverty at the country level

Household consumption and income surveys are an essential tool for monitoring poverty at the country level and thus for assessing progress toward the International Development Goals and other outcome-based measures of performance. Especially when integrated with data collected through contextual and participatory methods, survey data permit a rich understanding of poverty and the formulation of effective poverty reduction strategies (see chapter 3 on the integration of various methodologies).

More country-level data on household consumption, income, and other indicators have become available over the past few years. A census of household surveys conducted by the World Bank in fiscal 1998 found that survey data are available for most countries; that more countries have comparable data sets, which makes it possible to assess trends; and that more data sets are openly accessible to the public than in 1995, when the previous survey census was conducted.

- Data from at least one consumption or income survey are available for 110 of 124 countries, covering

96 percent of the population of developing countries, up from 85 percent in 1995.¹⁴

- Comparable data for at least two points in time are available for 60 countries. Since the data are available for the largest countries, the share of population covered by at least two comparable surveys is high—83 percent, quite a bit higher than in 1995.¹⁵
- Only 32 countries, covering 41 percent of the population, make their data accessible to researchers and other interested parties.¹⁶ The Bank is making a systematic effort to require open data access. A major breakthrough was achieved in India, when the government agreed to make data available to the general public (table 1.5).

The census revealed some regional differences in coverage and availability:

- Coverage by at least one survey is above 90 percent in all regions except the Middle East and North Africa.
- Coverage by comparable surveys over time is above 80 percent in all regions except the Middle East and North Africa and Sub-Saharan Africa, where it is only about 45 percent.
- Data access is high in South Asia (where almost all countries have adopted open data access policies over the past five years), and still low in Latin America and the Middle East and North Africa.

Despite a lack of data across time, *Sub-Saharan Africa* represents a real success story considering the situation a decade ago. At the time of *World Development Report 1990* Africa had unquestionably the weakest data on household welfare and poverty; only 6 percent of the region's population was covered in the national data sets then available. For *World Development Report 2000/01* data will be available for about two-thirds of the population. This progress is partly the result of intensive efforts by regional staff. A new Africa Household Survey Data Bank provides primary data files from 55 household surveys and the African Demographic and Health Surveys; detailed descriptions of some 90 surveys are available. Regional staff have recently developed a Survey Data Analysis Package that contains on a single CD-ROM everything needed for using a particular survey dataset. This has been an effective tool for improving effective access to the data, and staff are currently helping client countries to package survey materials in this way.

In *Latin America and the Caribbean* the situation is improving markedly as well. The steering committee

TABLE 1.5

Data availability according to 1995 and 1998 censuses of household surveys

(percentage of population in developing countries covered by data)

Data	1995	1998
At least one survey with data on consumption or income	83	96
Comparable data for at least two points in time	45	85
Open access to data	—	41
Number of countries	121	124

— Not available.

Source: World Bank 1995 (<http://www.worldbank.org/poverty/data>) and 1998 censuses of household surveys.

for the Improving Living Conditions Project (MECOVI)—jointly sponsored by the Inter-American Development Bank, the World Bank, and the Economic Commission for Latin America and the Caribbean (CEPAL)—recently requested authorization from governments in the region to put their surveys into a Latin American and Caribbean Data Bank accessible to the public. All 15 responses received to date have been positive.

In addition to asking about available surveys, the 1998 census inquired about the capacity to carry out surveys and conduct data analysis. Responses, which were obtained for 80 countries, corresponding to 85 percent of the population, indicate that capacity to conduct sample surveys is excellent or good in 40 countries and that information on poverty profiles and determinants of poverty is available in 60 countries. Improvements in the quality of data were reported in 48 countries (or 60 percent of the cases, up from 40 percent in 1995). New data initiatives were reported in 50 of 80 countries (or 63 percent of the cases, up from 56 percent in 1995). Improvements are partly due to wider efforts by the Bank and other donors; in 54 countries the Bank was funding or had funded initiatives to improve the quality of poverty data (table 1.6).

Despite the recent improvements, reasons for concern remain. In several countries the data are old and do not reflect the current situation, and surveys were the result of one-time donor assistance rather than part of a regular program. Open access remains a serious issue in several regions.

Evaluating the impact of interventions on poverty

In conjunction with better monitoring of outcomes at the country level, the shift toward focusing on out-

TABLE 1.6
Capacity and data initiatives, 1995 and 1998 censuses of household surveys
 (percentage of countries)

<i>Finding</i>	1995	1998
Excellent or good capacity to carry out sample surveys	—	50
Information on profiles and determinants	—	75
Improved data quality	40	60
New data initiatives	56	61
Initiatives funded by the World Bank	—	68
Number of countries	90	80

— Not available.

Source: World Bank 1995 (<http://www.worldbank.org/poverty/data>) and 1998 censuses of household surveys.

comes rather than inputs requires raising the standards for evaluating the impact of Bank interventions on households. In recent years several reports have highlighted the need to conduct more and better evaluations of impact on poverty, among them a 1994 report from the Operations Evaluation Department of the World Bank (OED 1994). Evaluations do not get done largely because they are hard to do, and incentives still work against doing good evaluation work. Nevertheless, there has been progress in the past couple of years.

GOOD EVALUATIONS ARE HARD TO DO. Impact evaluations assess the outcome of an intervention: not the immediate, tangible outputs of a project—for example, the number of teachers trained—but the effect of such outputs on the well-being of individuals and households—as measured, for example, by changes in expenditures, income, malnutrition rates, educational attainment, and increased security. Fundamentally, impact evaluations are carried out to assess whether an intervention is achieving its desired outcomes and to design and implement better programs in the future.

In assessing the impact of an intervention, the question to be answered is: What would have happened to the welfare of individuals or households in the absence of the intervention? This requires forming a view on what would have happened without the intervention—the counterfactual. Impact evaluations can be carried out using a combination of quantitative methods based on sample surveys and qualitative methods based on more open-ended interviews. Both are desirable because they provide different kinds of information, and both require considerable data and present methodological difficulties.¹⁷

INCENTIVES OFTEN WORK AGAINST DOING GOOD EVALUATIONS. In client countries as within donor agencies, incentives often do not favor carrying out good evaluations. Evaluations are usually conducted after a project is finished, when attention turns to the preparation and implementation of new projects, which are often more interesting and rewarding for both government officials and donor agency staff. Evaluations can be damaging if they indicate that a program has not reached its objectives, and they can even turn up evidence of fraud and corruption. Thus project managers and government officials, not wanting to see aid resources withdrawn, are often reluctant to look at impacts. These incentive problems would have to be addressed to increase the number of evaluations.

PROGRESS DESPITE THE DIFFICULTIES. Over the past couple of years the World Bank has increased its emphasis on conducting good evaluations of programs and projects. Plans to gather data are more often followed through; monitoring and evaluation systems for projects are more often linked to key performance indicators. This is in line with the move toward assessing outcomes rather than inputs and the need to learn from past activities. Doing good evaluations is becoming especially important for operations designed to pilot approaches for replication on a larger scale, such as Learning and Innovation Loans and Adaptable Program Lending.

A number of studies have just been completed or are under way to assess the Bank's progress with impact evaluation. These include a review of all fiscal 1998 projects (Subbarao and others 1998) and regional reviews for Sub-Saharan Africa (World Bank 1998a), Latin America and the Caribbean (Hicks 1998), and South Asia (World Bank 1998d). The review of fiscal 1998 projects examined all 240 investment projects approved last year to see whether they included provisions for appropriate evaluation. Only 12 projects, or 5 percent, included outcome or impact indicators, a baseline survey, and control groups, which make it possible to conduct a good evaluation. An additional 77 projects, or 32 percent, included some of the elements necessary for a good evaluation but not all. In particular, they did not lay out plans for assessing the impact of interventions relative to a control group; for projects in this group evaluations may still be conducted, but they were clearly not well planned at the time of project approval. A full 151

projects, or 63 percent, did not provide adequately for evaluation (figure 1.2).¹⁸

Regionally, *East Asia and the Pacific* stands out with a relatively high proportion of projects with good evaluation plans or the information base to conduct sound evaluations. As noted, the proportion of projects with well-designed evaluations clearly laid out is much smaller than that of projects with the potential for good evaluation. Even in East Asia, less than 11 percent of projects had sound evaluation plans. In sectoral terms, social protection appears well below average (table 1.7).

The review of fiscal 1998 projects could look only at plans made before project approval, not at implementation. The regional studies looked also at what was actually done in ongoing or completed projects. The results reveal a mixed picture.

In *Latin America* a review of all projects in the Program of Targeted Interventions and a sample of other projects approved in fiscal 1997 and 1998 observed the following (see the next section for more information on the Program of Targeted Interventions):

- Most fiscal 1997 and 1998 targeted intervention projects (23 of 33) identified indicators of poverty

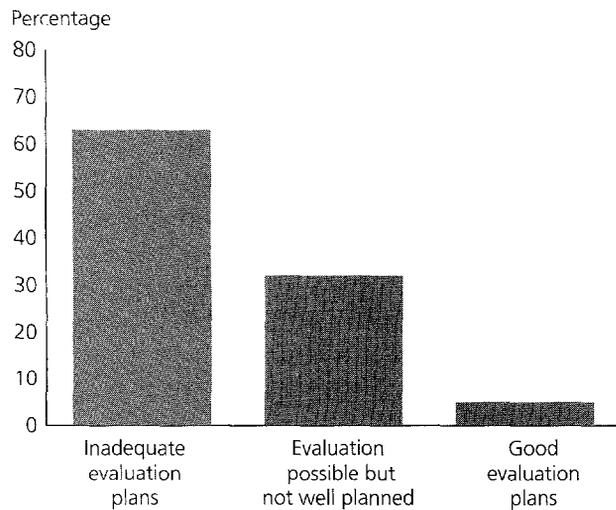
impact; some had baseline surveys (15), and several had follow-up surveys (20). Projects not part of the Program of Targeted Interventions did not have impact indicators (with 1 exception out of 17), and virtually no attempt was made to measure their poverty-reduction impact. The surveys were intended to monitor achievement of project outputs (for example, number of houses connected to water systems) rather than outcomes (for example, improvements in health indicators). Overall, many projects still do not do an adequate job of measuring poverty impact.

- Constraints to doing a better job include lack of resources (time and money) and inadequate knowledge of evaluation techniques. The study recommended that adequate resources be allocated and that an evaluation handbook be prepared.

In *South Asia* a review of some projects approved in fiscal 1998 and some earlier projects found the following results:

- There is evidence of improvements in the design of evaluation components. Projects with acceptable evaluation plans (including at least some poverty impact indicators and baseline and follow-up surveys) increased from 29 percent of the sample of earlier projects to 43 percent among fiscal 1998 projects. The improvement has been particularly notable for social sector projects.
- However, the review of earlier projects indicates that good evaluation plans have seldom been

FIGURE 1.2
Distribution of fiscal 1998 projects by category of evaluation plans



Note: *Inadequate evaluation plans* includes three categories of projects: those with no outcome or impact indicators or baseline survey, those with outcome or impact indicators but no targets and no baseline, and those with outcome or impact indicators and target exist, but no baseline. *Evaluation possible but not well planned* includes projects with outcome or impact indicators, a baseline survey, and possibly financing, but no control groups. *Good evaluation plans* includes projects with outcome or impact indicators, baseline survey, and control groups.

Source: Subbarao and others 1998.

TABLE 1.7

Fiscal 1998 investment projects with good evaluation plans or the potential for good evaluations (percent)

Region or sector	Share of projects	Share of lending
East Asia and the Pacific	58	68
Europe and Central Asia	17	25
Latin America and the Caribbean	46	32
Middle East and North Africa	22	31
South Asia	42	28
Sub-Saharan Africa	36	36
Agriculture and environment	42	54
Infrastructure	34	43
Social sectors (education, health, nutrition)	44	39
Social protection (pensions, safety nets)	9	1
Other	32	23
Total	37	39

Note: Includes projects with outcome or impact indicators, a baseline survey, and possibly financing, but no control groups and projects with outcome or impact indicators, baseline survey, and control groups.

Source: Subbarao and others 1998.

implemented: only half the plans in fiscal 1993 projects were later executed well. More recent projects indicate an attempt to correct the shortcomings that have impeded effective execution of good designs in the past. Baseline surveys are conducted more often and are sometimes included in the legal covenants, and use of qualitative methods and of independent agencies to carry out monitoring and evaluation activities has also increased. The financing of such components has been included in the cost of projects.

- Implementation was sometimes constrained by lack of interest on the part of client agencies and by conflicting demands on supervision budgets and lack of familiarity with evaluation methodologies. To overcome such constraints, the South Asia study also recommends capacity building for Bank staff and client agencies and adequate provision of resources in project budgets.

A review of projects approved in *Sub-Saharan Africa* in fiscal 1994 and 1998 highlighted the following:

- Eighteen of fifty 1998 projects had baseline surveys (taken before the project to determine pre-project conditions) and outcome indicators, so evaluations could be conducted after the end of the intervention. But only 4 of the 50 projects have control groups, which allow for a comparison of outcome indicators between those reached by the projects and those not reached. Nevertheless, awareness of the need to monitor the poverty impact of operations has increased dramatically over the past four years—80 percent of projects incorporated impact monitoring, double the share in fiscal 1994. This improvement was observed in all sectors.
- Potentially good-practice projects have the following characteristics: strong political commitment, design of monitoring and evaluation systems during project preparation, continuous participation of stakeholders, emphasis on participatory monitoring and evaluation, and project teams committed to poverty impact.
- Experience suggests some areas of concern. The review of 1994 projects showed that the good intentions expressed during project preparation are often not realized during project implementation. Monitoring and evaluation systems are not always in place at the start of the project. Impact indicators may be identified but are often not supported by an appropriate and effective monitoring and

evaluation system, which is sometimes perceived as an additional costly activity rather than as a management or policy tool. Other difficulties in getting impact evaluation done are untrained staff, lack of incentives for staff, and weak databases.

PLANS TO IMPROVE EVALUATIONS. Several activities are under way to improve the coverage and quality of evaluations. The Thematic Group on Impact Evaluation is disseminating best practices through seminars and training courses. (Box 1.5 reports on two projects with good-practice evaluations from among several that were recently discussed.) A training course on methodologies was offered in December 1998 and June 1999, and a manual on impact evaluation is being prepared for completion in fiscal 2000 under the guidance of the thematic group. In addition, an evaluation study has been launched to assess the poverty impact of social funds, which have been introduced in many countries. The study, to be completed next year, includes case studies for Armenia, Bolivia, Honduras, Nicaragua, Peru, and Zambia.

Poverty-targeted lending

While the importance of looking at outcomes rather than inputs or outputs is well recognized, the small number of good evaluations makes it hard to judge the Bank's effectiveness this way. Therefore, as in previous years, we are continuing to monitor the Program of Targeted Interventions and poverty-focused adjustment operations. The amounts lent under these categories give an indication of the inputs that go to the poor—resources targeted directly to the poor or to areas with a higher-than-average incidence of poverty.

For an investment operation to be classified as part of the Program of Targeted Interventions, it must meet at least one of these criteria:

- The project must have a specific mechanism for targeting the poor.
- The proportion of the poor among project beneficiaries must be significantly larger than their proportion in the overall population.

The project components that meet these criteria must account for at least 25 percent of the total loan or credit amount.¹⁹

For an adjustment operation to be classified as poverty-focused, it must meet at least one of these criteria:

BOX 1.5

Examples of good practice in impact evaluation

Poor Areas Project in China. China's astonishing growth since reforms began in the late 1970s has not been regionally balanced. A new program in 1986 declared 272 of the country's 2,200 rural counties as "national-poor counties" and targeted substantial aid to them. These counties had significantly worse indicators than the rest of the country over a range of dimensions. At first glance the evidence seems to suggest that the program has not been successful in raising living standards: the gap in consumption per capita between these counties and the rest of the country actually increased between 1985 and 1990. But the question to answer is what would have happened in the absence of the program. The areas selected were poorer to begin with, and investments there were less productive, leading to a divergence in growth rates of per capita consumption between these counties and the rest of the country. When the impact of initial conditions leading to slower growth is taken into account, the program added an estimated 1 percentage point to the growth of consumption in the counties covered—a significant impact (Ravallion and Jalan 1998a). Without the program the gap in consumption per capita would have increased even more.

Trabajar Program in Argentina. The Trabajar Program in Argentina provides employment at low wages in projects selected by community groups. The evaluation of the program sought to assess whether the incomes of program participants were higher than they would have been without the program (Ravallion and Jalan 1998b). Simply taking income from the program as a measure of benefits would have failed to consider that participants may have forgone income from other work to participate in the program. Comparing incomes before and after the introduction of the program was not possible because a baseline survey was not available. Instead, the income of participants was compared with that of similar nonparticipants, identified on the basis of a number of observed characteristics. Data on participants were collected at the same time using the same survey instruments as for the national sample of respondents from which the matching nonparticipants were drawn. The analysis concluded that the benefits were equivalent to about half of the wage income derived from the program, indicating that participants did in fact forgo other earning opportunities to participate in the program. The analysis also showed that the program was well targeted, as 80 percent of participants were in the bottom 25 percent of the income distribution.

- Focus specifically on eliminating distortions that especially disadvantage the poor
- Support a shift in public expenditures toward physical infrastructure or basic social services for the poor
- Support programs that provide safety nets or that target specific groups of the poor.

Operations that meet these criteria are more likely than others—based on the assessment of Bank regional staff and managers—to have a significant direct impact on poverty. While these are useful categories to monitor, it should be noted that operations in other areas may have an equal or greater impact on the poor through their indirect impact on local or national growth.

PROGRAM OF TARGETED INTERVENTIONS. Projects classified as being part of the Program of Targeted Interventions increased from 38 percent of the total in fiscal 1997 to 42 percent in fiscal 1998, while loan amounts rose from 29 to 40 percent of total investment lending (table 1.8). These increases are due partly to increases in lending for education, social protection, and the environment under the program, as well as to a large increase in overall lending under the program

to countries in the South Asia region (see annex D for details on the sectoral composition of projects in the Program of Targeted Interventions). Loan amounts to IDA countries under the program remain at around 54 percent of all IDA lending, as last year (table 1.9).

POVERTY-FOCUSED ADJUSTMENT OPERATIONS. Poverty-focused adjustment operations declined from 60 percent of the total in fiscal 1997 to 43 percent in fiscal 1998, but the share of lending for such operations increased significantly—from 52 percent to 64 percent (table 1.10). The large increase is due, at least in part, to two large loans to the Republic of Korea that included measures to protect the poor.

Poverty-focused adjustment lending to IDA countries, on the other hand, declined in both absolute and percentage terms from the peak levels of the previous two years (table 1.11). The absolute decline in lending is small—from \$689 million to \$630 million—but the relative decline is large because of much higher IDA adjustment lending not classified as poverty-focused—\$724 million in fiscal 1998 but just \$259 million in fiscal 1997. More than half the amount went to African countries for sectoral adjustment loans; most of the rest

TABLE 1.8
Number and amount of loans for Program of Targeted Intervention projects, fiscal 1992–98

Fiscal year	Number of investment projects	Program of Targeted Interventions		Amount of investment lending (\$ millions)	Program of Targeted Interventions	
		Number	Percentage of total		Amount (\$ millions)	Percentage of total
1992	187	57	31	15,542	3,836	25
1993	214	72	34	17,603	4,674	27
1994	197	63	32	17,581	4,441	25
1995	208	75	36	16,958	5,437	32
1996	222	79	36	16,698	5,408	32
1997	203	77	38	13,890	4,090	29
1998	240	101	42	16,789	6,733	40

Source: World Bank staff calculations.

TABLE 1.9
Number and amount of IDA loans for Program of Targeted Intervention projects, fiscal 1992–98

Fiscal year	Number of investment projects	Program of Targeted Interventions		Amount of investment lending (\$ millions)	Program of Targeted Interventions	
		Number	Percentage of total		Amount (\$ millions)	Percentage of total
1992	91	34	37	4,081	1,812	44
1993	112	44	39	5,187	2,137	41
1994	84	35	42	4,336	1,853	43
1995	91	46	51	4,510	2,423	54
1996	106	50	47	5,160	3,246	63
1997	81	36	44	3,504	1,874	54
1998	113	55	49	6,053	3,267	54

Source: World Bank staff calculations.

was for financial sector operations (see annex E for more detail). These operations, while not meeting the criteria above with respect to direct impact on the poor, nevertheless contribute indirectly to poverty reduction.²⁰

Moving the frontier and disseminating knowledge

In addition to shifting from describing poverty to formulating strategies and focusing on outcomes, much effort was devoted in fiscal 1998 to collecting, disseminating, and creating knowledge. This effort was prompted by the realization of the importance of collecting and disseminating best practices to improve the poverty focus of strategies and operations, as well as the unique role of the World Bank as a global knowledge bank. This work aims to draw from the knowledge of researchers and practitioners around the world and to facilitate the exchange of experi-

ences across institutional and national boundaries.

The main mechanism for knowledge creation, collection, and dissemination in the Bank are the thematic groups, communities of experts working on a topic. Ten thematic groups have been formed to cover topics directly related to poverty (box 1.6). In addition, many other thematic groups (particularly in rural development, social sectors, and microfinance) have a strong poverty orientation. Thematic groups hold seminars and workshops, discuss lessons, and explore open issues, and disseminate knowledge through Web sites.

To expand interactions with researchers and practitioners around the world, work was initiated toward the end of fiscal 1998 on a Web site on poverty. Called PovertyNet (<http://www.worldbank.org/poverty>), the Web site provides a range of resources to people working to alleviate poverty—data, research findings, lessons from project implementation, and opportunities to share experiences and interact with others through on-line discus-

TABLE 1.10

Number and amount of loans for poverty-focused adjustment operations, fiscal 1992–98

Fiscal year	Number of adjustment operations	Poverty-focused adjustment operations		Amount of adjustment lending (\$ millions)	Poverty-focused adjustment operations	
		Number	Percentage of total		Amount (\$ millions)	Percentage of total
1992	32	18	56	5,847	2,838	49
1993	23	6	26	5,253	1,165	22
1994	28	20	71	2,868	1,665	58
1995	30	14	47	5,324	1,648	31
1996	30	17	57	4,509	2,227	49
1997	30	18	60	5,086	2,649	52
1998	37	16	43	11,289	7,235	64

Source: World Bank staff calculations.

TABLE 1.11

Number and amount of IDA loans for poverty-focused adjustment operations, fiscal 1992–98

Fiscal year	Number of adjustment operations	Poverty-focused adjustment operations		Amount of adjustment lending (\$ millions)	Poverty-focused adjustment operations	
		Number	Percentage of total		Amount (\$ millions)	Percentage of total
1992	16	10	63	2,152	1,168	54
1993	8	3	38	1,423	645	45
1994	18	11	61	1,998	875	44
1995	15	9	60	1,069	598	56
1996	19	13	68	1,679	1,027	61
1997	11	9	82	948	689	73
1998	17	9	53	1,354	630	47

Source: World Bank staff calculations

sions. Information on Bank activities related to poverty, as well as several Bank reports, can now be found on the Web.²¹ The Internet is also being used to conduct virtual consultations around the world on *World Development Report 2000/01* on poverty and development.²²

Training programs and partnerships have expanded the reach of the system. In fiscal 1998, 10 training courses on poverty-related topics were held within the Bank, and 3 courses were sponsored by the World Bank Institute outside the Bank, often in partnership with local research institutions. Examples are a course in poverty analysis held in South Africa in collaboration with the African Economic Research Center, and a course on the analysis of household data held in Turkey jointly with the Economic Research Forum for Arab-Speaking Countries, Iran, and Turkey. Networks of poverty experts have been formed in East Asia and Latin America. The upcoming *World Development Re-*

BOX 1.6

World Bank thematic groups related to poverty

Community-based rural development
 Growth, inequality, and poverty
 Impact evaluation
 Information strategies for poverty monitoring
 Qualitative and quantitative methods for poverty and gender analysis
 Safety nets
 Social capital
 Decentralization
 Health, nutrition, population, and poverty
 Social protection

port 2000/01 on poverty and development provides a unique opportunity to focus attention and catalyze research and dissemination efforts. The report will give momentum to the process of building networks of poverty professionals around the

world and linking up researchers, practitioners, and policymakers (see chapter 4).

Notes

1. The international poverty line used for this calculation was set at the equivalent of a dollar per person per day in 1985 purchasing power parity-adjusted dollars. This poverty line is close to the average for a number of mid-1980s national poverty lines for low-income countries.

2. More work needs to be done to assess the conditions under which the other goals can be achieved.

3. For recent projections of growth in developing countries see World Bank (1998c).

4. See SMERU (1999), a report of the Social Monitoring and Early Response Unit, a collaborative multidonor effort led by the World Bank, with contributions and technical support from AusAID, the European Union ASEM Fund, and the U.S. Agency for International Development.

5. The Bank's Europe and Central Asia Region includes the transition economies of Eastern Europe and the former Soviet Union.

6. All dollar figures in this report refer to U.S. dollars unless otherwise indicated.

7. At its peak in 1991, official development assistance reached about \$70 billion. It has since declined to about \$60 billion (both at 1995 prices). Thus an increase of \$10 billion would represent a 15 percent increase over 1991 levels.

8. Country assistance strategies were reviewed for Armenia, Bangladesh, Bolivia, Bosnia and Herzegovina, Bulgaria, Cape Verde, Colombia, Côte d'Ivoire, Ethiopia, Georgia, Ghana, Guinea, Hungary, India, Indonesia, Kazakhstan, Kyrgyz Republic, Latvia, Lebanon, Lesotho, Mali, Mongolia, Mozambique, Nicaragua, Niger, Peru, Rwanda, Senegal, Turkey, and Uzbekistan. Note that only full country assistance strategies were evaluated, not the shorter country assistance strategy progress reports (which contain an update on progress in the implementation of the strategies discussed in the full country assistance strategies).

9. Six of the seven country assistance strategies without a completed poverty assessment were in the Europe and Central Asia Region. Of these six countries, five have ongoing work that will result in poverty assessments to be completed in fiscal 1999 and 2000, and the other has a living standards monitoring survey being undertaken in 1998/99 that will result in a poverty assessment by fiscal 2001. One country in the Middle East and North Africa region which also did not have a poverty assessment (Lebanon) has an ongoing survey.

10. The process of scheduling initial and follow-up poverty assessments is ongoing; several assessments, including those for new member countries, were added to the original schedule drafted in fiscal 1992. Updates were not covered by the original schedule; they are done when new data become available or when changes in the country situation warrant additional information for policy formulation.

11. Not included in the original schedule were the Chile update, which was not originally intended to be a poverty assessment; the India update, which was added to the fiscal 1998 list following a decision to conduct yearly updates; and the Rwanda update, which was originally scheduled for fiscal 1999.

12. Seventeen poverty assessments are scheduled for fiscal 1999, but some may be delayed pending consultations with counterparts.

13. The incidence of poverty is measured by the head-count index, which is the proportion of the population whose standard of living (measured consumption or income) is below a minimum subsistence level, the *poverty line*. The depth of poverty is measured by the poverty gap index, which is the difference between the poverty line and the mean consumption or income of the poor, expressed as a ratio of the poverty line. The severity of poverty is measured by the weighted poverty gap index, which takes into account the distribution of consumption or income among the poor.

14. These 124 countries include developing countries with population above one million, as reported in the *World Development Indicators 1998* (World Bank 1998f). The 14 countries for which information is not available or which do not yet have surveys are Cuba, Yugoslavia, FYR Macedonia, Eritrea, Iraq, Libya, Oman, Saudi Arabia, the Syrian Arab Republic, Sudan, Tajikistan, Uzbekistan, Myanmar, and the Democratic People's Republic of Korea. The 1995 census was less extensive than the 1998 census and may have underestimated coverage, so the difference between the two years may be slightly overestimated.

15. The 45 percent figure for 1995 is not directly comparable, but it is sufficiently lower to be sure of an improvement.

16. The 1995 census did not ask whether the data were openly accessible, but there has been a marked improvement in recent years.

17. Participatory monitoring and evaluation can bring important additional benefits to the design and implementation of projects and the empowerment of participants. The Bank is preparing a position paper and a handbook on impact evaluation; see Ezemenari, Rudqvist, and Subbarao (1998).

18. A baseline survey is desirable but not necessary for sound evaluation. It is possible to use statistical techniques to establish a counterfactual without a baseline, for example by "matching" households affected by the project with unaffected ones using data from a survey covering both kinds of households. However, there was no evidence that this was planned in the cases without a baseline survey.

19. The first criterion refers to narrow targeting with specific mechanisms for identifying and reaching the poor at the individual or household level (for example, a nutrition project for malnourished children). The second criterion refers to broad targeting at the level of the expenditure category, subsector, or geographic region (for example, a water supply project in a poor region). Although benefits will accrue to all, the poor are more likely to benefit relative to the nonpoor

because they are more likely to lack access to the services being provided, and because the demand by the nonpoor for these services is likely to be satisfied already.

20. The two largest IDA adjustment credits not classified as poverty-focused were credits for transport sector reform in Côte d'Ivoire (\$180 million) and electricity sector reform and privatization in Senegal (\$100 million).

21. For example, the full text of the Bangladesh Poverty Assessment and some of the background papers are available at <http://www.worldbank.org/html/extdr/offrep/sas/bangladesh-poverty/index.htm>, and the full text of last year's Progress Report is available at http://www.worldbank.org/html/extdr/pov_red/default.htm.

22. Information on how to participate in the electronic consultations can be found at <http://www.worldbank.org/poverty/wdrpoverty/index.htm>.

CHAPTER 2

Focusing Assistance Strategies on Poverty: Facing Crises

"It was the rich who benefited from the boom . . . but we, the poor, pay the price of the crisis. Even our limited access to schools and health is now beginning to disappear. We fear for our children's future."

—Khun Bunjan

Community leader from the slums of Khon Kaen
Northeast Thailand (cited in Robb 1998)

Before the financial crisis hit, East Asian countries had achieved record performance in growth and poverty reduction—indeed, even in northeastern Thailand (the poorest region of the country) the poor had benefited from the boom along with the rich (Ahuja and others 1997). The crisis offers an opportunity for formulating a new approach to crises that puts concern for the poor at the center of the response.

In looking at the impact of crises and responses to crises on the poor, this chapter focuses on macroeconomic shocks, but it also explores how the analysis may apply to other kinds of crises with similar characteristics, natural disasters in particular. The chapter makes four points:

- Crises, and the subsequent policy responses, affect poor households and better-off households in different ways.
- To protect the poor during crises, policy responses should be selected for their positive impact on the poor.
- Whether policy responses that protect the poor can be chosen and implemented depends in part on the political situation in a country. If the poor do not have a voice, international institutions and other players may need to work as advocates for the poor.
- Since it is difficult to react effectively during a crisis, a country's ability to protect the poor improves considerably if appropriate safety nets have been set up before a crisis hits. This helps avoid the common problem of providing too much assis-

tance too late. But it requires a conscious effort, because good times breed complacency.

The chapter also examines Bank assistance to countries in crisis and draws the following correlates to the findings noted above:

- In the past the distributional consequences of crises and policies were not fully taken into account, and adjustment operations supported by the Bank were often unsuccessful in protecting the poor.
- Learning from past experience, more recent Bank-supported responses in East Asia and elsewhere were designed, where possible, with a greater focus on poverty and protecting the vulnerable.
- Without political support, pro-poor reforms are unlikely to be implemented. Thus the Bank is relying more on government commitment and less on specific conditionality, but it is also weighing in more in support of pro-poor policies.
- To increase preparedness, the Bank is working with countries to set up safety nets and to improve information systems on the shifting pattern of vulnerability.

Impact of crises and policy responses on the poor

Different impacts on different groups

Crises, and the policy responses that follow them, have different impacts on different groups of people—

women and men, the poor and the rich, majority and minority groups. Some lose, some lose less, and some gain. Even if the poor and vulnerable do not systematically lose more than other groups, they suffer greatly because they are already at the margin and are ill equipped to deal with shocks.

When a macroeconomic crisis hits, there are several channels through which its impacts are felt by households.¹ These can be traced to the different sources of household income—wages, salaries, and profits from business activities; returns on assets; and public transfers—and to the prices a household faces when purchasing goods and services.

The dominant short-run impact on households comes through reduced labor demand, either directly through layoffs or lower earnings or indirectly through reduced demand for the products of rural or urban enterprises, which affects wages, salaries, and profits from business activities. In addition, changes in interest rates, stock market crashes, falling real estate prices, and inflation all affect the relative returns of various types of assets. While the poor do not generally hold assets, these effects need to be examined before ruling out any impact on the poor. Public expenditure cuts, beyond causing declines in labor demand and price effects (for example, when subsidies are removed), affect cash transfers and in-kind services for the poor. And shocks (such as an exchange rate depreciation or commodity price changes) or policies (such as trade reforms, public sector price increases, changes in taxes or subsidies) affect relative prices. For example, an exchange rate devaluation raises the prices of goods that are traded relative to those of goods that are not.

Evidence from several countries indicates that these changes affect different households in different ways:

- *Labor demand shocks* have different impacts on workers with different skills and different levels of job security. Low-skill workers and women are more likely to lose formal-sector jobs and move into the informal sector, where earnings decline.
- In both *Brazil* and *Mexico* informal sector employment swelled and earnings declined during the recessions of the early 1980s. In Brazil employment in the informal sector increased by 30 percent during 1981–83, while the ratio of informal to formal sector wages decreased by 7 percent. In Mexico informal sector employment grew 9.5 percent a year between 1983 and 1988 (World Bank 1995b). The formal sector also suffered from the shock: during the recent Mexican recession formal sector wages declined almost as much as informal wages.
- In *Côte d'Ivoire* the adjustment program that began in 1980 was accompanied by massive layoffs in the formal private sector and the public sector—formal sector employment plunged 36 percent between 1980 and 1985—with unskilled and young workers taking the brunt of the layoffs (Bourguignon and Morrisson 1992).
- In *East Asia*, unemployment increased significantly—more than 50 percent in Thailand (to about 6 percent), more than threefold in the Republic of Korea (to about 8 percent), and to 9 percent in the Philippines. In Indonesia most of the adjustment appears to have taken place through falling wages and the movement of workers into low-paying informal sector jobs (Manuelyan Atinc and Walton 1998).
- *Cuts in public transfers and services*, especially if they take place across the board or are not well thought-out, may harm those who rely most on public services, usually the poor.
- In *Chile* per capita social spending fell 20 percent between 1981 and 1986. The poorest 40 percent of families were the hardest hit: their share of personal income was only 12 percent but they received 50 percent of public spending in health and education and 20 percent of social security payments (Bourguignon and Morrisson 1992).
- *Relative price changes* have different impacts on households depending on their production and consumption patterns. Inflation erodes the purchasing power of wages and transfers that are fixed in nominal terms and reduces the relative value of fixed-denomination assets.
- In *East Asia* the prices of imported goods increased dramatically following exchange rate devaluations. Price increases for food items hurt households that are net consumers of food—especially the urban poor and poor farmers whose food stocks and production were down because of the El Niño-related drought.
- For *Brazil* Ferreira and Litchfield (1998) suggest that inflation appears to be the primary macroeconomic force driving the observed increase in inequality. Regression results show that inflation reduces the income share of the poorest 80 percent of the population and increases

the share of the top 20 percent, which is exactly the change observed between 1981 and 1990. Blejer and Guerrero (1990) reach the same conclusion for the *Philippines* for the period 1980–86.²

Households respond to these shocks in various ways. Consumption and production activities change. Employment patterns change: children are pulled out of school and sent to work, women turn to informal sector jobs, and individuals and families migrate. Savings and other assets are tapped, as are forms of assistance available through family and communities. Whole communities as well as households feel the impact, as traditional networks and other forms of social capital are disrupted by economic hardship, migration, and the emergence of fault lines between ethnic, religious, or racial groups.

Some of these responses have only short-term effects on well-being, but others may have long-term impacts or affect well-being irrevocably. Price effects and the loss of access to public health and education may severely limit the ability of the poor to accumulate human capital, with irreversible effects on long-term productivity. Reducing the nutritional intake of babies or pulling children out of school may have permanent effects on their future learning and income-earning abilities. Malnourished mothers have low-birthweight children, who in turn are more likely to suffer from poor health. Distress sales of productive assets may affect the ability of households to resume productive activities after the crisis. Responses such as these are particularly worrisome because of their long-term effects, which may well reinforce existing inequalities and create persistent poverty (see Ferreira 1995).

Evidence from rapid social assessments conducted in Cambodia, Indonesia, the Philippines, and Thailand and surveys in Indonesia, Korea, and Thailand confirm that the poor are indeed responding in ways that will affect their long-term well-being. Youngsters are being taken out of secondary school and sent to work; health care is delayed or forgone, with increased risks of epidemics of communicable diseases; malnutrition is spreading; and productive assets are being sold (Robb 1998; SMERU 1999).³ There is also evidence of reverse migration from the cities to the countryside.

The ability of the poor to participate in the recovery can be severely hampered by these responses. Evidence from Latin America indicates that the effects

of the mid-1980s crisis on poverty were sharp and not quickly reversed when growth resumed because inequality had also increased. In Mexico the acquisition of education was dampened both by lower enrollments of first entrants in primary school and by fewer people continuing on to higher levels of schooling. This may explain why average years of schooling of household heads were lower in the mid-1990s than in 1984 for all deciles up to the seventh and why inequalities in earnings persisted (Lustig 1995).

There is also evidence from several countries that social capital can be damaged during crises. Recent tensions and riots in Indonesia are but one example. In a different context, there is evidence from participatory poverty assessments that economic hardship has severely eroded family and community ties in countries of the former Soviet Union (see chapter 3).

Protecting the poor in a crisis

The impacts of a crisis on the poor can be mitigated through appropriate policies. Policies may limit the impact on the poor by preventing or dampening changes in the key variables that affect household income—labor earnings, returns to assets, public services, and prices—or by preventing behavioral responses by households that may have long-term negative impacts. What is essential is that a concern for the poor be taken into account in the design of policy responses right from the start—from the basic elements of a stabilization program—and not be relegated to micro-level interventions set up well after the main reform program.

An agenda for a poverty-focused response to a crisis should include the following actions:⁴

- *Choose macroeconomic stabilization policies that achieve their objectives at the least short- and long-term cost to the most vulnerable.* Macroeconomic policy has an important role to play in reigniting growth and thereby reducing poverty. If policy is appropriately countercyclical, it can offset (to some degree) the worst effects of recession on the poor. Contractions in aggregate demand, even if harming all equally, are particularly bad for the poor and near-poor, because they have no margins to absorb the decline in incomes.

Devaluations generally had a pro-poor impact in the 1980s in rural Africa because they raised the competitiveness of the tradable sector. In East

Asia, however, the net effect of devaluations—possibly because of their magnitude—appears to have been contractionary, as they led to the collapse of banks and companies that held foreign-denominated debt and to further declines in economic activity. To counter the impact of devaluation, expansionary fiscal policies emerged as the appropriate macroeconomic, and poverty-alleviation, response. They have become a key element of internationally-supported adjustment programs in 1998, notably in Indonesia, Korea, and Thailand.

A fiscal stimulus directed at such labor-intensive activities as rural roads or other rural employment programs would combine the benefits of growth with those of income support for poor groups. If there are intertemporal tradeoffs, for example, between current consumption and investment that could boost growth at a later stage, the potential long-term losses would have to be weighed against the short- and long-term gains for the poor deriving from a smaller shock. In choosing a combination of policies, policymakers should avoid those leading to high inflation, as the poor often rely on fixed incomes and are hurt by fast-rising prices.

- *Ensure that fiscal adjustment protects spending items important to the poor and redistributes resources and that services are provided by effective, inclusive institutions.* Fiscal policies that protect spending on basic education and health care can prevent cuts in services that the poor use most and protect their ability to build up human capital. Eliminating unproductive expenditures may help keep social spending at its pre-crisis levels. In *education*, expenditures on primary schools and on nonsalary items that are essential for quality should be maintained; targeted subsidies to reduce dropout rates among the poor (for example, feeding programs or scholarships tied to attendance) should also be increased. Measures should be taken to avoid a rise in child labor.

In *health*, spending should be maintained for activities with high externalities, such as vaccinations and disease vector control, and for health care services at the lower levels of the health system. Subsidies on the prices of essential commodities and drugs can help the poor avoid malnutrition and illness. Here and elsewhere, price *subsidies* should be targeted to the poor

wherever possible—but evidence from Latin America suggests that a crisis may not be the best time to reform existing subsidies, as resistance from those hurt by the change may stop reforms.

Other public investments that affect the productivity of the poor should also be protected, especially investments in *rural infrastructure* and the provision of *microfinance*. And for all public expenditures, especially those in the social sectors, it is also important to assess institutional capacity. No amount of public spending will benefit the poor if corruption is rampant or if delivery mechanisms exclude the poor.

- *Build or reinforce safety nets capable of providing effective insurance before a crisis and boost assistance once a crisis hits.* During a crisis the focus should be on supporting or expanding programs that deliver the services the poor need to help them cope with the crisis (for example, transfers to buy food), that reach the poor (even though they may reach some who are not poor), and that are ready to be scaled up quickly. Programs that can be scaled up include public works schemes and other workfare programs, which can provide employment for the poorest and reduce open unemployment. Expanding unemployment assistance may be an option where the institutional infrastructure for such a program is in place.
- *Establish mechanisms for monitoring the impact of the crisis and evaluating responses.* Adequate information on the impact of the crisis on various groups and areas helps in the design of appropriate policy responses and signals a need for corrections if the desired impacts are not materializing. Information can also play a crucial role in national and local politics of design and implementation. At a national level encouragement of well-informed debate on issues, impacts, and alternatives is important. At a local level provision of public information on intended public action—and the rights of potential beneficiaries—can help reduce corruption and leakages of program benefits.
- *Set up interventions that preserve the social fabric of societies in crisis and build social capital.* There is evidence that at least some of the negative social impacts of a crisis—rising social tension and the breakdown in family and community ties—may persist after the end of the crisis—this was the case

with violence in urban Latin America (Fajnzylber, Lederman, and Loyaza 1998). It may be possible to mitigate these negative impacts by supporting the build up of local capacity through NGOs, but not much is known about how to do this.

Two observations are relevant in thinking about how such an agenda would be implemented. First, institutional capacity constraints must be taken into account in the design of policy responses.⁵ For example, the best safety net program may be far less effective than other alternatives if it requires administrative capacity well above what is available. Second, action may have to be taken before sufficient information is available. There will usually be inadequate information on likely and actual effects going into a crisis. Nevertheless, those designing a response should take immediate action based on readily available analysis and general principles and simultaneously set up a process of information generation and diagnosis to inform future action. Often there will be the most information on how to move in the public spending and crisis monitoring domains.

The politics of pro-poor policy responses

To be selected and adequately implemented, policy packages to protect the poor need political support. Crises often present an opportunity to implement policies that lead to positive and persistent distributional or social benefits, because they create a sense of urgency and a focus on the plight of the poorest, and because social unrest may threaten the fabric of society. Whether such opportunity can be seized depends on whether and how well the reforms have been prepared prior to a crisis and on whether political dynamics allow governments or societal actors to support changes against previously entrenched interests.

Preparing for crises

Crises, economywide or localized, will always be with us, and responses that protect the poor will be easier to design if more is understood about the distributional impacts of crises and if mechanisms to protect the poor are built into long-term development strategies. Being prepared for a crisis requires:

- Understanding the mechanisms through which the impact of a crisis may spread
- Understanding the distributional implications of policies and programs

- Setting up a safety net that insures the poor against risks and protects them when a crisis comes.

UNDERSTANDING TRANSMISSION MECHANISMS AND DISTRIBUTIONAL IMPLICATIONS OF POLICIES. Formulating better policies to mitigate the impact of crises on the poor will require more analytical work and empirical evidence on the distributional impacts of crises and adjustment and on what causes households to move out of poverty or fall back into it. These areas constitute a rich research agenda for the future.

On the theoretical side one of the main instruments used in analysis has been computable general equilibrium models. These models describe the structure of an economy on both the production and the consumption side, distinguishing between socioeconomic groups. They have been used to generate estimates of the impacts of shocks and policy responses.⁶ However, the findings are often very sensitive to the assumptions underlying the models, so their reliability as a guide for policy decisions is not uncontroversial.

On the empirical side, better and more timely information on transmission channels and household responses is needed both to calibrate theoretical models and to test hypotheses. Such information should come from participatory studies, which can provide valuable insights into the dynamics of poverty, as well as from standard household surveys. Despite reasonably good overall poverty monitoring systems, the response in East Asia was hampered by the lack of information on the short-term impact of the crisis. Short- and long-term monitoring tools should be developed as part of a long-term development strategy.

SETTING UP SAFETY NETS. In addition to developing a better understanding of the distributional impacts of shocks and policy responses, countries should ensure that appropriate safety nets are in place to assist households in reducing or mitigating the risks they face.⁷ Earlier crises in Latin America, Asia, and elsewhere offer two lessons:

- *Safety net mechanisms are too often inadequate.* Coverage is often limited and leakage is high, so that assistance falls far short of demand during a crisis. Moreover, the poor are often unaware of the programs or have too little influence to obtain what they are entitled to.

- *It is very difficult to set up effective safety nets during a crisis.* Governments are often unprepared, ill informed, and slow to take action, while both financial and human resources are stretched thin. Building up the infrastructure and the capacity to manage a program takes a long time—and is more easily done during good economic times.

Without an adequate safety net in place before a crisis hits, the poor are likely to be hurt disproportionately, so setting up safety nets in good times may be the only effective way to protect the poor during crises. Recent experience also calls for a reexamination of the distinction between relief programs and regular development programs. Before a crisis good safety nets may provide the insurance necessary for households to make riskier choices that increase their productivity and spur growth. During a crisis safety nets may well provide a way of ensuring that crises do not halt “development”—by protecting the poor from being forced to forgo essential household investments in health and education, which are crucial for future growth, or to finance consumption by divesting the physical capital on which their productivity depends. Thus an effective safety net for the poor should be seen as a long-term investment.

Several principles should guide in the design of a safety net:

- The safety net should *provide a better way to insure the poor against the risk of loss of income.* Other elements of a country’s poverty alleviation strategy address economic growth and investment in human capital; safety nets are meant to provide insurance. The poor frequently rely on informal insurance mechanisms, including strategies to reduce or diversify risk, but these characteristically incur high costs. The key issue for policy is not whether publicly provided safety nets displace private mechanisms, but whether they provide insurance more efficiently and at a lower cost; if they do, then displacement may be desirable.
 - The safety net should *respond flexibly to the needs of the poor and not rely on administrative discretion.* If a safety net does not provide insurance when a shock hits (for example, because it does not reach the intended beneficiaries or because access is rationed), then it does not provide adequate insurance for the poor.
 - The safety net should *not create perverse incentives* that would increase unemployment or other forms of dependency on state support in the long run.
- The safety net should *be efficient*, in the sense that, at the margin, money spent on it should be as effective in raising the welfare of the poor as money spent on other programs.

Experience in a number of countries helps identify a combination of programs that satisfy these principles and that have been effective in protecting the poor during crises. These include programs that provide employment for those who are able to work, along with targeted transfers for those who cannot, or should not, work. There is also a case for special credit programs, though design issues are particularly important here for efficiency and effective targeting.

- *To mitigate the risk of loss of income* resulting from the loss of a job, a key element of the system would be a workfare program that provides work on public infrastructure projects to people seeking employment. The work would be available at all times, but it would expand during crises as demand expands—without the need for administrative decisions. To ensure local relevance and ownership, the projects would be proposed by local community groups, with final selection by a central agency. The central government would fund wage costs everywhere (up to, say, 15 days a month) and nonwage costs only in designated poor areas. Good models for this type of program are the Argentinean Trabajar scheme for middle-income countries and the Maharashtra Employment Guarantee Scheme in India for low-income countries.

A key to success is the wage rate. A low wage rate ensures that only those in need apply and that as many people as possible can be employed. A low wage would also protect the incentive to take up regular work when it becomes available again. When the shock is transitory, the wage could be set no higher than, say, 90 percent of the wage rate for unskilled agricultural work prevailing in normal times. When the shock is permanent, setting a wage would require an assessment of the sustainable wage for unskilled labor after the crisis. This may be difficult; erring on the side of offering too low a wage may be safer than setting too high a wage, as it is easier to increase the wage than to lower it. At the set wage, all those who are willing to work should find work; if there is not enough work for all, then the program would fail to provide credible insurance.

A workfare program would protect the poorest workers—those willing to accept low wages—against declines in labor demand and loss of income, thus lessening the harmful impact of declines in labor demand and informal-sector earnings.⁸

- *To mitigate the risk of long-term negative effects of income losses*, targeted transfers of cash or food would be provided to those unable to work, such as pregnant and lactating women or the elderly, or those who should not work, such as children in school. These programs could be turned on and off, or expanded, based on indicators of crisis—and the demand for work in the workfare program could be used as an indicator. A good example of a scheme for keeping children in school is the Bolsa Escola scheme in Brazil, which offers scholarships to families who send all their children to school. Such targeted programs mitigate the impacts of increases in the cost of education and prevent long-term losses in educational attainment and earning potential.
- *To assist in the recovery after a crisis*, a program of carefully targeted microcredit and savings services may help the poor reacquire productive capital once opportunities appear. During a crisis such a program could mitigate the risk of permanent losses in income-earning capacity by avoiding distress sales of productive assets. However, often grants rather than loans are needed, and care must be taken to ensure that clients understand the nature of the assistance received. While there are concerns about the effectiveness and sustainability of microfinance schemes, models of successful schemes exist—for example, Grameen and BRAC in Bangladesh (Khandker 1998), whose ability to help in crises was put to the test in the aftermath of the 1998 floods.

These programs would be permanent, dealing with issues of transient poverty, localized shocks, and poor-area development in normal years and expanding during times of crisis to assist those temporarily in need. The budgetary outlay for such a set of programs may be higher than most countries currently spend, but possibly lower than the cost of hastily prepared relief operations set up after a crisis strikes. In Indonesia the cost of setting up a public employment scheme to transfer enough income to the poor to restore pre-crisis (1996) consumption levels has been estimated at 3.5–5 percent of bud-

getary outlays (Manuelyan Atinc and Walton 1998). Amounts of that magnitude would probably be sufficient to fund programs such as those described above. To ensure that resources are available for a nationwide crisis, a fund could be set up with regular payments to amass resources during normal years.

Bank assistance to countries in crisis

The social dimensions of crises have generally been neglected. This was markedly so during the 1980s debt crisis, when the characteristic response on social dimensions was a social fund or measures to protect social spending—often set up years after the shock (Jayarajah, Branson, and Sen 1996). In the 1990s the response improved somewhat, but remained weak.

Responding to current crises

During the East Asia crisis the World Bank has worked to help governments implement pro-poor strategies from the start. Overall, countries in East Asia received \$5.7 billion for five adjustment operations in fiscal 1998, the largest being two loans to Korea for \$3 billion and \$2 billion.⁹ Ninety-three percent of this lending, including the two loans for Korea as well as a \$300 million loan to Malaysia, was classified as poverty-focused. These loans helped support pro-poor structural policies and protection of public expenditures that benefit the poor and enhance the quality of social services. Efforts went into improving the design and financing of social safety nets, in particular social funds and social security systems for the unemployed and the elderly; addressing key social and institutional issues; and setting up poverty monitoring systems.

Elsewhere, substantial support went to the countries of the former Soviet Union and Latin America for safety net reform and rationalization of social assistance, and to assisting countries hit by natural disasters.

CHOOSING PRO-POOR STABILIZATION AND STRUCTURAL ADJUSTMENT POLICIES. At the start of the crisis, adjustment programs in Thailand and Korea focused on countering capital outflows and the resulting downward pressure on the exchange rate by tightening monetary policy. Structural reforms addressed weaknesses in the financial and corporate sectors. In

Thailand, and to a lesser extent in Korea, fiscal adjustment was intended to support the adjustment of the external balance. The programs failed to restore confidence and capital outflows grew considerably larger than expected, aggravating problems in the financial and corporate sectors and leading to a collapse of private demand. In these circumstances staying with the original fiscal targets would have been strongly contractionary. The targets were substantially revised to permit a more accommodating fiscal stance. Partial evidence suggests that governments have endeavored to protect social expenditures benefiting the poor. Korea's second Structural Adjustment Loan (SAL) supports expansions in expenditures accompanied by a higher budget deficit of 5 percent, and a similar expansion is under discussion in Thailand.

On the structural reform front both Structural Adjustment Loans for Korea include significant labor market reforms. The \$2 billion loan approved in March 1998 incorporates measures to increase flexibility while extending coverage of unemployment insurance to employees in small-scale enterprises. The November loan carries these reforms further.

The design of policies to protect the poor is complicated by the lack of a full understanding of the impact of policy packages not just on the welfare of the poor, but on macroeconomic variables themselves. The debate on whether bank recapitalization or direct transfers or tax cuts would have a stronger impact on growth is an example of the difference in views on the effectiveness of policies. The distributional impacts of alternative policy packages—how they affect different groups—are even less well understood.

PROTECTING PUBLIC SPENDING THAT BENEFITS THE POOR. The World Bank has also emphasized the importance of the composition of public expenditures. Expenditures that should be expanded are those that benefit the poor. Structural adjustment loans in Indonesia, Korea, Malaysia, and Thailand all include components aimed at protecting public spending for health and education, which has a stronger pro-poor impact than other types of spending.

- In *Malaysia* a \$300 million June 1998 Economic and Social Sector Loan supported budgetary spending for education, health, and rural infrastructure and increases in expenditures on programs aimed at providing direct support to the

poor (through free housing and food supplements) and income generation through small grants.

- In *Indonesia* the Structural Adjustment Loan includes subsidies on the prices of key goods and scholarship funds for 2.6 million needy junior secondary school students.
- In *Thailand* the Bank is working closely with the government to identify public expenditures to be protected or expanded under the Second Economic and Financial Adjustment Loan.

IMPROVING THE FUNCTIONING OF SAFETY NETS. Safety net programs are also generally among expenditures slated for expansion. Most frequently, governments have expanded public employment programs, followed by insurance, training, and pension schemes.

- In *Thailand* a \$300 million loan for a Social Investment Project will fund job creation for the poor and the unemployed through existing labor-intensive government programs that implement small-scale community projects and larger municipal projects and expand training for the unemployed. It will also support health insurance schemes for low-income workers. The loan is expected to create roughly 1 million person months of work and an equivalent amount of training.
- Pension reform was supported in both Structural Adjustment Loans in *Korea*.
- In *Malaysia* longer-term issues relative to the adequacy of formal safety nets and the governance structure of the Employee Provident Fund will be addressed through a Technical Assistance Loan and economic and sector work.

SETTING UP SYSTEMS TO MONITOR POVERTY. Measures to strengthen or build up systems to provide timely information on the impact of the crisis are included in a number of projects:

- The Bank is helping to finance a follow-up to the *Indonesia* Family Life Survey. This will allow monitoring of the living standards of a subsample of households that were surveyed in 1993 and 1997 and help assess household-level coping strategies in response to the crisis.
- In *Korea* the first Structural Adjustment Loan included measures to improve poverty monitoring.
- In the *Philippines* a new survey, the Annual Poverty Indicators Survey, has been conducted with funding from the Asia-Europe Meeting (ASEM).

- The Social Investment Project in *Thailand* includes funds to set up a monitoring system to evaluate the impact of the crisis and of public action on the poor, and a national poverty map will be drawn based on a nationwide systematic participatory assessment.

RESPONDING TO NATURAL DISASTERS. In disaster relief, the World Bank supported reconstruction and rehabilitation of infrastructure and agricultural production capacity. The past two years were marked by natural calamities of enormous proportions—from earthquakes and the floods and drought related to El Niño in China, to floods in Bangladesh and Hurricane Mitch in Central America. Natural disasters may affect the poor more because they tend to live in areas more prone to floods and landslides (where land values are lower). And the poor have a harder time coping because their resources are limited, and they have little to fall back on. Their resistance to disease is also often lower because of malnutrition. Labor-intensive reconstruction efforts provide an opportunity to build local capacity and to help the poor find employment.

- Labor-based construction methods are employed in the reconstruction of infrastructure damaged by floods in Bank-supported Emergency Reconstruction Loans in *Ecuador, Papua New Guinea, Peru, and Tajikistan*.
- The capacity of local-level public institutions is being strengthened with support from an Emergency Reconstruction Loan in *China's* Hebei Province, which was hit by an earthquake, and in *Peru*. In *Papua New Guinea* private local institutions—churches and NGOs—are being used to deliver services.

Preparing for the future

A number of studies now under way will improve the understanding of the impact of shocks and policy responses on the poor:

- Poverty analysis in the *Philippines* based on the results of the 1998 Income and Expenditure Survey and the Annual Poverty Indicators Survey
- A social and economic study of *Malaysia* (the first since 1993), which includes an overview of poverty and the social safety net, analysis of how the poor may be affected by the downturn, and recommendations for limiting the impact of the crisis on the poor

- Ongoing work on labor market adjustment, which focuses on policies for unemployment and underemployment and on the impact of accelerated reforms in the state-owned enterprise sector and the slowdown in aggregate demand, which has been exacerbated by the regional crisis
- A study examining the impact of the regional crisis on *Cambodia* and the *Lao People's Democratic Republic*, which uses rapid social assessments of impacts on the poor
- A regionwide initiative to analyze issues in pension policy and administration, which includes a conference in 1999 on governance of pension funds in *East Asia*.
- Assessments of the impact of adjustment programs on vulnerable groups, which is part of a pilot project on strengthening collaboration between the World Bank and the International Monetary Fund; pilot countries are *Cameroon, Ethiopia, Nicaragua, Tajikistan, Vietnam, and Zimbabwe*.

Several fiscal 1998 projects were also aimed at strengthening safety nets to improve the capacity to respond to crises:

- In *Argentina* a \$284 million loan supported expansion of the Trabajar project, which provides up to 15 days a month of guaranteed employment in locally determined small infrastructure projects for anyone willing to work for a low wage.
- In *Kazakhstan* a \$300 million adjustment loan supported pension reforms. A resolution providing for scheduled increases in the minimum pension adjusted for inflation, together with the establishment of old-age allowances, would help ensure sufficient income support for pensioners. *Georgia, Hungary, and Moldova* received support for pension reform through an adjustment loan as well.
- In *Russia* a \$29 million loan, complementing an earlier adjustment loan, supported a broad program of social protection, including the setting up of monitoring systems, data analysis, and reviews of ongoing programs for unemployment assistance and social protection. About 4 million of the poorest pensioners would receive regular and adequate pensions.

Measures to increase preparedness for natural calamities were also included in a number of projects.

Prevention focused on strengthening infrastructure and setting up regular maintenance programs, as well as acquiring emergency equipment.

- All five El Niño-related Emergency Reconstruction Loans included flood prevention and drought mitigation measures, from maintenance of water courses and water drainage system to construction of dams, dikes, and water storage tanks (*Bolivia, Ecuador, Papua New Guinea, Peru, Uganda*).
- Through the Grants Program the World Bank is supporting several Consultative Group for International Agricultural Research centers around the world working on agricultural risk mitigation. In *Papua New Guinea* the Bank is also supporting agricultural research on drought-resistant crops.
- Several loans (for example, in *Bolivia*) include funds for the purchase of Bailey bridges, temporary power generators, water purification plants, pumps, and other emergency equipment.

Although natural disasters continue to claim lives, progress is being made. A cyclone that hit Bangladesh in 1996 caused fewer than a hundred deaths; a similar cyclone that hit roughly the same area in the 1970s claimed a quarter of a million lives.

To ensure that countries are better prepared to deal with shocks, the Bank is also piloting comprehensive reviews of policies and programs, as suggested by President James Wolfensohn in his speech at the 1998 Joint World Bank–International Monetary Fund Annual Meetings and his proposal for a Comprehensive Development Framework. The reviews would provide an opportunity for periodic checks on crisis preparedness. Safety nets would figure prominently in the review, to highlight and address the need for reform and strengthening before a crisis hits. Work is under way in a number of pilot countries to define the scope and process of such reviews.

Notes

1. This section builds on Ferreira and Keely (1998).
2. It should be noted, however, that in some cases inflation appears to have had only temporary effects on the distribution of income.
3. Enrollment rates in primary education appear not to have declined.
4. Note that this agenda does not refer to immediate responses. Faced with rapid capital outflows, a country cannot change its fiscal or social protection policies overnight.
5. The extreme cases of post-conflict situations where the state structure has broken down and there are no NGOs or other organizations capable of implementing programs pose a particular challenge.
6. The Latin American and the Caribbean Region developed a general equilibrium model that attempts to go beyond traditional wage rigidity-based dual labor market models. The model explicitly integrates workers' choice of formal and informal sectors and models segmentation as emerging endogenously from efficiency wage effects. This makes it possible to incorporate the existence of both voluntary and involuntary informal workers. The model was calibrated using Mexican data, and simulations were run on the impact of various shocks and policy measures on the size of the informal sector and the ratio of formal to informal wages, and hence distribution; it suggests possible magnitudes of impact.
7. This section is based on Ravallion (1999 and forthcoming).
8. Setting up and implementing workfare programs may be difficult in countries where community-based organizations are weak, or where public works have traditionally been hampered by corruption.
9. These were followed in fiscal year 1999 by a further \$2 billion loan to Korea and a \$1 billion loan to Indonesia, which were also classified as poverty-focused.

CHAPTER 3

Monitoring Poverty Outcomes: Integrating Different Methods in Poverty Assessments

World Development Report 1990: Poverty and the subsequent 1991 policy paper *Assistance Strategies to Reduce Poverty* laid the foundation for the World Bank to start carrying out poverty assessments in its client countries. Depending on the country situation, the government's commitment to poverty reduction, and available data, poverty assessments analyze:

- The poverty profile—the most important economic, demographic, and social characteristics of the poor, including gender differences
- Trends over time
- The impact of policies and programs on the poor.

Building on this analysis, poverty assessments examine strategies to reduce poverty and recommend ways to increase the effectiveness of policies and programs.

Poverty assessments have relied on various approaches to gather and analyze data on poverty. The vast majority make extensive use of data collected through sample-based household surveys analyzed by researchers, but an increasing number also rely on information collected using participatory techniques and analyses carried out with and by poor people in the field. Poverty assessments have also included participation by various stakeholders, from poor people to NGOs to policymakers, shifting, to varying degrees, from one-way dissemination of information to more meaningful forms of involvement.

This chapter reviews different methodological approaches to poverty data collection and analysis and highlights the advantages of integrating methods. It also reviews the advantages and risks of participation, finding that participatory poverty assessments, once mainly a way of enriching the *description* of poverty, now place more emphasis on understanding the *causes* of poverty. The challenges for future poverty work lie in better and more widespread use of integrated approaches and in exploiting participation to develop better poverty reduction strategies.

Different methodological approaches

Poverty analysis involves data collection, data analysis, and strategy formulation.¹ At the data collection and analysis stages, the methods applied range from large sample surveys analyzed by researchers to long-term anthropological village studies. At all three stages, but especially in strategy formulation, different degrees of participation can be employed—from simple dissemination of information to approaches that genuinely involve and empower individuals and communities. While the approaches are sometimes characterized as originating in different epistemological traditions—the more quantitative methods from positivism, the more qualitative and participatory methods from relativism—in practice they can be used together to gain a better understanding of poverty and develop strategies to fight it.

Contextual and noncontextual data collection and analysis methods

During data collection it is useful to distinguish between types of data and methods of data collection (Hentschel 1998). Data can be qualitative or quantitative, while methods are more usefully characterized as contextual and noncontextual.

- *Contextual methods* seek to understand human behavior within the social, cultural, economic, and political environment of a locality, usually a village, neighborhood or social group.
- *Noncontextual methods* abstract from the particularities of a locality to gauge general trends.

This characterization is best seen as describing the extremes of a continuum, where the methods used range from contextual to noncontextual and the data gathered range from qualitative to quantitative, though both methods can produce both kinds of data.

Household surveys such as the Living Standards Measurement Surveys or the Priority Surveys are closer (though not exclusively) to the noncontextual end and generate mostly quantitative data; Participatory Rural Appraisals are closer to the contextual end and produce mostly qualitative data. Data analysis can also be conducted in more or less contextual ways.

Different methods are appropriate to answer different questions. Contextual methods are well suited to answer questions on the meaning of poverty, on priorities, and on motivations: what poverty is, what are the most pressing needs of the poor, why certain groups do not use certain services, and so on. Contextual methods allow an understanding of the experience and meaning of poverty from the perspective of the poor, and permit an analysis of psychological, cultural, and political factors that are not easily quantifiable. In addition, they make it possible to consider local factors. Noncontextual methods are best suited for questions that require generalizations and refer to large and diverse geographical areas and social groups: how many people in the country are below the poverty line, how many children suffer from malnutrition, what relationship exists in aggregate between household consumption and education, and so on. Noncontextual methods provide results that can be generalized. Since the definition of poverty is based on the same factors throughout a country, living standards can be compared across communities.

Integrating contextual and noncontextual methods

Contextual and noncontextual methods can be integrated in several ways to gain a deeper understanding of poverty:

- Contextual studies can clarify and refine survey questions and identify the answer options to be provided in pre-coded questionnaires.
- Deriving a poverty profile from survey data involves a number of assumptions. Contextual studies can confirm the validity of poverty profiles, highlight inconsistencies, and suggest solutions. The process can sometimes point to a need to change the methodology used to derive the profile. For example, contextual studies in South Asia find that widow-headed households are among the poorest and most vulnerable; yet survey data for Nepal did not find an above-average

incidence of poverty for such households. But this result was based on the assumption that there were no economies of scale in household consumption, which means that there are no drawbacks to being part of a small household relative to a large one. Once this assumption was changed to account for the presence of economies of scale, survey data confirmed that widow-headed households, which were smaller than the average, tended to be poorer as well.

- Noncontextual studies can be used to assess the representativeness of contextual studies. If the characteristics of households covered by contextual studies fit within the national profile for given indicators, the findings from such studies may be more easily generalizable. Similarly, the selection of sites for contextual work may be based on the sampling frame used for household surveys.
- Contextual studies may provide causal linkages and hypotheses, which can be tested on a large scale using survey data.

Integrating methods raises issues of timing and sequencing:

- If a participatory poverty assessment is carried out *before* a household survey, for example, the assessment findings can be used to raise new issues, generate hypotheses, and help formulate or rethink certain questions.
- If it comes *after* a household survey, its findings can be used to explore anomalous survey findings or to focus on certain types of households.
- When participatory poverty assessments and household or other surveys are planned at the *same time* (even if they are carried out sequentially), sample sites should be carefully selected—for example, the participatory poverty assessment can focus on regions where poverty appears more persistent or where there are concerns over particular vulnerabilities.

The contribution of participation

At all three stages of poverty analysis, but especially in strategy formulation, various degrees of participation can be employed, ranging from information dissemination (one-way flow of information) to consultation (two-way flow of information) to collaboration (joint decisionmaking) and empowerment (transfer of control over decisions and resources). Various stakeholders can participate,

ranging from poor people to policymakers. In data collection contextual methods are often participatory, whereas noncontextual methods tend to be nonparticipatory.

Participation in poverty analysis differs from participation in project evaluation. While participation in projects ideally aims to maximize the involvement of intended beneficiaries in identifying, designing, implementing, and monitoring the project and often involves collaboration and even empowerment, the degree of participation in studying poverty and formulating strategies is more variable. This is in part because the link between such studies and a concrete policy response is less direct than in project work. For the poor participation is limited largely to encouraging them to describe and analyze poverty in their own terms but does not include taking action. For local policymakers, researchers, and non-governmental organizations participation may involve designing and carrying out the study and discussing the results.

The advantages of a participatory approach to the formulation of poverty reduction strategies are clear: those in charge of implementation are more likely to be committed to strategies that emerge from consultation, collaboration, and empowerment. Moreover, the work itself can bring about changes in attitudes, as the poor begin to be seen as capable of influencing choices about their future rather than as passive receivers of services. A dialogue can be created between groups in society and partnerships for the implementation of policies and the delivery of services. In addition, capacity to carry out participatory poverty analysis can be built in the country. But participation carries risks as well: the process can become politicized and raise expectations of empowerment that may not be met.

Recent experience with different approaches to poverty analysis

The World Bank's experience with participatory poverty assessments is rich and growing. As of July 1998, 49 participatory poverty assessments had been undertaken—28 in Africa, 6 in Latin America, 11 in Eastern Europe, and 2 each in South and East Asia (see Robb 1998). The share of poverty assessments that included participatory components rose from one-fifth in fiscal 1994 to over half in fiscal 1998.² Encouragingly, capacity to conduct participatory studies of poverty was reported

to exist in 45 out of 80 countries for which data on capacity for poverty monitoring were gathered by the 1998 census of household surveys (see chapter 1 for other results from the 1998 census). More and more poverty assessments rely on both qualitative and quantitative data gathered and analyzed using different methods and the use of participatory approaches to develop poverty reduction strategies.

A review of the experience to date indicates that:

- Initially, participatory poverty assessments tended to be stand-alone exercises separate from regular poverty assessments, and contextual and non-contextual methods were not integrated. The main contribution of participatory poverty assessments was to broaden and deepen the description of poverty emerging from household survey data.
- As experience grows, integration between approaches is increasing, and the contribution of contextual approaches and participation is beginning to extend to strategy formulation.

Initial experience: richer descriptions of poverty

The region with the largest number of participatory poverty assessments is *Sub-Saharan Africa*, and several reviews of the African experience have been conducted over time, often in the context of the Special Program of Assistance. Reviews by Norton and Stephens (1995) and the Task Force on Poverty in Sub-Saharan Africa (World Bank 1996b), as well as others, concluded that participatory poverty assessments had enriched poverty profiles in several ways. Participatory poverty assessments had:

- Provided a richer, more effective picture of what it means to be poor
- Pointed out dimensions of deprivation other than insufficient consumption or income and poor health and education—for example, lack of power and voice, hopelessness and despair, lack of safety and property rights
- Highlighted the importance of locally specific factors in determining access to services and constraints that the poor faced in availing themselves of market-based opportunities
- Underscored the vulnerability of the poor to risk and the need for safety nets.

Comparatively less emphasis was placed on developing causal explanations of the plight of the poor.

Eleven participatory poverty assessments were recently conducted in Eastern Europe and the countries of the former Soviet Union, which are part of the *Europe and Central Asia* Region at the Bank.³ Poverty has increased dramatically in many of the countries of the former Soviet bloc during the transition, and little was known about the extent and characteristics of poverty in the former Soviet Union. So it was particularly important to analyze poverty from different angles and look at its dynamics, something for which participatory poverty assessments are well suited.

A recent review by Dudwick (1998) highlights the key contributions of participatory poverty assessments. The *profile of poverty* in the region was enriched by the following observations:

- For most people in the region, acute poverty is a recent phenomenon. It has affected not only those who were economically vulnerable (because of disabilities, for example), but also those who were highly educated and had stable, even prestigious employment. The unexpected nature of impoverishment, which came suddenly with hyperinflation, loss of savings, nonpayment of salaries, and unemployment, has created in the new poor a pervasive sense of insecurity, unpredictability, and fear for the future.
- The socialist regimes claimed to have eliminated poverty; hence responsibility for any poverty that did exist was placed squarely on the individual. Therefore, despite widespread poverty, many of the poor view poverty with ambivalence: they ascribe their own family's poverty to unemployment, late wages, inflation, government corruption, illness, and so forth, but are likely to ascribe the poverty of others to personal failings such as laziness, incompetence, or alcoholism.
- As part of the restructuring of state industrial and agricultural enterprises, social assets—housing, clinics, kindergartens, community buildings were divested, contributing to the hardship of the poor, who relied more extensively on these services.
- The poorest households in the region have almost no cushion against shocks or crises. Most of them have sold their assets—the jewelry, household items, and furniture acquired at marriage or purchased during better times; a car, if they had one; and even recently privatized apartments. Their depletion of assets renders them ever more vulner-

able to new shocks or expenses—sudden illness, loss of employment, school expenses.

- Petty trade, small-scale home-based enterprises, informal sector employment, domestic work, casual manual labor, migration to cities, and subsistence gardening have become important supports for the new poor, many of whom lack the education, connections with those in power, or access to information and credit that would enable them to move into the formal economy.
- Among the poor, poverty has threatened community solidarity and weakened extended family ties, even in societies with strong extended family networks such as Armenia and Georgia. People have drastically curtailed their participation in ceremonial and social events such as weddings, birthdays, or funerals that previously brought them together and reaffirmed relationships because they cannot afford the costs. For poor people in the Europe and Central Asia Region, it is a bitter paradox that widescale poverty has simultaneously eroded their social networks and made these networks ever more important for finding work. Given the degree of unemployment, “connections” to those with official or unofficial power, bribes, and access to knowledge and initial capital—which the poor tend to lack—have become essential to finding good employment or starting successful enterprises.

In the Europe and Central Asia experience *integration* of various methods has been limited so far. Often, participatory poverty assessments have served as background papers for poverty assessments, with household income and expenditure surveys and other questionnaire-based surveys providing the main basis for analysis. At times, the findings of participatory poverty assessments have been compartmentalized—as colorfully illustrative but analytically insignificant anecdotes—rather than integrated analytically into poverty profiles, discussion of causes, and policy recommendations. For the most part, participatory poverty assessments have been carried out in relative isolation from the final poverty assessment.

Both the Africa and the Europe and Central Asia experience point to the important role played by participatory poverty assessment in *spurring debate* on poverty. While poverty existed in the former Soviet Union and other socialist countries, it was not discussed as a social phenomenon—poor people existed

simply as anomalies of a socioeconomic system that by definition was supposed to exclude gross inequalities (see Braithwaite 1997). Poor people were therefore ignored or excluded from society in various ways. Today, poverty has become too widespread to ignore and is so manifestly connected with the failure of the centrally planned economies that it can no longer be regarded as something outside society. Only now are the people confronting the fact that they live in societies no longer based on redistributive economies and that poverty—or the risk of poverty—is intrinsic to post-socialist societies. As attitudes toward poverty begin to consolidate, the participatory poverty assessments can play a crucial role by bringing these half-formed attitudes into the open where they can be publicly discussed and negotiated.

The finding that the participatory approach to poverty assessments is valuable in opening up forums for discussion is in line with the findings of an Operations Evaluation Department progress review on poverty assessment (OED 1996), which reported that Bank staff considered poverty assessments that incorporated participatory elements to be “especially valuable,” in part because they led to fruitful discussions among government and civil society stakeholders on more effective ways to reach the poor.

In the Europe and Central Asia Region participatory poverty assessments contributed to *building capacity* among local researchers. Some participatory poverty assessments engaged local research firms (such as the Kiev International Institute of Sociology for the Ukraine study), training their surveyors to carry out and write up qualitative interviews and inviting their participation in follow-up workshops to discuss results. The two participatory poverty studies in Armenia (1995, 1997) were carried out by anthropologists from the Institute of Ethnography and Yerevan State University, who made substantial inputs into the interview guide, choice of sites, and subsequent analysis. Both the qualitative methodologies and the priority given to respondents as subjects rather than objects of research were new to many social scientists, especially in the former Soviet Union, where sociology and ethnography had historically operated under very stringent ideological limits. Social scientists who worked on the participatory poverty assessments expressed great enthusiasm about the potential for such an approach.

More advanced work: integration of approaches

As experience with contextual and participatory methods has grown over the past couple of years, their use and acceptance has grown among economists. Consequently, the degree of integration of contextual and noncontextual methods has increased, and so has the use of participatory techniques in the development of strategies.

A recent review of participatory poverty assessments in *Sub-Saharan Africa* (Booth and others 1998) found that participatory poverty assessments continue to enrich the analysis of poverty as described above but that the latest work is moving forward in three important new directions:

- Contextual and noncontextual methods are more often integrated, and the synergies between methods more fully exploited. For the *Tanzania* participatory poverty assessment, for example, a specially designed survey focusing on social capital was coordinated with a larger, traditional household survey, and participatory rural appraisal techniques were used in some carefully selected sites.
- The causes of poverty are explored more systematically, thus yielding insights not just on the profile of poverty but also on the instruments that can be used to help households escape poverty.
- Country ownership is stronger than in the past. For example, in *Zambia* regular poverty monitoring includes both participatory studies and household surveys; in *Mali* and other francophone countries poverty-monitoring “observatoires” have been set up.

In *Tanzania* the integration of methods made it possible to use household-level data to test econometrically hypotheses on the importance of social capital for household well being that were derived from focus-group discussions in the same communities. The analysis showed that, after controlling for other variables, village-level social capital had a large positive impact on household expenditures (Narayan and Pritchett 1997).

In the Europe and Central Asia Region there are two encouraging examples of integration:

- The two *Armenia* poverty assessments pulled together analytically participatory and sample-based studies that were planned and designed separately. The final document uses the participatory findings to explain anomalies in the survey findings.

- For the *FYR Macedonia* poverty assessment a labor expert from the local Statistical Office, who had collaborated extensively with the Bank in the analysis of findings from the Statistical Office's household income and expenditure surveys, helped design the participatory poverty assessment so that it covered a subsample of the population already surveyed. Descriptive material and findings from the participatory poverty assessment were incorporated in the poverty assessment and helped to fill in critical gaps (on the informal economy, for example).

In the South Asia region a recent study of poverty in Uttar Pradesh and Bihar states in Northern India illustrates one way to combine the methods in practice (Kozel and Parker 1998; Bamberger forthcoming). The research was conducted in two phases:

- In the first phase contextual research instruments, based on rapid rural appraisal and participatory rural appraisal techniques, were developed and applied in 30 villages. The exercises included a wealth ranking exercise, a social mapping exercise, a social capital inventory, household case history interviews, a women's roles-gender issues exercise, and discussions of availability, quality, and usage of government programs and services. These exercises jointly provided a many-sided picture of local poverty as perceived by men and women, poor and nonpoor. They yielded a rich set of findings that would not have been possible through analysis of conventional data obtained through structured household and community surveys.
- In the second phase the qualitative findings were analyzed and used to enrich and sharpen the design of the study's household and community questionnaires, which were modeled after survey instruments developed for the Living Standards Measurement Study. The field survey was carried out in 120 villages, including the 30 covered in the qualitative component, with an overall sample size of 2,250 households. The findings of the qualitative portion of the study are being used to inform, validate, and add explanatory power to the survey-based analyses. Joint use of the two methods is yielding a rich picture of the situation of the poor in rural India and the broad factors that determine their well being.

This combination of methods yielded a number of interesting and unexpected findings. For example,

the poor's perception of economic mobility was very different from that suggested by a standard, survey-based poverty profile exercise. While the characteristics of better-off and worse-off households were similar to those obtained through survey exercises—for example, wealthier households generally have more agricultural land, more education, higher paid jobs, and better access to basic services—this static characterization of households has little to do with (dynamic) opportunities for economic mobility. Poor respondents generally had a realistic view of these opportunities that had little to do with emulating the lifestyles of their wealthier, higher-caste neighbors. For example, large landholdings were cited in virtually every village as one of the main characteristics of the wealthy, but land acquisition was rarely cited as a feasible means of economic improvement by the poor. Upwardly mobile poor households had generally found employment outside the agricultural sector and, in many cases, outside the village. Findings such as these have the potential to inform much more effective poverty reduction strategies than static findings.

Challenges for the future

While highlighting the potential gains of integrated methods, recent experience has also underscored the difficulty of using such approaches. Integrating methods requires assembling a multidisciplinary team and giving careful consideration to sequencing. Combining methods requires more time and resources than employing either contextual or noncontextual methods alone. Thus one of the challenges for future poverty analysis is to institutionalize integrated work in cost-effective and manageable ways.

The Bank's emphasis on participation by the poor as subjects and active agents in social development rather than its objects calls for far greater reliance on participatory poverty assessment findings in formulating policy than is now the case. A first step is making the formulation of policy recommendations a more participatory process. Integration does not stop at the analytical stage but extends to the policy formulation stage and to the monitoring of policy outcomes, thus creating a feedback loop from information to policy and from policy to information based on both sample-based and participatory sources of data. This represents a second key challenge for future poverty work.

Notes

1. This follows loosely the steps of empirical investigation identified by Sechrist and Sedani (1995): data collection, data analysis, data interpretation, and utilization of the information.

2. As noted in chapter 1, four of the six poverty as-

sessments completed in fiscal 1998 (Chad, Djibouti, India, and Rwanda) included a participatory poverty assessment.

3. The eleven countries for which participatory poverty assessments have been conducted are Albania, Armenia, Azerbaijan, Bulgaria, Georgia, the Kyrgyz Republic, Latvia, FYR Macedonia, Moldova, Tajikistan, and Ukraine.

CHAPTER 4

Rethinking Poverty Reduction: *World Development Report 2000/01* on Poverty and Development

Poverty amidst plenty is an affront to our basic moral values. *World Development Report 2000/01* on poverty and development presents an opportunity to revisit the World Bank's poverty reduction strategy in light of recent development experience and future prospects. This follows the practice, begun in 1980, of preparing a major report on poverty reduction—the institution's overarching priority—every 10 years.

Context: moving the frontier of knowledge

In looking back over the period up to 1990, it becomes evident that countries and societies that had made the greatest advances in attacking poverty shared certain common features. They had prolonged periods of social peace, they experienced sustained growth in per capita incomes, and they invested heavily in basic health and education. But even in the most successful countries there were pockets of marginalization, and gains for the poor remained fragile.

Since 1990 four factors have been important in explaining successes and failures:

- Implementation of reform policies in Africa, Latin America, and Asia
- Collapse of social cohesion and the deterioration into civil war in parts of Africa, central Asia, the former Yugoslavia, and elsewhere
- The trauma of transition in Eastern Europe and the former Soviet Union
- The East Asian crisis.

These events have emphasized the importance of social stability, of risk and vulnerability, and of moving simultaneously on institutional and market reforms, in addition to the factors highlighted in the 1990 strategy.¹

Contents: challenges and opportunities

World Development Report 2000/01 will center on five main propositions that reflect current policy concerns and the analytical literature and that will serve to frame a program of analysis and dialogue in the preparation phase of the report:

- Standard of living is multidimensional. In discussing poverty and inequality, therefore, traditional measures based on the levels of income and consumption need to be accompanied by other measures that reflect such dimensions as health and education, vulnerability and risk, crime and violence, integration into the mainstream of society, and other factors highlighted by the poor themselves as being important. Moreover, not only must the measurement of the standard of living go below the level of the household to investigate the conditions facing women and children; it must also go above the household level to take into account community-level considerations.
- There has been significant progress in poverty reduction in the past half century. But this progress has been uneven across countries and across the different dimensions of poverty, and poverty persists to an unacceptable degree, despite the progress.
- The world stands on the brink of extraordinary opportunity for development and poverty reduction over the next 20 years, thanks to the global evolution of technology, trade, and political systems. As never before, the potential clearly exists for meeting and even exceeding the various targets around which the international community is beginning to form a consensus.
- How broadly the fruits of development are shared, however, is a complex matter, depending on

economic, social, political, demographic, environmental, institutional, and policy factors. The other side of the coin of extraordinary opportunity is the increased risk of inequality, vulnerability, social exclusion and marginalization of some groups, and social dissolution—risks linked to the very same processes as the new opportunities. These risks are present at the international, national, regional and ethnic, community, household, and individual levels. When not kept in check by open political processes, inequalities and social tensions lead to civil strife, which can destroy decades of progress.

- The key issue for the early part of the next century is to bridge this gap between opportunity and risk. The challenge for policymakers is the design and implementation of institutions, mechanisms, and policies at various levels to harness the potential for poverty reduction, by setting a long-term course that will access global and local opportunity and allow broad sharing of the gains from development, while managing the short-term risks of inequality, vulnerability, marginalization, and social dissolution.

Exploration of these issues started in 1998 in a highly participatory process. In terms of broad themes the early thinking is that poverty has to be attacked on three fronts:

- *Ensuring empowerment* of the poor by increasing their participation and voice in decisionmaking and managing the growth of inequalities
- *Providing security* against shocks at the household and national levels and protection for those who are unable to share in the benefits of growth
- *Creating opportunities* by putting in place the conditions for sustainable economic expansion, to provide the material basis for poverty reduction.

Voicelessness and powerlessness are intimately linked to material poverty; participation in local and national decisionmaking not only helps outcomes for the poor directly, but it also helps to improve the quality of development policies and projects. The balance of political power is tied to inequality in economic power, particularly in the distribution of assets. Reforms that improve asset distribution may succeed both in ensuring more voice for the poor and in enhancing social stability.

Harnessing risks, especially for the poor, will be essential to ensure that opportunities are taken advantage of. As chapter 2 shows, the way in which

households cope with risk may determine not just whether they manage to absorb shocks in the short term but also whether they can preserve their earning ability in the long term. Thus investing in mechanisms to ensure and protect the poor against risks—whether due to individual, community, or national shocks—must be as much part of a growth-enhancing strategy as policies that directly expand opportunities. Both policies that help the poor build up assets such as land, livestock, or savings, and programs that provide income such as well-functioning public works programs and unemployment insurance schemes are a central part of a strategy to increase security for the poor.

Opportunities are created through economic growth, but growth needs to be evenly distributed to benefit the poor. Institutions play an essential role in ensuring that the poor participate in the benefits of growth. Market liberalization produces rewards when it occurs within the right regulatory framework, but it can contribute to greater inequality and risk when institutions allow a few to capture its benefits and fail to deal with insecurity. Institutional, cultural, and political dimensions determine the impact of policies and investments in education, health, and other social services; institutional delivery mechanisms that fail to reach the poor fail to lead to improvements in their human assets and standards of living, whatever the budgetary investments in these areas. Thus creating opportunities also means setting up inclusive, responsive institutions.

Creating opportunities often goes hand in hand with reducing gender inequality. Using macro data on access to education and employment and micro data on access to and control of land, labor, and other productive inputs, a recent study found that gender-based asset inequality diminishes productivity, output, and growth in Sub-Saharan Africa and that reducing such inequality would lead to higher growth and lower poverty (Blackden and Bhanu 1999).

The approach taken has clear implications for the methodological stance of *World Development Report 2000/01*. First, the report will have to go beyond standard economic analysis and reach out to the insights and contributions of other social sciences. This will be needed to improve our understanding of the design and implementation of successful institutions, mechanisms, and policies for resolving the tension between opportunities for poverty reduction and the risks associated with these same opportunities.

Second, it will have to complement a macro- and national-level perspective with a micro-level perspective in analysis, bringing in poor peoples' own experiences of poverty and responses to it. This will be needed to illuminate the nature of risk and vulnerability, as well as to investigate in detail the processes of sharing in development.

Process: consulting broadly with stakeholders around the world

World Development Report 2000/01 will go substantially beyond past practice in the extent of the consultations that will take place during its preparation. The process of debating the themes of the report, gathering diverse experiences, and carrying out research at different institutions is not meant simply to ensure that the report reflects the thoughts and expertise of a wide range of development actors. It is also meant to affect poverty reduction strategies around the world by disseminating ideas and knowledge, thereby ensuring that the report does not remain simply an interesting study but is translated into better strategies for reducing poverty. Pursuing a partnership approach to the exploration of the ends and means of the development process is one of the major strategic objectives of the World Bank as laid out in the 1998 Joint World Bank–International Monetary Fund Annual Meetings speech of President James Wolfensohn. *World Development Report 2000/01* will be an important instrument in this process. A Web site has been set up (<http://www.worldbank.org/poverty/wdrpoverty>) to facilitate the dissemination and exchange of ideas. The latest version of the outline and regular reports on activities are posted on the site.

The report will be produced in time for the September 2000 World Bank–International Monetary Fund Annual Meetings. The synthesis and writing phase will take place in fiscal 2000, but background work, throughout the Bank and outside, began in fiscal 1999. To launch the process early and allow for extensive consultations, the staff director and team members were named much earlier than is usually the case; although they will come together physically only in the fall of 1999, they are already working as a virtual team.

The process of consultations leading up to the report will involve development practitioners, researchers, policymakers, and staff of local and

international NGOs through both virtual and actual events. A series of conferences and workshops are under way in fiscal 1999, beginning with a discussion on the research agenda in the Middle East and North Africa Region at the Mediterranean Development Forum in Marrakech in September 1998 and seminars at the annual meeting of the Latin American and Caribbean Economics Association in Buenos Aires in October 1998 (box 4.1 summarizes the results of these discussions). Workshops have been or will be held on values and norms, social exclusion, risk and vulnerability, macroeconomic shocks, poverty and the environment, social capital, and evaluation of interventions.

A first round of virtual consultations with NGOs, carried out in September 1998, focused on the draft work program prepared in May 1997. These consultations involved about 80 participants; 52 were from civil society organizations, 40 of them from developing countries. The main insights emerging from the discussions were that poverty is indeed a multi-dimensional phenomenon, that institutions do affect policy outcomes, that the poor can be agents of change and must be part of decisionmaking processes, and that, at the moment, the risks of globalization appear larger than the opportunities. These insights are feeding back into the work of the team. A second round of virtual consultations took place in the spring of 1999 and focused on a draft outline for the report.

The consultation process will also directly involve the poor. As a first step a major project has been launched to explore poor people's perceptions about well-being and their ranking of problems and concerns. It will seek their insights on what affects livelihood security and sustainability; trends and changes over time related to risk, vulnerability, exclusion, crime, and conflict; and the importance of institutional and power relations. The project has two parts. The first involves a review and synthesis of the results of completed participatory poverty assessments and other relevant World Bank and external studies that used participatory methods to explore poor people's perceptions. The second part consists of new studies using participatory and qualitative research methods, to be undertaken in about 20 countries. The project findings will be discussed and distilled at a workshop scheduled for September 1999 and will directly feed into the initial drafting phase of *World Development Report* at the end of 1999. Afterwards,

BOX 4.1

Findings of the workshops in Marrakech and Buenos Aires

At a workshop on the proposed content and process for *World Development Report 2000/01* held in Marrakech in early September 1998 as part of the Second Mediterranean Development Forum, participants emphasized the following points:

- The report should be forward-looking.
- It should examine governance, corruption, and poverty; globalization, inequality, and poverty; and war, conflict resolution, security, and poverty.
- Ideas, preliminary drafts, and information should be disseminated in languages other than English (see <http://www.worldbank.org/poverty/wdrpoverty/plan598.htm>).

Participants from the Middle East and North Africa would network to carry out research on these themes to feed into the report.

In Buenos Aires, a consultation on *World Development Report 2000/01* with representatives from civil society in the Latin America and Caribbean region (NGOs, trade unions, business representatives, political leaders, academics) was conducted during the Forum on Poverty, Inequality, and Vulnerability on October 19–20, 1998. Participants emphasized the following points:

- More emphasis is needed on problems of discrimination and exclusion—race and gender were mentioned explicitly.

- The political economy of poverty reduction is crucial: how to achieve consensus and political support for policy interventions.
- The report should provide policymakers with concrete evidence on best practice interventions.
- The report needs to be informed not just by the “voices of the poor” but also by the views of the nonpoor, particularly of social elites that have a strong influence on policy responses.

During the annual conference of the Latin American and Caribbean Economic Association, also in Buenos Aires, a panel on *World Development Report 2000/01* made these comments:

- Education is one of the few ways of redistributing income in an integrated market economy. Achieving the type of reforms necessary to improve the incomes of the poor requires difficult political changes that few countries have been able to enforce.
- It is critical that discussions about government interventions focus on the quality of public spending (and on the role of institutions) and include solid cost-benefit analyses. In both events participants expressed a strong interest in remaining involved in a dialogue with the World Development Report team throughout the process of writing the report.

there are plans to work with civil society groups that have expressed an interest in translating key findings or the draft report itself for direct discussion with poor communities.

Within the Bank the *World Development Report's* focus on poverty, as part of the broader revisiting of the development process, is being used for regionally focused work by each of the regions. In *Sub-Saharan Africa* the focus is on analyzing poverty dynamics—one of the major gaps in our knowledge for this region—both in countries experiencing large increases in poverty (for example, Nigeria and Zimbabwe) and in countries that have achieved progress (for example, Ethiopia and Uganda). This work will culminate in a major stock-taking report on poverty for the Special Program of Assistance in Sub-Saharan Africa in 1999. In *Europe and Central Asia*, the focus is on the relationships between policy reform, institutions, and inequality and risks. In the *Middle East and North Africa* the focus will be on the impact of global-

ization and the new world economy on social mobility, risks, poverty reduction, income inequality, and social exclusion. In addition to regional background papers, country-level conferences are being organized in some countries (for instance, in India) to link the Bank's program of interventions to the strategy proposed in the report.

This process of consulting extensively and drawing from the expertise of a wide range of development actors, while not aiming for the unachievable goal of building consensus among all those consulted, is intended to build partnerships that will form the basis for future programs of action.

Note

1. A major study by the Operations Evaluation Department of the World Bank is evaluating the impact of the prescriptions of the 1990 poverty reduction strategy, and will provide valuable input into the *World Development Report*.

Annexes

Annex A. Summaries of Completed Poverty Assessments, Fiscal 1998

This annex summarizes completed fiscal 1998 poverty assessments for Bangladesh (update), Chad, Chile, Djibouti, India (update), Kazakhstan, and Rwanda (update).¹ These summaries were prepared by the World Bank country teams and are based on completed poverty assessment reports (see Annex C for full report titles and document numbers).

Bangladesh

Counting the poor and making the poor count

Counting the poor. Reducing poverty is the central development challenge in Bangladesh. This poverty assessment answers several basic questions about counting the poor. Who are the poor? How numerous are they? Where do they live? What are the characteristics of poor households? Has poverty declined? Has inequality increased?

Making the poor count. As importantly, the poverty assessment addresses several questions about how to make the poor count in the choice, design, and implementation of public policies and programs whose aim is to reduce poverty. These questions are more difficult: What is the relationship between growth and inequality? Is this relationship different for rural and urban areas? Does education reduce poverty? How much does the poor benefit from increasing public spending on health and education? Are households that own more land less poor? Do area characteristics such as rural infrastructure affect the incidence of poverty? How cost-effective are safety net programs? Where do microfinance programs fit within a poverty reduction strategy? Do they reach the poorest? How well do NGO services in education and health compete with public and private services?

Building capacity. The lack of access to primary data on poverty in Bangladesh has been a serious, long-standing hurdle to more detailed poverty analysis. Official poverty estimates have been shrouded in some controversy because independent analysts have never been able to fully replicate the estimates, examine the strengths and weaknesses of the official methodology, or suggest alternative estimates using primary data. Recognizing these problems, in late 1994 World Bank staff undertook a collaborative, capacity-building initiative with the Bangladesh Bureau of Statistics (BBS) to help enhance the 1995-96 Household Expenditure Survey (HES), train BBS staff, improve basic data analysis, and publish an abstract. This initiative has also led to a series of analytical papers using the 1995-96 and earlier HES data. This report is part of this process. Work is still underway to mainstream poverty analysis into public policy design, implementation, and evaluation. The Bank is now assisting BBS with the implementation of the 1999-2000 HES.

Important findings and policy conclusions

Poverty measurement has been put on a sounder footing. The BBS has adopted the cost of basic needs method for estimating poverty incidence, which is preferable to the official methodology used in the past. Using primary data from successive rounds of the HES between 1983 and 1996, the poverty assessment estimates the incidence of poverty over time calculated according to the cost of basic needs method. Two sets of poverty lines identify the very poor (lower poverty line) and the poor (upper poverty line).

Poverty has declined in the 1990s, but the remaining challenges are massive. Both the lower and the upper poverty lines indicate a statistically signifi-

cant decline in poverty after 1991-92. The incidence of the very poor declined from 43 percent of the population in 1991-92 to 36 percent in 1995-96; the incidence of the poor declined from 59 to 53 percent (see Table A-1). Although poverty has declined in both rural and urban areas, rural poverty is still higher than urban poverty. Reducing the poverty of the very poor living in rural areas—still at 40 percent of the rural population in 1995-96—remains a massive challenge.

RISING INEQUALITY HAS REDUCED THE RATE OF POVERTY REDUCTION. The decline in poverty observed in the 1990s contrasts with the stagnation of poverty in the 1980s. Why was overall poverty reduction so slow or nonexistent over the 1980s? This complex question requires considerable inquiry, particularly since average GDP growth was roughly around 4 percent and exceeded the declining population growth rate. The poverty assessment shows that part of the explanation is rising inequality. Depending on which poverty measure is used, one-fifth to one-third of the potential poverty reduction from growth may have been lost because of higher inequality. The higher inequality associated with growth in Bangladesh does not imply that growth should not be pursued. To the contrary, faster growth is needed if poverty is to be reduced faster, because the net effect of growth on poverty reduction is positive. But in addition to faster growth, efforts to limit rising inequality are required. Over the period 1991-92 to 1995-96, inequality rose the least with agricultural growth, and as a result the net elasticity of poverty with respect to growth was the largest in agriculture. Assuming these elasticities hold unchanged in the future, growth in agriculture would tend to reduce poverty and limit inequality more than identical growth in industry and services. Industry and services, however, are likely to grow much faster than agriculture as they have done in the past, and the net

contribution of faster industrial and service growth to poverty reduction should be quite high.

THE GAINS FROM EDUCATION AND OTHER HOUSEHOLD AND REGIONAL CHARACTERISTICS SUGGEST AREAS FOR POLICY EMPHASIS. Apart from broad-based growth, targeted investments in the human and physical capital of the poor can reduce poverty and limit inequality. Which investments should have priority? The poverty assessment provides some partial answers to this difficult question. Education and land ownership are key determinants of living standards. The gains from education are high and have persisted over time. Higher education has the largest impact in urban areas. Land ownership matters more in rural areas. The returns to education, as measured by a household's per capita consumption, are similar for the household head and spouse. Differences in poverty between geographical areas depend more on differences in area characteristics than on differences in the characteristics of the households living in those areas. This finding suggests that investment policies aimed at poor areas will reduce poverty. Occupation, too, affects living standards. In rural areas, for example, the gains from switching from the farm to the non-farm sector are positive and large for the poor, implying that developing the rural non-farm sector holds considerable potential for poverty reduction.

Public expenditures and safety nets reduce poverty, but their targeting and efficiency must be improved. The share of expenditures in the Annual Development Program devoted to social sector spending has more than doubled since the early 1990s and is expected to increase further in the years ahead, especially the share devoted to education and health. The poverty assessment reviews the performance of public services in these two areas. The case for substantial public expenditures to education and health is strong on ex-

TABLE A.1

Bangladesh: Headcount indices of poverty with the cost of basic needs methods, 1983-84 to 1995-96
(percentage of population below the poverty line)

	<i>Very poor (lower poverty line)</i>					<i>Poor (upper poverty line)</i>				
	1983-84	1985-86	1988-89	1991-92	1995-96	1983-84	1985-86	1988-89	1991-92	1995-96
National	40.91	33.77	41.32	42.69	35.55	58.50	51.73	57.13	58.84	53.08
Rural	42.62	36.01	44.30	45.95	39.76	59.61	53.14	59.18	61.19	56.65
Urban	28.03	19.90	21.99	23.29	14.32	50.15	42.92	43.88	44.87	35.04

Note: See Annex for the definition of the poverty lines. The figures for 1995-96 are also reported in BBS (1997e).
Source: World Bank staff estimates.

ternality and equity grounds. While public expenditures on health appear to be somewhat better targeted to the poor than public expenditure on education, there is much scope for improvement in increasing the quality of and access to such services. Government programs, such as Food for Work, Vulnerable Group Development, Test Relief, and Rural Maintenance are well targeted. A detailed assessment of Food for Education, the fastest growing program, shows that it raises primary school attendance and is cost-effective as measured by its long-term impact. But it is not as well targeted as the other programs, and improvements in targeting and internal efficiency would further raise its social returns. Investments in the program's growth will have to be balanced with the need to improve the overall quality of primary education.

Building consensus for a poverty reduction strategy

This report is part of a long-term process of capacity building and mainstreaming of poverty analysis in

Bangladesh.² Its findings outlined above suggest five pillars for a poverty reduction strategy—accelerating economic growth; promoting education for the poor, particularly primary education, and particularly for girls; investing in poor areas to take advantage of strong location effects on poverty reduction; improved targeting of public expenditures and safety nets to reach the poor better; and forming further partnerships with NGOs to reach the poorest and not-so-poor in ways designed to make a stronger attack on poverty.

Discussions with stakeholders, NGOs, the government, poverty researchers, and other donors in Bangladesh arising from this report will help to build support for an action plan and more detailed policy and institutional changes for faster poverty reduction. In line with the capacity-building emphasis of the World Bank's country assistance strategy for Bangladesh, these discussions will also help to build consensus on the institutional capacity required to mainstream poverty analysis in policy design and implementation. BBS will field the next Household Expenditure Survey in 1999. This will provide the

TABLE A.2

Bangladesh: Priority poverty indicators

	1983–84	1985–86	1988–89	1991–92	1995–96
<i>Poverty Lines</i>					
Upper Poverty Line Headcount ^a	58.50	51.73	57.13	58.84	53.08
Lower Poverty Line Headcount ^a	40.91	33.77	41.32	42.69	35.55
<i>Memorandum Item</i>					
GDP Per Capita (US\$)	147.8	154.5	183.6	210.34	261.56
<i>Short-term Income Indicators</i>					
Real Wage Index (1970=100)					
General	90	95	107	107	114
Agriculture	70	80	89	93	97
CPI (1987=100)					
Rural Terms of Trade	74.3	91.3	120.3	148.4	163.6
	1960	1970	1980	1990	1996
<i>Social Indicators</i>					
Share of Public Expenditures for Basic Social Services in GDP					
Gross Primary Enrollment	47.0	54.0	61.0	79.0	96.0
Female	26.0	35.0	46.0		93.0
Male	66.0	72.0	75.0		100.0
Under-five Mortality (per 1,000)			131.6	95.1	74.6
Immunization ^b					
DPT			0.2	69.0	91.0
Measles			0.3	82.0	96.0
Child Malnutrition			70.1	71.0	68.0
Female-to-Male Life Expectancy	94.7	96.6	98.2	101.6	102.7
Total Fertility Rate ^c	6.7	6.9	6.1	4.2	3.4
Maternal Mortality ^d			3,000		850

Note: In most cases, data correspond to the year mentioned; where unavailable, data for the closest year have been used.

a. The upper poverty line is the cut-off for the poor; the lower poverty line is the cut-off for the very poor. b. Percent of children under 12 months. c. Births per woman. d. Per 100,000 births.

opportunity and the means to further refine our understanding of the determinants of poverty and the conditions under which households in rural and urban Bangladesh can most easily escape poverty.

Chad

This assessment focuses on rural development because more than four-fifths of the population and an even larger proportion of the poor live in rural areas. The more specific focus is on agriculture since more than four-fifths of the economically active population works in agriculture and because agriculture is the most likely source of improvements in incomes that would benefit the poor majority. Finally, it focuses on women, who contribute much of agricultural labor, because they are an important source of improvements in agricultural incomes.

The assessment finds a pattern of severe poverty in the available indicators, whether of living conditions (potable water, toilets, housing), food security (nutrition, famine), survival, morbidity, education, or of household assets (such as plows), incomes, and expenditures. The pattern is often one of poverty that is spread across the major regions, although several aspects such as famine, primary school enrollment and the proportion of women-headed households differ across regions. Moreover, women in every region are particularly poor in terms of education, health and land.

The assessment concludes that Chad has excellent prospects for emerging from severe poverty and of sustaining improvements in public well being through the efforts of poor agricultural producers of livestock and crops. A main avenue of action to raise producer prices would be investment in rehabilitation of roads to reduce transport costs of agricultural products. This would be reinforced by a further avenue of actions to reduce costs to agricultural producers, particularly taxes imposed by local and traditional leaders and those imposed illegally on transport. A parallel measure would be to reduce the implicit charge on cotton producers, who receive a fraction of the world price of seed-cotton, through cautious liberalization of the market. Higher incomes would then allow agricultural producers to make some of the investments (in livestock, and agricultural equipment) necessary to increase their productivity, so that further increases in production become possible. Higher and sustained investment

in basic education and health, especially for girls, would further improve the well being and agricultural productivity of producers over the long-term.

These positive prospects are founded on the government's determination to focus public expenditure on poverty reducing investments (on roads, health, and education), to adopt the needed policies, and on the expected development of petroleum resources.

Extent and distribution of poverty

The background to poverty is the physical size of the country that may lead to isolation, the sometimes-harsh natural environment and the diversity of the environment. The southern or Soudanian zone is ecologically part of the wet Congo basin; the main cash crop is cotton, but farmers raise large crops of peanuts, millet and sorghum. The dry Sahel zone lies at the middle of Chad; the main activities are cattle herding and farming of cereals such as millet and *bér-béré* (a form of Sorghum). The Saharan zone lies to the north and the main economic activities are dates, camel herding and transport. In 1993, nearly half the population lived in the Soudan and half lived in the Sahel, while only 4 percent lived in the Sahara.

Poverty is defined in economic terms as household expenditures or revenues that fall below a preset poverty line. The best available source of information on the extent and characteristics of poverty when this assessment was prepared were the indicators of living conditions, health, education and family structure from the 1993 Census. Information from the Census was reinforced by annual government data on education and health as well as data on rural conditions from the Ministries of Rural Development, Agriculture and Livestock and the *Office National de Développement Rural*. Fortunately, research has shown that these indicators are closely correlated with expenditure-based measures of poverty.

However, the paucity of information did limit the measurement of poverty in Chad. There has not been a national survey of household expenditures and there does not seem to have been a national survey of nutrition. The assessment does, however, make use of a 1991 household survey for N'Djaména. More importantly, the assessment includes a brief summary of results from the Department of Statistics and UNDP survey of household expenditures in four large prefectures in 1995/96 that became available during the final editing. The assessment also draws heavily on

the considerable volume of studies of by academicians, donors and development consultancies, and on field visits.

Available data show that Chad is very poor relative to the needs of its residents and relative to its neighbors in sub-Saharan Africa. GNP per-capita, for instance, was US\$180 in 1995 compared with US\$490 for sub-Saharan Africa. The mortality of children under one year in 1995 was 117 per thousand live births compared with 92 for sub-Saharan Africa, 29 percent of the population had access to safe water compared with 47 percent for sub-Saharan Africa and the illiteracy rate in 1993 was 90 percent, compared with 50 percent for sub-Saharan Africa.

Poverty is severe in every region if one judges from the indicators of housing quality and access to potable water and type of toilet, but there are differences. Parts of the Sahel suffer from repeated famines and school enrollment is relatively low. Moreover, the Census reports a striking shortage of men in the most economically active age groups in parts of the Sahel. In the Soudan zone, school enrollment is relatively high, but several of the health indicators, in particular survival, are relatively weak. Farmers in the Soudan are also very poor in terms of agricultural implements such as plows and carts. The poverty rate in four large prefectures was about two-thirds in 1995-96, according to a preliminary calculation using the recent Department of Statistics-UNDP survey. This rate was defined as the percentage of households with food expenditures that fell below the amount needed to purchase the biologically necessary calories.

Agricultural productivity

Any strategy to reduce this poverty must relax constraints to agriculture because crop and livestock production are the primary engines of growth in Chad. They contribute about one-half of national income, when food and agriculture-related industry and services are included. For the most part, agricultural cash incomes in Chad are derived from sales of cotton, gum Arabic, peanuts, vegetables and cereals. Cotton crops and cotton lint have only a 10 percent share in the broad definition of agricultural GDP, yet the importance of cotton cannot be denied: cotton contributed 50 percent to the value of exports and 25 percent to government revenues. The cotton sub-sector helps sustain some 345,000 farm households and more than 2,000 salaried workers at Cot-

tonchad. More important, perhaps, cotton is the major contributor to farm cash income because it remains the main commercial crop in Chad.

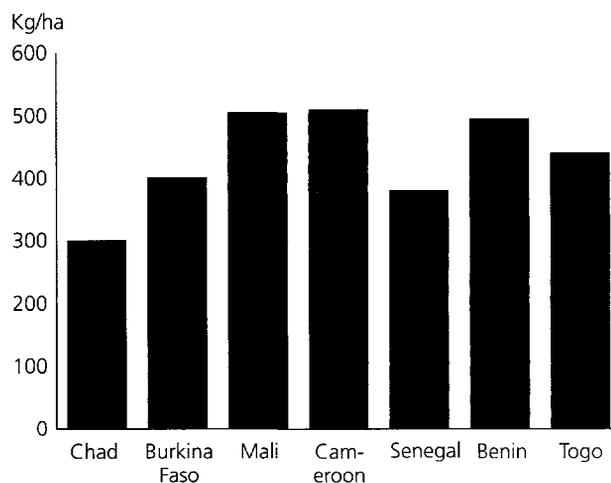
A poverty reduction strategy must nevertheless consider other crops and livestock as well. Cotton is produced only in the cotton zone of the Sudan and even in the zone, only about one-third of the planted area is in cotton. Surveys in the zone indicate that on average, cotton accounted for about two-fifths of gross farm revenue in 1995, while sorghum, groundnuts and peanuts contributed almost half of the total. Livestock is a dynamic source of growth of exports and also a store of wealth.

With regard to crops, one of the most fundamental facts is that yields are low, even when compared with similar parts of Sub-Saharan Africa (Figure A-1). The other fundamental fact is that producers receive a relatively small share of the revenue from their products, as measured by the share of producer prices in final consumer prices (Figure A-2). This limits the incentive and the financial capacity to make improvements that would improve yields.

Transport costs

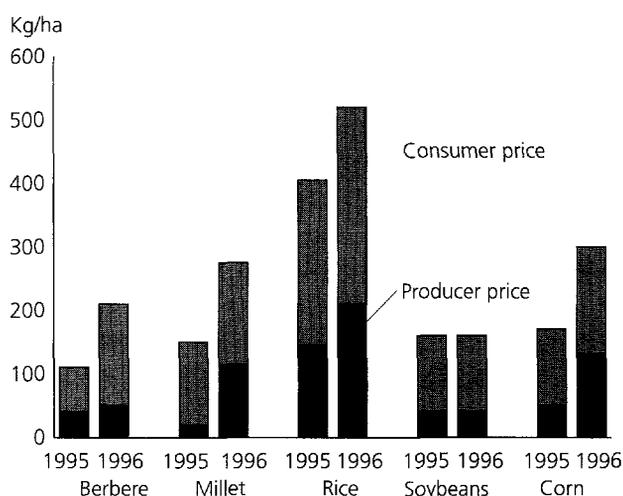
Physical isolation is one of the causes of the wide gap between producer prices and final consumer prices. Some areas within Chad become enclaves during the rainy season. There are pockets of surplus production, where foodstuffs sit in storage because they can-

FIGURE A.1
Cotton fiber (lint) yields in Chad, 1996



Note: Yields of lint, not seed cotton.
Source: International Cotton Advisory Committee, July-August 1996.

FIGURE A.2
Chad: Producer shares of crop prices



Source: CILSS 1995; SIM 1996; Abt Associates Analysis.

not be sent to consumption centers and there are pockets of food shortage, where additional food cannot be delivered for months. For example, a major producer of grains and known as the potential “breadbasket” of Chad, the Salamat, has long been largely unreachable during 6 to 8 months of the year because of poor roads and high rainfall.

The main reason for the persistence of these enclaves is the low density of Chad’s road network compared with many other Sub-Saharan countries. The 1972-82 civil conflict left Chad with only 30 km of paved roads in 1986. Since then, successive road rehabilitation projects have improved the road network, but much remains to be done: today, Chad still has very few paved roads, moreover, many unpaved roads are in poor condition.

Several studies in Chad link poor road infrastructure to high transport costs and the high transport costs to high consumer prices and low producer prices. The conclusion is that without improved roads, transport costs will probably not be brought low enough to improve the commercialization of agricultural products from enclaved regions and to reduce food insecurity.

Charges on agricultural producers

Another major constraint is the cumulative charge to agricultural producers. Charges are imposed by the central and local governments, traditional leaders, civil servants, and armed groups. Together these charges

drive a wedge between the price retained by farmers and herders and the price paid by the final buyer. The result is to reduce final consumption of Chadian agricultural products, to discourage production and investment in agriculture, and to harm farmers by lowering their incomes and consumption.

The main official taxes on agriculture are the UDEAC tariffs on imports of agricultural inputs such as fertilizers and tools, although these have been adjusted downwards over the past several years. There is also a statistical fee, a complimentary tax on agricultural equipment and diesel vehicles and rural investment fund and research taxes.

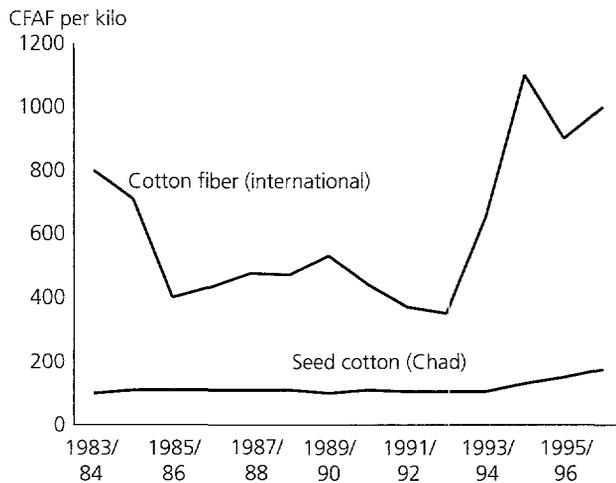
The operations of Cottonchad lead to an implicit charge on the small cotton farmers. Cottonchad is a majority state-owned company that also has a private shareholder, the CFDT, which manages much of the company under contract. Cottonchad has the exclusive legal right to buy unprocessed Chadian seed-cotton from producers, mostly poor small-farmers. It is also a vertically integrated monopsony that gins and then markets the processed cotton lint through its own network. Cottonchad buys at a price fixed in advance of the growing season, offering in effect a price guarantee and also provides fertilizer and pesticides on credit.

The issue of direct concern for the assessment is the extent to which Cottonchad transfers resources from the small producers to its owners and managers by paying a price for seed-cotton that is below the competitive market price. A comparison of fluctuations in the price of seed cotton and cotton lint suggests that Cottonchad has not passed on most of the benefit of the devaluation of the CFAF to producers (Figure A-3).

Despite the central government’s efforts, local governments still continue to levy taxes on producers and traders of agricultural products, though the magnitude is reportedly less than in the past. For example, prefecture-level officials generally impose a tax on movement of cereals and sometimes other produce from one prefecture or even one market to another—in spite of repeated instructions in 1993 and again in 1994 and public announcements via radio and press that this illegal procedure would not be tolerated. Furthermore, local traditional and civil authorities also collect informally imposed ‘taxes.’

Despite the central government’s efforts, local governments still continue to levy taxes on producers and traders of agricultural products, though the magnitude is reportedly less than in the past. For ex-

FIGURE A.3
Chad: Cotton prices, 1983–97



ample, prefecture-level officials generally impose a tax on movement of cereals and sometimes other produce from one prefecture or even one market to another—in spite of repeated instructions in 1993 and again in 1994 and public announcements via radio and press that this illegal procedure would not be tolerated. Furthermore, local traditional and civil authorities also collect informally imposed ‘taxes.’

Several studies have focused on the role of illegal road charges, or bribes, on raising transport costs within Chad. In recent years, the Chadian government and donors have joined forces in an effort to stamp out illegal payments and harassment of passengers and transporters at internal road barriers. The President issued a decree in June 1993, banning road barriers and illegal searches of passengers and transporters throughout the territory and there were subsequent efforts to suppress roadblocks. However, illegal charges have two root causes that show no sign of disappearing: one is that low-paid paramilitary forces find in illegal payment a convenient means to supplement income. The second is that the victims, transporters, often themselves initiate bribes to avoid paying heavier fines for such violations as lack of proper transport documents, unsafe vehicles, desire for quick release at rain barriers and smuggling.

Women's contribution to agriculture

Women contribute much of agricultural labor and make some production decisions so that constraints on women reduce household incomes from agri-

culture. In many local traditions, for example, there are women's crops as well as women's tasks. Moreover, the traditional allocation of activities by gender results in a constraint on time. Rural women are traditionally responsible for household chores and maintenance, the preparation of food, transport of fuel wood and water, for much farming, the education of children and family health care. Women work longer hours than men and have less control of their time. This may crowd out time spent in agriculture and lower their productivity.

Limits on women's right to inherit land and to consume the product of the land may further constrain women's productivity. There is a basic tension in the legal system because national law recognizes women's rights but traditional law sometimes denies those same rights. Lack of rights may then discourage women's investment in land improvement, agricultural equipment and livestock. It may also lead to inefficient decisions about which land to work and what agricultural methods to use.

Another constraint is limited access to formal credit, which limits working capital and investment. Rural women have access to informal sources of credit and to credit in kind; to accumulate cash savings, women sometimes organize into informal, rotating, savings associations.

Women's general capacity for productive labor may be constrained by a combination of recurrent intestinal disease and malaria, poor nutrition, tightly spaced childbirths and female genital mutilation. Unfortunately, however, little is known about how women's general health is linked to their productivity in agriculture. The female disadvantage in education, as measured by school enrollment and literacy rates, more clearly constrains women's productivity. Several econometric studies document the link between female education and productivity in agriculture.

Education as a constraint to rural incomes

Education may significantly constrain agricultural productivity by limiting the ability of both women and men to prevent disease, make use of extension and, most importantly, to respond to new technologies, markets and regulatory systems. Evidence from Asian studies suggests that a literate farmer has significantly greater productivity than an illiterate one. Moreover, a survey of econometric evidence suggests

that educating rural women increases agricultural productivity by making them more receptive to new technology and increases the chances that other women will adopt the technology.

Only half of Chadian children, and a third of girls, enter school. A dropout rate of 20 percent and a repetition rate of 35 percent suggest high levels of inefficiency in the system. Lack of public funds constrains the supply of basic education, but there is also a limited demand for education outside the towns, particularly in the Sahelian and Sahara regions, and also for girls. Lack of demand is often a response to the poor quality of education. The primary curriculum, calendar and structure may be poorly adapted to Chadian needs: the school calendar, for example, is based on that of France and a Monday to Saturday school week, rather than on local agricultural cycles. Curriculum includes theoretical content that cannot be covered in the time allotted and there is insufficient focus on basic literacy and numeracy skills and health. A major quality problem is that schools are often closed or teachers are not present since they are sometimes not paid. Teachers who are not well paid or paid irregularly feel obliged to look for activities to supplement their earnings or even to abandon their posts for more lucrative employment. Textbooks in rural schools and instructional materials are almost non-existent and there are inadequate desks for students.

The inefficiencies of the system mean that the opportunity costs of primary education are high with 9 to 10 years needed to complete the primary cycle. This appears to constrain demand for the education of both girls and boys. The opportunity cost of enrolling a girl, for instance, in primary school may be high since school attendance reduces the time available for girls to do household chores. If they stay home they can fetch firewood and water, prepare meals and baby-sit, which frees their mothers for food or revenue-generating work.

Health

The health situation in Chad remains precarious despite the efforts of the Ministry of Health during the past few years. In 1993, according to the Census, life expectancy at birth was only 50 years and mortality rates, especially of pregnant women and infants, were high. The principal causes of mortality and morbidity are infectious and parasitic diseases. Tuberculosis, leprosy and poliomyelitis are still preva-

lent and the prevalence of HIV is increasing. An additional concern is female genital mutilation, which is widespread and which poses a risk to women's health, as its physical and psychological effects on girls and women can be traumatic and can affect their reproductive health.

Almost 60 percent of the local health zones now have a functional health center but only about half the population of these zones really have access to basic health services because of distance, lack of roads, etc., and only about 35 percent of the population has access to modern health services. The quality of the services provided is often mediocre or poor because of insufficient equipment, lack of water, an irregular supply of medicines, and above all, a shortage of qualified personnel. The government has committed itself to a National Health Policy that emphasizes access to primary health care and a reduced concentration of health sector management. Its budget expenditures on health have been increasing, and reached 7.5 percent of the budget in 1996 compared with 3.9 percent in 1988. Since 1989, external aid has represented more than three-quarters of all health expenses of the public sector. Even with external aid, total government spending on health only reached a relatively low US\$4.50 per inhabitant in 1996.

Rule of law

The rule of law as a constraint to rural development is a theme that appears in discussions of education, rights to land, taxation of agricultural producers by local officials and traditional leaders and bribes charged to transporters. The weakness of the banking and payments system may be related to the rule of law, since it is difficult to safely transport cash and appears related to enclavement resulting from the lack of roads and telecommunication. The difficulty of making payments increases the costs of trade in agricultural goods and inputs and the weak banking system means that there is nearly no formal private credit for agriculture.

An action plan to reduce poverty

The assessment proposes a number of feasible avenues to poverty reduction, starting with actions to increase agricultural productivity and competitiveness by reducing the costs of transport and of modern inputs. The most important measure to reduce costs

could be to upgrade the road network through rehabilitation. A program of road rehabilitation and maintenance that would improve road conditions, that would open the principal enclaves and connect food surplus regions to markets, would be a win-win proposition because it would reduce agricultural prices at final markets and increase prices to producers, while improving food security.

Specific road construction and rehabilitation projects normally need to be justified by an economic cost-benefit analysis in which the internal rate of return reaches a minimum threshold. Traditional methods of economic cost-benefit analysis often fail to demonstrate acceptable rates of return because the road network carries very little traffic on average, so that the direct economic benefits from reduced vehicle operating costs are low. On the cost side, the absence of suitable building materials (such as laterite and gravel) in many areas of Chad and the need to haul such materials over long distances, makes construction rather expensive.

Nevertheless roads provide numerous benefits which are not easily captured by traditional cost-benefit methods. It is difficult to measure the extent to which new or rehabilitated roads will stimulate agricultural trade over the medium-term. Some types of roads would also provide access for most of the year to regions that are isolated by seasonal rains. Moreover, roads can be justified in terms of food security by connecting the capital to famine regions and by connecting enclaved grain producing regions to markets. Also, roads help to provide access to basic education and health services that are essential to reduce poverty. Road projects should therefore be justified through a broad and inclusive approach to estimating benefits.

A major step toward reducing rural poverty would be to increase the share of the world market cotton price received by the farmer through cautious liberalization of the cotton market associated with greater investment in community participation for input supply and cotton marketing. This should be facilitated by government fulfilling its commitment, in the Letter of Development Policy of the SAC II, to lift the legal monopoly of Cottonchad on the primary marketing of seed cotton, ginning, and fiber and cottonseed marketing.

Formal taxes do not appear high enough, by themselves, to significantly discourage recovery of agriculture. A qualification is that, because of difficulty in communicating the tariff code to agents, it is uncer-

tain what tariffs are actually being imposed on imports of fertilizers, so that tariffs actually paid may be relatively high. The available evidence points the need to reduce informal taxes on transport and taxes imposed by local and traditional leaders. The establishment of law and order on transport routes and among elements that sometimes collect illegal charges on roads would contribute to the expansion of agriculture.

It appears that there is considerable potential to improve agricultural incomes through easing the constraints on women. Some options are increased research into food crops raised by women and preparation of female-focused extension messages. Better access to labor-saving technology for household and agricultural tasks such as fetching water and wood would increase productivity by easing time constraints. Another option is to encourage women to form affinity groups to obtain credit or save for economic activities. The most fundamental actions would be to improve basic health and education.

To assure that schools are open and that enrollment expands the government would need to increase funding. The government would probably not be able, even with the expected petroleum revenues, to sustainably fund a satisfactory increase in primary enrollment. Community participation will therefore be important to complement public funding and to assure that schools operate and that quality improves.

Increased funding by itself would not sustainably improve enrollment and educational achievement: that would require an improvement in the quality of education. To this end, the government could reduce the length of the primary educational cycle, and benefit from informal or multi-class approaches so that learning can actually take place in the village. Moreover, it could harmonize the school calendar with seasonal cycles in the demand for agricultural labor. Some specific steps to increase girls' enrollment would be to provide separate latrines, assure that new school building lowers distances walked to schools, and establish better security for girls through education and supervision of teachers.

The government should redevelop its education strategy, in consultation with civil society and with donors, to assure that it is using its resources efficiently. Such a strategy should propose ways to: (i) reduce the length of primary schooling; (ii) select, train, recruit, and employ teachers; (iii) increase the role of Associations Parents-Elèves in school and teacher management; (iv) improve the primary school

curriculum and develop Chadian text books; (v) reduce adult illiteracy with large scale adult literacy interventions; (vi) improve the progression rate from primary to secondary school; and (vii) estimate the costs of a basic education program of primary and adult literacy through 2015.

To improve public health, the government could pursue its policy of decentralizing authority and resources in the health system. The government would also need to continue increasing resources devoted to the sector, although donors are likely to continue to play an important role. These actions would need to be complemented by training of more personnel and their posting in the regions. Women suffer relatively high rates of maternal mortality and this could be reduced by training of more qualified personnel, better access to antenatal care and a reduction in adolescent pregnancy. The first step to reduce the health consequences of genital mutilation would be an education campaign among religious and civil leaders.

Development of petroleum resources offers Chad a unique opportunity to accelerate the implementation of a poverty reduction strategy. The government has indicated its determination to use additional resources for poverty alleviation and in particular rural development (including infrastructure), health, and education. These public resources will be shared increasingly with decentralized entities and the execution of public expenditures will rely increasingly on these decentralized entities and on non-governmental institutions.

Chile

Despite rapid economic growth and continued efforts by the government to improve social equity, a common perception in Chile is that some groups have lagged behind and income distribution has worsened. Using the best available analytical and statistical techniques to examine the developments since 1987, this report has sought to examine the validity of these concerns. It has also tried to identify plausible policy options that the government could follow towards reducing both poverty and income inequality, while not compromising the growth potential of the economy.

What we have confirmed

First, the report has confirmed that even within a short period of time (1987–1994), there has been a signif-

icant decline in poverty. The poverty headcount and poverty deficit were halved during this period. While 41 percent of the population lived in poverty in 1987, by 1994 this figure fell to 23 percent. The incidence fell from 13 percent in 1987 to 5 percent in 1994. The report confirms that high economic growth is strongly and positively correlated with declining poverty; during the sub-period 1992–1994 when economic growth fell, there was also a deceleration in the rate at which poverty declined.

Second, for the poorest decile group, the slowdown in growth from 11 percent in 1992 to 4 percent in 1994, and the accompanying rise in unemployment from 4.5 percent to 6 percent actually meant a small increase in this group's poverty. The reduction in unemployment to rates around 4.5 percent in 1995, by the same token, is likely to have reduced poverty for this group more recently.

Third, the report confirms that income inequality in Chile is high by international standards. However, sustained high growth has resulted in a significant reduction in poverty, despite this high level of inequality. Chile's success in reducing headcount poverty during 1987–1994 rivals the performance of countries such as Korea, Indonesia, and China; it should be noted, however, that these other countries are believed to have experienced increases in inequality in the process of high economic growth.

Fourth, the reduction in poverty during 1987–1994 has benefited almost all groups classified as vulnerable at the beginning of the period. While growth obviously helped those among the poor who could work, poverty reduction policies have benefited even non-workers: for example, older, poorly educated, male and female household heads in both rural and urban areas experienced significant declines in the probability of being poor.

Fifth, education is an important determinant of labor earnings and hence of household income. Differences in educational attainment account for almost one-third of overall income inequality, and are by far the largest single explanatory factor.

The report confirms that the income tax is progressive and the VAT is regressive—the combined effect of which is a tax structure that is largely inequality-neutral. On the other hand, if public spending on pensions is excluded, the analysis confirms that total social expenditure has substantial redistributive impact, most of which is accounted for by basic education and health care.

Finally, overall, Chile's policy in recent years of growth with equity has been demonstrated as effective in reducing poverty without exacerbating income inequality. As with virtually any program, there is scope for improvement at the margin; this report attempts to draw out options for consideration by Chilean policymakers.

What we have refuted

First, contrary to a popular perception, this report documents that income inequality has not increased during 1987–1994; in fact, there is a slight improvement in the income distribution evidenced by a small decline in the Gini coefficient from 0.55 to 0.53.

Second, the report finds that inequality in labor earnings has declined considerably in the last decade. While the Gini coefficient for labor earnings in Gran Santiago between 1960 and 1987 rose from 0.43 to 0.58, it has fallen steadily since then to 0.46 in 1996.

Third, refuting growing concerns about precariousness of employment and earnings, the report finds that job and income security has increased substantially since 1987. Average expected tenure on a job has risen from 47 to 55 months between 1987 and 1995, and the average duration of unemployment has been halved from 5.5 to 2.8 months.

Fourth, allaying concerns that rapid growth has exacerbated regional income disparities, the analysis shows a convergent pattern. All indicators of inter-regional dispersion of income show a reduction between 1987 and 1994: real per capita income of the poorest region (region IX) grew by 10 percent, which is twice the national average for the period. Reassuringly, reductions in poverty have been shared by all regions (except region XI, which has only 0.6 percent of the country's population) and these gains have not been restricted to Gran Santiago. While Santiago did better in reducing headcount poverty ratios, other regions matched its performance if indicators that measure the depth of poverty are used instead.

Finally, less encouragingly, while educational attainment of all income groups increased between 1987 and 1994, the difference in years of schooling between the richest and poorest groups has increased. While the years of schooling for the poorest 20 percent increased by 0.8 years, the schooling of the richest 20 percent increased by 1.3 years.

Limitations of our statistical analysis

Besides labor earnings and other income (including imputed rents of owner-occupied dwellings), measures of household income in this report include monetary transfers such as means-tested old age, disability, and family allowances, and other cash subsidies. Omitted from our income measures are welfare-enhancing improvements such as better access, lower prices, and higher quality of public utilities, which are believed to have improved more for poor than for non-poor households.

More importantly, this income measure does not include the value of government transfers in kind, though public housing, health, and education programs, which together were 6.5 percent of GDP and 30 percent of total government expenditures in 1994. Non-availability of household level data for all four survey years for these transfers made this adjustment impossible. Since the incidence of public spending on these programs is regarded as progressive, this results in a greater underestimation of the real income of poorer households than of the non-poor. Annex 1 in Volume II of the report does, nevertheless, report some of the amputations for public education and health services by household quintiles made by MIDEPLAN.

The findings discussed above, and their policy implications, must be considered keeping this caveat in mind: our estimates probably overstate the level of poverty in Chile and understate its reduction over the period examined. This shortcoming in data collection will need to be corrected for policymakers to be able to attain a finer degree of targeting of social programs than already achieved, viz., if the goal of "supertargeting" of public spending is to be achieved.

Implications for labor policies

The labor market has served Chile's poor well in recent years. Labor earnings have contributed more to poverty reduction than non-labor income (mainly transfers). While household inequality measures have not shown an improvement, inequality in labor earnings has fallen significantly since 1987. While these developments may not justify inaction, they do call for restraint in changing labor market policies.

Labor legislation that would make dismissals more costly for employers is likely to be counterproductive and could, as in other countries, actually increase unemployment.

An unemployment insurance system is largely unnecessary given existing severance benefit legislation, the low duration of unemployment, and the existence of means-tested transfers. Steps to introduce an unemployment insurance system should be carefully evaluated keeping in mind the distortions such a system can create.

While the minimum wage could be increased, on the basis of the analysis in Annex 3 it appears that further increases in the ratio of the minimum wage to per capita income is likely to result in greater unemployment and could actually worsen poverty.

Implications for education and training policies

Compared with measurement of the effects of improved access to schooling (reflected in years of schooling), the benefits of improved quality of schooling are difficult to measure. Our estimates, however, indicate that increasing access to primary and secondary education yield smaller increases in earnings relative to both improvements in education quality at these levels, and increased access to higher education. But even access to higher education by the poor is best facilitated by raising the quality of their primary and secondary education. These findings suggest that efforts to improve education quality in municipal and private subsidized primary and secondary schools would help reduce poverty and inequality. Combined with institutional measures to improve the quality of instruction, reducing public spending on tertiary education (62 percent of which goes to the richest one-third of individuals) and allocating it to quality-enhancing initiatives at lower levels could be an effective medium-term strategy to reduce inequality of education, and hence of earnings.

The socioeconomic status of vocational-technical students is considerably lower than those enrolling in humanistic-scientific education programs, and secondary vocational education has lower economic returns than general education because it is more expensive. Until improvements in primary education quality for the poor have been achieved, however, measures to increase the relevance and quality of secondary vocational schools are likely to be equity enhancing.

Based on international experience, if designed well, such training programs may help carefully selected groups find jobs but are not likely to reduce earnings inequality of employed workers. Because these programs are always expensive, Chile's train-

ing programs should be scientifically evaluated (with a control group).

Implications for tax and social expenditure policies

Because introducing dual VAT rates or exemptions for goods comprising relatively large shares of the budget of poorer households will raise administrative costs, further study of the tax system is warranted despite the regressivity of the current VAT system, if looked at in isolation.

Despite the payoff in terms of inequality reduction that a greater reliance on income taxes would yield, the current strategy of concentrating on closing loopholes has the advantage of being equity-enhancing and increasing tax collection efficiency.

To better monitor the incidence of social spending as a whole, the classification of what constitutes social spending should be re-examined. Spending on items such as pensions of public servants, military and police should not be lumped with those with clearly identified social policy objectives.

Chile's past successes in improving the efficiency of targeting notwithstanding, there is considerable scope for further improvements. This can be done both by allocating a greater fraction of social spending to programs that have had better targeting records (e.g., primary education and health, and cash benefits, where the poorest 40 percent receive 60 percent of expenditures) and improving targeting efficiency of programs such as housing subsidies, which are essentially untargeted.

The report finds that despite extensive individual and household-level controls, simply living in poorer comunas (districts) remained an important factor in accounting for the likelihood of being poor. Strong location or "neighborhood effects" on poverty deserve further study, because they expand the set of potential measures to deal with residual or hard core poverty.

These findings and policy implications are based on five studies that were commissioned for this report. These studies, in turn, analyzed recent changes in income distribution and poverty, provided a profile of poverty, isolated critical policies that influence poverty reduction, examined selected labor market issues and policies, and evaluated social policies in Chile. A brief synopsis of the results of these studies, together with a more detailed discussion of these topics are available in Volume I of the main report.

The findings and the analytical and statistical techniques employed in all five studies are contained in Volume II.

Djibouti

In Djibouti the problem of poverty reduction remains significant. The country's social indicators show that the gaps in social well-being are enormous and recent economic performance has been poor. Over the medium term, the government must develop new sources of growth in the economy. This report analyzes the nature and extend of poverty in Djibouti, and the distinguishing characteristics of the poor. The final goal is to propose a set of measures to reduce poverty in the medium to long-term and minimize the short-term social effects of structural adjustment.

Djibouti's main assets are its strategic location on the Horn of Africa, its harbor and associated infrastructure, and its access to relatively rich fishing waters. However, Djibouti's strategic location is also the cause of its problems. Djibouti attracts populations from other countries in the region because it offers relative peace and stability, and employment opportunities with salaries paid in hard currency. Immigrants and refugees place a tremendous burden on already-weak social services and economic security.

Djibouti is a lower-middle-income country, with average per capita income of US\$780 in 1993. However, estimated living standards are distorted by the high cost of living and well-paid civil servant community. Most Djiboutians are at a subsistence level, and living standards are more comparable to those in Ethiopia than those in non-African countries with similar per capita GDP levels. GDP per capita in 1993 prices fell from US\$1,505 in 1,978 to US\$854 in 1991. The situation further deteriorated in 1991 as the economy experienced a series of exogenous shocks: (i) a sharp inflow of refugees from Somalia and Ethiopia, (ii) the 1992-94 armed conflict between the Issas and the Afars, and (iii) increased competition from Eritrea in providing transport services to the region. Concurrently, the Government of Djibouti began to incur increasing deficits (internal and external) that led to the signing, in April 1996, of a one year stand-by arrangement with the IMF designed to stabilize the fiscal situation.

Poverty profile

To formulate and implement a comprehensive strategy to combat poverty, it is essential to identify the poor. The analysis for this poverty profile is based on (i) a priority survey-type (EDAM, 1996) complemented by (ii) a participatory poverty assessment (PPA, 1996). EDAM excludes three highly impoverished and vulnerable groups - nomads, the homeless, and those living in temporary structures. Therefore, the household survey results on poverty, inequality, and standards of living are likely to present an over-optimistic picture of the real situation in Djibouti.

Poverty in Djibouti is high. In 1996 about 45 percent of Djiboutians were living in households with adult equivalent expenditures below the level necessary to provide basic needs. Ten percent were estimated to live in extreme poverty, i.e. they could not afford to buy the food basket necessary to maintain a minimum level of caloric consumption. Including the homeless and nomads in the analysis would increase the percentage of households living in poverty and extreme poverty.

Poverty is more widespread and deeper in Djibouti's rural areas and in the urban areas outside Djibouti-ville than in the capital city. The incidence of extreme poverty is more than seven times higher in rural areas (45.1 percent) than in Djibouti-ville (6.2 percent). This is probably because a household living in the capital can take advantage of safety nets derived from the presence of a commodity market and services, and job market opportunities not available in rural areas.

Refugees, nomads, the homeless and those living in temporary structures, and the street children are highly impoverished and vulnerable groups. Although refugees living in camps benefit from food aid, and free health care and education, they face a difficult situation and describe themselves as having lost everything, even their identity. War and poor rainfall have changed the nomad's normal patterns of transhumant behavior. Nomads cope by engaging in small-scale border trade, and receiving help from relatives living in Djibouti-ville. The street children, natives of Somalia or Ethiopia, live in dire poverty. They left their countries because of war or poverty, but have few chances to break the cycle of poverty: unable to attend school, they cope by taking odd jobs, and eating out of trash cans.

What characterizes the poor in Djibouti

The poor are characterized by absence of purchasing power, low human capital accumulation, and low standards of living. The poor (and the very-poor) differ from the rest of the population in socioeconomic and demographic characteristics, and employment status.

1) UNEMPLOYMENT AND POVERTY. Unemployment is extremely high and increases the risk of the household being in poverty. The average unemployment rate is close to 45 percent, with the most disadvantaged economic groups having unemployment rates higher than 60 percent. The anticipated demobilization of up to 9,000 soldiers will add to the ranks of the unemployed.

Most households in Djibouti are able to escape poverty because of their earnings from employment. Fifty-five percent of the very-poor live in households where no member is employed. These results underscore the importance of job creation in Djibouti.

2) THE POOR LACK HUMAN CAPITAL. Social indicators in Djibouti are below regional standards. The poor's welfare is negatively affected by low levels of education, poor health status, and malnutrition.

Education. Poverty, illiteracy, and low educational attainment are strongly correlated. The literacy rate is estimated to be approximately 57 percent; but the poor, women, and old people are at a significant disadvantage in literacy skills. The poor have an illiteracy rate of 64 percent, but even in the most affluent 20 percent of Djiboutian households, 37 percent of individuals are illiterate. The gender gap is wide: while 73 percent of the men older than 10 are literate, only 45 percent of the women in the same group are literate.

Households with lower levels of education are at a higher risk of being poor: a one-year increase in the average education of the household reduces the probability of the household being poor by six percentage points.

Enrollment ratios show that educational attainment is not likely to improve substantially in the near future. Children begin school relatively late. Approximately one out of four children starts school after the age of nine and they begin leaving school when they are 14. Less than 50 percent of those aged 14-20 are in school. Enrollment rates are low and children from poor households are the least likely to be in school. At the primary

level in 1996, the net enrollment rate among the poorest quintile was 53.1 percent, 25.3 percentage points lower than the rate in the top quintile. At the secondary school level, the gap widens to a five-fold difference between the poorest and richest quintiles.

Health. Health indicators are below regional standards. Life expectancy at birth is low at 49 years. The infant mortality rate, at 14 deaths per 1,000 live births, is one of the highest among Middle-Eastern and Sub-Saharan countries. Diarrhea and malnutrition together constitute the leading cause of death among children under 5. Respiratory infections (associated with chronic malnutrition) is the second leading cause of mortality. High maternal mortality, estimated at 740 deaths per 100,000 live births, can be attributed to high fertility rates, anemia caused by malnutrition, and the widespread practice of Female Genital Mutilation. In addition, endemic problems - Tuberculosis, malaria, cholera, and AIDS- affect the population in general.

Malnutrition. Child malnutrition is widespread. Among children under 5 years of age, 26 percent are chronically malnourished (stunted), and 13 percent suffer from acute malnutrition (wasted). Considering that the first 4-5 years of life are critical to the future development of the child, malnourished children will be more likely to have low educational attainment and achievement.

Water and sanitation. Appropriate sanitation facilities and clean water are necessary to reduce the incidence of diarrheal disease and preserve the environment. Lack of access to water is clearly correlated with poverty. Households belonging to the richest quintile are seven times more likely to be connected to the ONED (the network that supplies tap water directly to houses) than households belonging to the poorest quintile. A large percentage of poor households need to purchase water from a water truck. This water costs four times the price paid by richer households connected to the ONED network.

Sanitation indicators are sub-standard. In Djibouti, more than 40 percent of households have no proper drainage system for used water. The situation is particularly dangerous in the densely populated areas of Djibouti-ville where most of the population lacks proper sanitation services.

A strategy for poverty reduction

This report shows a strong correlation between poverty and unemployment and between poverty

and low investment in human capital: policies aimed at creating new jobs can have a substantial impact in reducing poverty. Investment in economic and social infrastructure (transport and telecommunications, water, sanitation, and housing) will have beneficial effects both in the short- and in the long-run. In the short-run these projects will generate employment and allow some households to escape from poverty and improve their living standards. In the long-run, these projects will play a fundamental role in increasing the level of human capital and enhancing productivity. These investments are essential to enhance the competitiveness of Djibouti in the provision of services to the countries in the region, notably Ethiopia. They also could contribute to transforming Djibouti into a regional trade and financial center.

A poverty-reduction strategy for Djibouti should:

- 1) raise growth and generate employment;
- 2) increase investment in human capital; and
- 3) develop targeted interventions for the poorest.

1) GROWTH AND EMPLOYMENT. Given Djibouti's present welfare distribution, the country would have to sustain consistently high growth in GDP per capita to reduce poverty effectively by the year 2015. Assuming a 1.5 percent per capita growth rate, an estimated 38 percent of the population would be living in poverty by the year 2000; and more than twenty years from now, 20 percent of the population would remain in poverty.

Djibouti is characterized by: (i) low labor force participation, (ii) exceptionally high unemployment (particularly long-term unemployment), and (iii) a dual labor market (with the formal sector paying wages well above the informal sector). The high levels of unemployment do not cause a reduction in wages because the high public sector wages, together with other labor market restrictions, limit any downward adjustment in private sector formal wages, giving rise to a dual labor market and high unemployment rates.

Given the country's strategic location, level of infrastructure, and limited natural resources, the service sector (with particular focus on the Ethiopian market) is the main source of potential growth. In this regard, high labor costs (both wages and social security payments) represent a major obstacle to the competitiveness of Djibouti's private sector. Any strategy to cope with this situation will need to concentrate on two elements:

- (a) reduction in wages paid by the formal (especially public) sector; and
- (b) policies to facilitate entry into the labor market and creation of new jobs.

2) INVESTING IN HUMAN CAPITAL. Increasing human capital is a key component of a poverty-reducing and growth-promoting strategy. Progressive liberalization of the economy requires higher education levels to support modernization of the productive sectors. Investment in human capital provides direct economic benefits and improves the general welfare of individuals and of society. In addition, it generates important cross-effects between sectors. For example, higher education levels are associated with reduced female genital mutilation (FGM) and fertility. More educated and healthier mothers produce healthier, better nourished and more educated children.

Education. Pro-poor education policies should emphasize two areas of intervention:

- (a) expanding all children's access to education, particularly to primary and lower secondary, with special emphasis on the poor and the very-poor; and
- (b) expanding girl's access to secondary education.

Given their effect on health and fertility, targeted subsidies for girls' education will have very high social returns.

Improving the quality of and the access to primary and lower secondary school requires additional funding to the sub-sectors. Given the current financial constraints, Djibouti should explore all potential sources for improving the education system, among these: (i) community-based management; and (iii) enlisting the private sector to mobilize additional resources.

Health. Poor health status is both a cause and an effect of poverty. In Djibouti the health of children and mothers is among the most serious issues. Measles, respiratory infections, diarrhea, and FGM cause many deaths that could have been prevented. These health problems are amenable to low-cost and effective interventions.

The Djiboutian health system is too centralized and too focused on curative care. Currently, health services are free and available to everybody. This leads to excess demand compared with available resources. Since households are more willing to pay for curative care than for preventive interventions, a reallocation of resources from curative to preventive care

could significantly improve the efficiency and equity of the health care system.

Effective strategies to reduce the incidence of FGM include:

- (a) incorporating FGM treatment and counseling into health programs for women and children, and organizing information and education programs for community and religious leaders.
- (b) enforcing sanctions against individuals performing the practice.

Fertility is high in Djibouti across the population. The total fertility rate is 5.8 children per woman. The high fertility rate, young childbearing, and close birth spacing have detrimental effects on the health of women and children. Programs aimed at increasing female access to education (together with IEC campaigns) are the most likely to succeed in (i) promoting the use of birth control techniques and (ii) increasing the ability of couples to space their children optimally.

Consumption of khat. Djiboutians are major consumers of khat. Indeed, 55 percent of households have at least one khateur. This practice poses enormous social, economic, and health problems. Two key areas of intervention are:

- (a) increasing taxation of khat. Besides contributing to reducing the demand for khat, such policy would generate additional tax revenues that could be earmarked for social programs; and
- (b) organizing IEC campaigns to raise awareness of the negative effects of using khat.

Water and housing conditions. Djibouti is facing a serious challenge in trying to provide its population with potable water. This will require policies on the supply- and demand-sides. On the supply-side, the introduction of new water harvesting methods is extremely important. Regarding the distribution of water, in the urban areas, the strategy should focus on installation and management of standpipes and minimization of the loss of the water network. For rural areas, the strategy should include a program of digging new boreholes and wells, and rehabilitating and maintaining existing ones. On the demand-side, the government should introduce an appropriate pricing system.

Housing conditions are poor in Djibouti. A rehabilitation program would improve basic living standards and generate employment. Squatter-upgrading or slum-improvement programs, that include (i) affordable standards, (ii) cost recovery, (iii) improved institutional capability, and (iv) community partici-

pation, could broaden the provision of sustainable, low-cost housing. The housing policy in rural areas must be considered within a wider framework, including the development of economic activities and improvements in social service delivery, transportation, and infrastructure.

Efficiency of public spending. The review of government expenditures and subsidies on health, education, housing, and flour suggest that their present levels and patterns are not conducive to effective poverty reduction. Most programs are inefficient, i.e., the share of benefits received by the poor is smaller than their proportion of the population. The government has already taken steps to correct this problem by substantially reducing housing allowances to public employees. A further increase in efficiency could be achieved by:

- (a) reallocating resources from university education and hospitals to primary and secondary education, health dispensaries, and preventive health;
- (b) promoting policies to increase the participation of women and the poor in secondary and tertiary education (e.g., targeted scholarship programs);
- (c) implementing alternative mechanisms to finance tertiary education. To promote a service economy, it is important to have an adequate number of university graduates. However, given the tight budget constraint the government faces and the pro-rich focus of the university scholarship program, the government should means-test scholarships and support alternative financing mechanisms;
- (d) reassessing the baguette subsidy. This subvention is inefficient: the poorest 40 percent of population receive only 31 percent of the bread subsidy. The wealthiest 20 percent of individuals gain 28 percent of the subsidy.

There are three main problems with Djibouti's social security system: (i) its very limited coverage of the population; (ii) a bias toward the middle and upper classes; and (iii) the relative generosity towards those who participate. To solve its financial problems, Djibouti's social security system needs to broaden the tax base. This requires a system of incentives to induce contributors to pay contributions on their actual earnings, and to start a process of gradual "formalization" of the activities that are currently outside the scope of taxation. Some possible actions are:

- (a) linking all social security benefits to the level of contribution;

- (b) reducing the level of contribution paid by employers and employees;
- (c) wage-testing family allowances.

3) INSTRUMENTS TO REACH THE POOREST. Poverty is so widespread in Djibouti that a long-term policy to address it should be accompanied by short-term income transfer mechanisms to alleviate the poor's most urgent problems. A poverty reduction program should target (i) inhabitants of the slums of Djibouti-ville and the homeless, (ii) populations of the districts outside Djibouti-ville and nomads, and (iii) demobilized soldiers. These groups could be reached if they participated in labor-intensive construction of public infrastructures. These activities not only generate employment opportunity for the most vulnerable groups but also are consistent with long-term development objectives. They could (i) directly impact Djiboutian standards of living (e.g., improvement of water and sanitation infrastructures, construction of a water network, rehabilitation and construction of schools and dispensaries; development of a system for the collection of urban waste), (ii) result into higher levels of human capital, and (iii) increase Djibouti's competitiveness as a regional service center for the Horn of Africa (e.g. construction of major roads and other infrastructures).

Income-generating activities would also contribute to provide income support to the poor.

This Report highlights the potential of the fishing sector. Training young fishermen and providing them with financial support can reduce unemployment, improve Djibouti's trade balance, and reduce malnutrition.

Monitoring poverty

The design and implementation of poverty-oriented social and economic policies in Djibouti are made very difficult by the scarcity of relevant and reliable statistical data. To effectively implement poverty reduction policies, it is essential to develop a permanent and integrated poverty monitoring system. The poverty monitoring unit would be responsible for:

- (a) implementing household surveys;
- (b) monitoring the impact of social and economic policies on the poor's living standards;
- (c) disseminating all poverty-related information.

India

Poverty profile

The 1998 Poverty Assessment builds on the 1997 Poverty Report and focuses on using public expenditure to expand the poor's access to quality education and health care. Based on the poverty profile presented in the 1997 Poverty Assessment, poverty in India is declining, but slowly, and remains widespread—35 percent of the population (37 percent rural and 31 urban) lived below the poverty line in 1993-94 (latest year for which household survey data are available). India has the largest concentration of poor people in the world particularly in rural areas where almost three out of four Indians and 77 percent of the Indian poor live. The report also found that staggering as the overall numbers remain—240 million rural poor and 72 million urban poor—they do not tell the full story. Social indicators of well being—health, education, nutrition describe a country which has made substantial gains against widespread deprivation over the 50 years of its independence but has not achieved the momentum needed to bring the great majority of its poor into the economic mainstream. While India has succeeded over the last four decades in doubling life expectancy and reducing infant mortality, its death rate for infants under five remains one of the highest in the world. Communicable diseases and prenatal and maternal mortality, which account for 12.5 percent of the annual deaths of rural women aged 15 to 45, cause about 470 deaths per 100,000 population in India—a rate four times that of China and 2.5 times that of the world as a whole. Tuberculosis alone kills 500,000 people a year. Half of all children under five are malnourished and, because their mothers often are as well, one-third of all newborn babies are underweight. India's rates of malnutrition among children and women are among the highest in the world. And fewer than half the children from poor households are in school, reducing their prospects of escaping poverty. Two-thirds of all women and two fifths of all men remain illiterate. Half of all girls aged 5-14 years do not attend school. Among the most disadvantaged social groups, the ratios are even worse: literacy rates of just 19 percent among scheduled-caste women and 46 percent for men.

The report found that in general gender, literacy, landownership, employment status, and caste are closely associated with poverty. Thus, an illiterate rural

woman, a member of a scheduled tribe or caste, a person who lives in a landless household or is dependent on wage earnings, all face a significantly higher than average risk of poverty. A 1994 survey of rural households indicates that the incidence of poverty was 68 percent among landless wage-earners, 51 percent for members of scheduled castes and scheduled tribes, and 45 percent for members of household in which no-one was literate. And where poverty is deepest, female literacy is exceptionally low. In general, where social indicators reflect little progress, poverty has also been very slow to decline. The incidence of poverty and the poor's access to social services varies considerably from state to state and even within states in India.

Public expenditures

Given that the government is pursuing many strategies to reduce poverty, this report focused on the use of public expenditure to help the poor gain better access to public goods and services. In general, public subsidies will benefit the poor most when the items subsidized are used disproportionately by the poor relative to the non-poor. Benefit incidence analysis was used to examine the extent to which the poor have benefited from public spending on education, certain health services, and some of the most important safety net programs (food, public works and credit scheme programs). Findings indicate that public spending for education and health are not effectively reaching the poor. In education, the poor who do not send their children to school as well as those who do not keep them there are not benefiting from public spending on equal footing as compared with those who are better-off, as reflected in the enormous difference in the enrollment and attainment levels of the two groups. Fewer than half the children from poor households enroll, and when they do, only one in five of them completes the eight-year cycle of basic education. In contrast, wealthier households in all areas do send their children (both sexes) to school, and over 80 percent of them complete grade 8. Poor girls are only one-eighth as likely to complete grade 8 as their female counterparts among the well-to-do. In health, the poor face a disproportionately higher risk than the rich of falling sick, particularly from infectious diseases. They are more likely to lose their children before they reach the age of two. Poor members of scheduled castes run even higher risks

of premature death. And because the poor are less likely to be educated and must often use shared sources of water and surface water (lakes, streams, and ponds) without adequate sanitation facilities, they are more frequently exposed to illness and premature death. The study further finds that India's primary health centers failed to deliver the care needed to reduce infant mortality, but did not find any significant correlation between child survival and the availability of public health facilities.

Safety nets

Traditional anti-poverty programs are funneling many of their benefits to the non-poor. According to data from the 1993–94 National Sample Survey (NSS), 76 percent of the wealthiest rural households, for instance, are likely to take advantage of the subsidized prices for food under the Public Distribution System while, at the opposite end of the scale, fewer than 70 percent of the poorest households benefit from food subsidies. The poor do participate in rural public works and to a lesser extent in credit programs (IRDP), but all three schemes (PDS, IRDP, and public works) remain loosely targeted.

Poverty strategy

Since the bulk of the required investments to build human capital comes from public rather than private sources in India, and yields many externalities, it is important that poverty-reduction strategies focus increased public spending on expanding the poor's access to *quality* education and health care. The report suggests that targeting government spending to primary education, reducing communicable diseases, improving water and sanitation, and reducing household insecurity through public works programs are priority actions to reduce poverty. To avoid increasing the already large fiscal deficit, increased funding for these activities would come from the reduction in costly and untargeted subsidies that are currently the source of large fiscal imbalances and microeconomic distortions.

Education. A strong political commitment on the part of the government is needed if the educational status of poor children are to improve. Increased spending on education inputs (teachers, classrooms, textbooks, and instructional material) alone will not be

enough to improve enrollment and educational attainment of the poor. Improvements in the quality of schooling is also important. This requires fundamental reforms to change the incentive framework within which teachers, school officials, bureaucrats, and politicians have been operating. The accumulated experience under the District Primary Education Project, the Lok Jumbish, and the experiences of states such as Kerala and Himachal Pradesh should help provide the information necessary to underpin such deeper educational reforms, particularly in the seven states with the highest incidence of school dropouts or non-enrollment. Relevant findings from other theoretical and empirical research provide guidance on reforms that are likely to improve outcomes, of which some are already underway in many states in India. These include decentralization of control over the provision of schooling to local authorities, direct parental involvement, competition through school choice, and community involvement. Madhya Pradesh, for example, is by far the most advanced in decentralizing school management to local institutions such as the Panchayati Raj Institutions, with a resulting increase in school enrollment and retention among children of underprivileged groups.

The process and the potential for bringing education closer to its users and beneficiaries through decentralization has generated significant optimism but also considerable caution. The chief fears reflect concern that decentralization could perpetuate, and quite possibly increase, regional disparities in school quality, and social and economic inequities in access to good schooling. Lowered funding levels for education also might be a problem if local control serves as a pretext for diminishing central responsibility.

Health. Effective health programs must complement education in raising the potential productivity of labor. Public expenditure on health as currently constituted is likely to have only a limited redistributive impact. This report identifies four priority areas of public spending that will have the greatest impact in improving the health of the poor. *First*, combating communicable disease and expanding public health interventions (see below) would deliver substantial gains from public health spending, particularly for the poor. *Second*, improving access to safe water sources and sanitation facilities and vaccinations would help reduce infant and child mortality and thus reduce fertility and improve maternal health. Because these are activities in which the poor are vastly underserved rel-

ative to the non-poor, public interventions in these areas will achieve their biggest impact on the poor. The net cost to the government of extending water and sanitation facilities to poor areas may not be very large, since willingness to pay for these goods is usually quite high and could cover the extension of the system. *Third*, analyses have shown that health education concerning basic hygiene, the value of better nutrition, and preventive care such as public campaigns against tobacco use and for the use of appropriate measures to avoid contracting HIV-AIDS and other sexually transmitted diseases, is an important part of encouraging behavioral changes needed for long-term improvements in health outcomes. *Fourth*, public subsidies to hospital care can play an important redistributive role as long as referral systems are reformed to ensure that access is based on need rather than income and social status. Because the rural poor must often meet the financial burden of medical emergencies through debt, distress sale of real assets, or reductions in food or other important consumption items, subsidizing hospital treatment will help alleviate the burden on the poor. In addition to assistance through publicly managed hospitals, the poor could also be served by public financing of private provision of services in rural areas (with an appropriate system of incentives and monitoring); by a major effort to increase the quality of care through training, changes in incentives, and regulations; or by community-based insurance schemes. India's policy makers will need to evaluate the option of subsidizing hospital treatment against other alternatives in order to support appropriate services that will help reduce poverty. Further research is needed, here again, to underpin the necessary reforms to both public and private health systems in India.

REFORMING ANTI-POVERTY PROGRAMS. The marginal incidence analysis suggests that expanding access of the poor to the public works programs (preferably through reallocation of spending away from less effective poverty programs), would benefit them most. Priority would be to improve the effectiveness of public works by better targeting the genuinely needy and making these programs fiscally sustainable. Effective targeting need not be exclusive targeting, as some level of spill-over to the non-poor is unavoidable if political support for such programs is to be maintained. Such targeting could be done by setting the wage rate at a level which is no higher than the prevailing market wage, with willingness to work at this

wage rate being the only eligibility criterion. The scheme could also be geographically targeted to poor areas. In addition, early results from the implementation of the Targeted Public Distribution System (TPDS) in UP and Bihar indicate that the poor seem to be benefiting more than the non-poor from the retargeted subsidies on foodgrains. If this finding is generalized across India, then targeted food-grain subsidies could supplement public works programs to reduce household food insecurity.

Statistical system

There is a clear need to improve the quality and timeliness of the statistical database necessary for poverty measurement, monitoring, and analysis in India. This includes not only the data necessary for direct poverty measurement (national sample surveys, annual consumer expenditure surveys) but also related databases and statistical information available at the sectoral level (e.g. education and health statistics). The World Bank has set up a program of technical assistance with the Department of Statistics, that has laid the groundwork for a series of lending activities designed to modernize and strengthen overall statistical capacity in the country. For example, work is currently ongoing in India to identify ways to improve the timeliness and quality of information collected under the National Sample Surveys. In addition, plans are being developed to introduce a quarterly labor force surveys, which is crucial in tracking changes in employment patterns in poor regions and in key sectors in which the poor are employed. There are also plans to improve the current system of monitoring consumer prices and wage rate levels. Many of these initiatives are likely to be supported under the Statistical Systems Modernization Project, which is scheduled to go to the Board in 2000.

Kazakhstan

This report examines the impact of the transition on living standards in Kazakhstan, assesses the scope for burgeoning growth to reduce poverty, and makes recommendations on how to strengthen the social safety net. There are three principal findings. *First*, over a third of the population lived below a 'subsistence minimum' living standard in 1996. This is significantly lower than estimates of poverty based on Family Budget Survey (FBS) income distribution data, and is due

to problems with the measurement of income in the FBS. *Second*, given the proportion of the population that can be considered poor, it should be clear that the problem of poverty cannot be eliminated by public transfer programs. Indeed, the social safety net has shrunk substantially since independence under the combined impact of falling revenues and the need to maintain fiscal discipline. Strong and sustained growth will therefore be key to poverty reduction in Kazakhstan. *Third*, given that it is unrealistic to expect a significant expansion of social protection expenditures in the near future, assisting the poor will hinge on making existing social programs more effective. This should include maintaining an adequate income floor for pensioners, increasing the coverage of unemployment benefit, and reducing the leakage of child allowances and other social assistance to the non-poor.

Developments in the macroeconomy and the labor markets

Although poverty was not unknown in Soviet times, Kazakhstan was one of the least poor central Asian republics. However, the sharp contraction in output since independence has contributed significantly to an increase in poverty. In cumulative terms, the decline in output in Kazakhstan since 1991 has been of the order of 40 percent. Although employment has fallen, the burden of adjustment has fallen on the price of labor. Wages have fallen by over 50 percent in real terms, with serious implications for household income and consumption. Open unemployment remains low relative to the scale of output decline. Unemployment (ILO definitions) stood at around 4.5 percent at the end of 1994, rising to around 6 percent in 1996. Workers who are the most severely affected by unemployment appear to be new labor force entrants, those with low education or vocational and technical skills and, to a lesser extent, women.

At independence, Kazakhstan inherited an economy deeply dependent on Soviet supply and trade networks. The demise of central planning, the loss of established patterns of supply and trade, and the loss of transfers from Moscow following independence all contributed to large falls in output. The need to bring inflation under control squeezed the economy further. Stabilization efforts were however successful in reducing inflation which fell from over 1800 percent in 1994 to 29 percent in 1996 and 11 percent

in 1997. The aftermath of separation from the Soviet Union appeared to have been finally thrown off in 1996 when, after declining continuously for five years, the economy began to grow again although at a modest pace. Economic growth during 1997 is estimated at 2 percent.

Another feature of macroeconomic decline has been a fall in the government's ability to mobilize tax revenues. As a result, tax revenue as a share of GDP fell from 39 percent in 1992 to 24 percent in 1996. Poor revenue performance has contributed to disproportionate declines in the social safety net, in public investment, and the funding of public services. In an effort to keep the budget deficit under control, the government has accumulated large wage and cash benefit arrears. At the end of 1996, arrears in wages stood at 6 percent and arrears in pensions at 2 percent of GDP. Pension arrears were fully cleared in 1997 at the cost of considerable belt-tightening in other areas.

The profile of the poor in Kazakhstan

This report makes use of the Kazakhstan Living Standards Survey (KLSS), a representative household survey conducted in July 1996, to examine the extent and main correlates of poverty in Kazakhstan. Households whose per capita consumption is less than the Government's 'subsistence minimum' (prozhitochnyi minimum) are considered to be poor.³ Nearly 35 percent of the population was found to be living in poverty in July 1996. While by no means low, the estimate is significantly lower than poverty estimates based on income distributions generated by the Family Budget Survey (64 percent in 1995 and over 80 percent in 1996), largely due to problems with the measurement of income. Income data are often subject to a under-reporting, particularly in the case of income from own business and informal activity. While there are differences in rural and urban poverty rates, the more striking difference in Kazakhstan is by *region*. The poverty rate in the south of the country (69 percent) is nearly twice the national average, while that in the north (9 percent) is many times lower.⁴ In terms of number of poor, nearly two out of three poor people live in the south or east of the country. This has the strong implication that reducing poverty in Kazakhstan is largely a question of improving the opportunities for people in these two regions.

The poverty profile highlights correlates of poverty that are similar to that observed in other parts of the former Soviet Union (FSU). Large households with

many children or many dependents (whether young or old) tend to be poorer, as do households with unemployed members. There is also a distinct correlation between low levels of education, and technical and vocational training, and poverty. Pensioners are also found to be at risk of poverty, although they are relatively well-protected from extreme (bottom quintile) poverty.

The analysis of household expenditures points to the emergence of own-production as a very important source of food consumption in Kazakhstan. Over a *third* of all food consumed on average in July 1996 was derived from home-production. In addition to growing their own food, individuals engage in other informal activity, including working in second jobs and running their own businesses. There are large, private inter-household transfers in Kazakhstan—mostly from family and other relatives—which are another important source of income. The growth of informal incomes does not come as a surprise given the sharp fall in main wages and formal social support. But equally, informal incomes significantly compromise the ability of the government to effectively means-test available social assistance.

The role of the social safety net in Kazakhstan

Kazakhstan's social safety net has undergone major transformation since 1991. The need to maintain fiscal discipline in the context of a sharp contraction in revenues meant that spending on the social safety net as a share of GDP fell by over a third from 11.2 percent in 1992 to 6.6 percent in 1996. Although new forms of social protection have been introduced—such as unemployment assistance—there has been a general decline in program beneficiaries assisted by a tightening of eligibility criteria. Real benefit levels have declined substantially, with the exception of means-tested child allowances. Although they have increased in real terms in the last two years, pensions remain at less than 50 percent of 1993 levels.

Pensions dominate social protection expenditures (over 75 percent), while child allowances come a distant second. The housing allowance scheme, which is currently quite small, is expected to expand in the coming years. Despite the general contraction of the system, there remain a multiplicity of small benefits which are complex to administer.

The 'thinning' of the social safety net is evident from the fact that over 60 percent of poor households

in Kazakhstan receive *no* public transfers at all. This is partly related to pure 'gaps' in the social safety net, and partly due to non-payment of benefits to eligible households due to resource limitations. In the lowest quintile, pensions and other transfers contribute to about 20 percent of consumption on average.

Among existing social assistance programs, targeting of benefits towards the lowest quintiles is generally poor. In the case of the means-tested child allowance scheme, over 50 percent of the program expenditure leaks to the non-poor (defined as the top 60 percent). Better targeting outcomes have been achieved in other countries such as Uzbekistan, Albania and Chile. Social assistance which is targeted using categorical criteria generally does far *worse* in terms of leakage than the means-tested child allowance program as the categories in use are inherited from Soviet times and do not appear to correspond to the present realities.

Reducing poverty in Kazakhstan: growth and the social safety net

Given the scale of output decline, and the rise in poverty, it should be clear that broad-based growth that both raises wages and creates employment will be key to reducing poverty in Kazakhstan. Growth is critical not just for raising incomes but also for providing the resources for a fiscally sustainable safety net to help those who might be temporarily or chronically disadvantaged.

In general, the prospects for a sustained increase in output over the medium term in Kazakhstan are good, both because it is one of the stronger reformers among the FSU countries, and because it is well-endowed with natural resources.⁵ The World Bank estimates that the economy will grow modestly in the short-run (2–3 percent), picking up speed (4–6 percent) early in the next century. However, there are several critical areas that need attention if growth in Kazakhstan is to be sustained: (i) further development of the legal and regulatory framework for private sector development, (ii) stronger regulation and oversight of the financial sector, (iii) deepening of capital markets in conjunction with the careful management of pension reform, (iv) sound management of the process of enterprise restructuring to encourage output and productivity growth, (v) improved management of public resources, including an expansion in the level and the quality of the

public investment program, and judicious handling of likely future natural resource revenues, (vi) further restructuring and improvement in the quality of health and education services, and (vii) improved governance through the development of a professional, well-remunerated civil service.

While growth is a necessary condition for the reduction of poverty in Kazakhstan, it is not sufficient. Whether poverty is reduced by growth is a function of how income growth is distributed in society, and the opportunities offered by growth to the poor to improve their income earning opportunities. The restructuring that has yet to take place (notably in agriculture, but also mining, transportation, utilities, and public administration) is likely at least in the short run to swell the ranks of the unemployed. The evidence from the KLSS on the returns to education suggests that those with low education or mismatched skills may find it difficult to find work. The social safety net will be critical for these and other groups who are not well-positioned to benefit from growth.

While important for maintaining the living standards of the poor, severe constraints have been imposed on the social safety net by poor revenue performance and the need to keep the budget deficit under control. Moreover, the transition from a public pay-as-you-go pension system to a private fully funded system starting in 1998 will add a significant burden to the budget for many years to come due to the reduction in payroll taxes contributed to the public system.⁶ A national poverty reduction strategy should therefore aim to make social programs more effective within existing fiscal constraints. This report makes five main recommendations in this respect:

Ensure the adequacy of pensions under the pension reform. From a poverty perspective, the *strength* of the existing pension system in Kazakhstan is that pensioners do not face increased risks of extreme (bottom quintile) poverty. The 1998 reform provides for a minimum pension of 2,400 Tenge which is about 70 percent of the 'subsistence minimum' and in keeping with World Bank recommendations. However, a key concern is whether the minimum pension will be maintained in real terms. A second issue is whether state pensions will be paid on time. It will be important for the Government to maintain the minimum pension in real terms to protect the living standards of poor pensioners, and to keep to its commitment to prevent the emergence of new pen-

sion arrears. A medium-term issue under the reformed system is pension adequacy for low-income workers, those with short work histories, and women, all of whom typically receive lower pensions from systems which rely on personal saving. There are a number of options here for improving outcomes, including: higher contribution rates, contributions from other social insurance funds to cover periods of temporary inability to work (owing to sickness, maternity or unemployment), joint treatment of contributions, equalization of retirement age for men and women, and the use of standard life tables when issuing annuities. The Government should develop the capacity to analyze likely pensions for workers with non-standard work-history and other characteristics and develop options to ensure adequate replacement rates.

Improve the targeting of social assistance. Targeting of the main programs of social assistance in Kazakhstan (e.g. child allowances) has largely relied on formal income-testing. But given the structure of incomes in Kazakhstan, alternative approaches clearly need to be developed. One way to improve targeting at low cost would be to use *additional* household characteristics that are well-correlated with poverty, such as the presence of young children or unemployed members. More sophisticated *proxy* means-testing could also be considered, with attention both to administrative capacity and costs. Attention should also be paid to features of the housing allowance scheme that tend to exclude rural households (who are equally needy) and to replacing directed subsidies in utilities with targeted cash transfers to those who are in genuine need.

RATIONALIZE SOCIAL ASSISTANCE PROGRAMS. In addition to main programs which are means-tested, there are a number of small programs (e.g. other child allowances, local social assistance programs) which are categorically targeted at pre-identified "vulnerable" groups. Data from the KLSS show that these programs largely benefit the middle income groups. These resources should be redirected towards those who are truly in need. A simple way to do this would be to continue the existing trend of merging existing programs with means-tested ones. Where this is not feasible, it would be worth considering making benefits subject to an income test, which although it has its limitations, would be an improvement over present criteria.

STRENGTHEN THE SYSTEM OF UNEMPLOYMENT COMPENSATION. Although not directed at the poor, unemployment benefit in Kazakhstan is relatively well-targeted. Attention should be paid to increasing coverage, including through better provision of information to the unemployed and, possibly, through raising compensation levels. At the same time, rules governing receipt—especially with respect to job refusals—should be tightened so as not to escalate costs.

CONSIDER ASSISTING THE UNEMPLOYED THROUGH REGIONALLY TARGETED TEMPORARY EMPLOYMENT SCHEMES. Given the administrative costs and complexity of improving the targeting of individual programs, the scope for exploiting the self-targeting potential of public works programs deserves closer attention.

Monitoring progress with poverty reduction

Whatever improvements are introduced, it will be essential to monitor changes in poverty and targeting effectiveness. This report recommends developing the Family Budget Survey into an appropriate instrument for such a monitoring exercise. Improvements to the FBS being initiated under the World Bank's Technical Assistance Loan should be sustained. The Government should maintain a commitment to tracking the impact of growth and policy changes on living standards and developing the capacity to undertake analyses of alternative reform options.

Future agenda

Finally, this report does not address three types of policies that will need to complement the strengthening of the social safety net to improve living standards in Kazakhstan:

- (i) Labor market policies designed to facilitate labor market restructuring, encourage mobility, and equip workers for changed economic conditions;
- (ii) Policies aimed at reducing regional imbalances;
- (iii) Health and education sector policies to maximize the poverty reduction impact of reduced expenditures.

The first of these is to be the subject of a subsequent study to be initiated during 1998. A start has been made on the second, through the World Bank's study of the Kzyl-Orda oblast which is affected by the Aral Sea crisis. Further work, particularly pertaining to the role of the republican government in

reducing imbalances, and role of regional development policies, is clearly warranted. Restructuring the health and education systems so as to maximize quality and efficiency from reduced resources will be an ongoing challenge over the medium term. A Bank-sponsored health reform program, which is expected to be approved by March 1999, should be followed closely for lessons for the reform of the medical care system throughout the country.

Rwanda

The last World Bank poverty assessment for Rwanda was based on research completed in 1993 and painted a picture of declining incomes and contracting economic opportunities for the poor. In April–June 1994, up to one million people were killed from a total population of 7.6 million in a series of genocidal massacres. In the aftermath of the genocide, two million people fled to neighboring countries and up to one million people who had been pushed into exile by previous purges returned to their country. In economic terms, Rwanda saw GDP fall by 50 percent in 1994, and output has still not regained pre-war levels. Rwanda remains one of the poorest countries in the world, with per capita GDP under US\$220 in 1997.

The effects of this degree of social and economic turmoil on the poor are likely to have been substantial. Although numerous studies have been conducted on reconstruction needs, very little information is available on the situation of poorer households since the genocide. The impact of the events on the poor is important not only because social protection has been, and continues to be, a goal of reconstruction efforts since the war, but also because poverty levels are linked to political stability. Rising poverty undoubtedly played some role in exacerbating social tensions leading up to the genocide, and reducing poverty is critical in its aftermath not only as a goal in itself but also as a means to improve the prospects for social and political stability. Having shown great commitment to reconstruction since the war, the government is now in the process of launching an ambitious growth strategy. It is important that this strategy benefit all sections of society, including the poorest.

The study aims to provide an update on the situation of poorer households three years after the genocide, and to place on the table for debate a series of strategies for poverty reduction. After de-

scribing the principal changes in the poverty profile, the report is divided into a section that addresses the immediate constraints to recovering incomes and meeting basic social needs, followed by a section on the medium-term prospects for poverty reduction.

Poverty profile

Although household budget survey data are not available it is possible to estimate the changes in income poverty levels since 1994 through information on changes in the population, GDP, and targeted interventions such as food aid. It is clear that the events of 1994 caused a catastrophic rise in poverty in Rwanda, with approximately 70 percent of all households falling under the poverty line in 1997 compared to 53 percent in 1993. The depth of poverty has also increased, meaning that not only have poor households increased in number, they have also got poorer. Furthermore, there has not been a steady recovery in the poverty situation since 1994: after a small improvement in 1995–96, poverty levels rose again in 1997 following the influx of population from the Democratic Republic of Congo (DRC) in late 1996. The geographical profile of poverty has also changed, with the poorest prefectures before the war remaining poor in income terms but possessing better access to social services than other areas of the country. The characteristics of poor households have also changed dramatically: poor households are now more likely to be female headed or to lack able-bodied labor. This labor constraint poses a formidable challenge to improving economic opportunities for these households.

In the social sectors, there has been a severe deterioration in health indicators, with infant mortality rising from 8.7 to 13.1 percent and maternal mortality almost quadrupling since 1990. Other social indicators—primary education, access to water and sanitation—have not declined as quickly as income poverty has increased, primarily due to strong government and donor support for the social sectors. However, while enrolment rates have not greatly decreased, there is a serious problem in the quality of basic education. Only 32 percent of primary school teachers possess appropriate qualifications to teach. A limited survey of schools undertaken for this study showed that less than 30 percent of basic teaching materials are available to teachers, and children possess less than 25 percent of the minimum package of school materials. This indicates that many children

attend school without a teacher who is equipped to teach, or the basic materials to follow classes or record their new knowledge.

What are the implications of this changed poverty profile for poverty reduction strategies? First, the sharp increase in income poverty relative to social indicators, combined with the dependence of the majority of the poor on agriculture, indicates that the key to short-term poverty reduction is a rise in agricultural incomes. This should in itself help reverse the decline in social indicators, as nutrition improves and households generate more savings for education, but this is likely to be more effective if combined with actions to improve the quality and accessibility of social services. Second, a medium-term perspective on poverty reduction must be growth-oriented, but will need to ensure that the sources of growth are in sectors where the poor can benefit, and that the poor are equipped to access new economic opportunities. Both the short- and medium-term strategies must take into account the changes in the characteristics of poor households following the genocide, in particular gender divisions and lack of able-bodied labor.

Actions to reduce poverty in the short term

Based on the poverty profile, it is recommended that short-term poverty reduction initiatives focus on the following objectives: (i) enabling poorer households to increase their agricultural output and market their produce at fair prices; (ii) improving the quality of primary education and lowering the costs for the poor, and; (iii) improving access of poor households to basic medical care.

ADDRESSING IMMEDIATE CONSTRAINTS IN AGRICULTURE. Agricultural productivity was already in decline before the war, and now suffers from both structural problems and conjectural constraints stemming from the genocide and population movements. Output has recovered to only 78 percent of pre-war levels (with a higher population) and, amongst poorer households, agricultural incomes are frequently insufficient to cover consumption needs and generate seasonal savings. The immediate constraints to raising agricultural incomes include: (i) the destruction of rural capital, in particular livestock, which both reduces yields and makes households more vulnerable to seasonal insecurity and sudden income shocks; (ii) labor constraints, due to the loss of family labor through death

or imprisonment and restrictions on mobility; (iii) lack of access to inputs; (iv) increased insecurity of land access, and; (v) weak transport and market links.

Recommendations to address these constraints include: (i) an increase in public investment in agriculture, oriented towards quick impact projects to rebuild rural capital. These may include direct transfers, agricultural credit, and rural public works. However, labor intensive public works should be avoided in regions that suffer from strong labor constraints, and may not be able to address the poorest labor deficit households, who will need a more flexible type of income support; (ii) rationalizing restrictions on mobility, reducing the cost of documentation and increasing the speed of processing to enable people to move between communes for work and trade; (iii) accelerating the allocation of land that is unoccupied (marshland) or under temporary occupation by returning exiles.

Rwanda has also become highly dependent on food aid since 1994. This risks distorting the market, in particular due to weak seasonal management of distribution. The food aid program also suffers from targeting leakage, since food for work programs are often inaccessible to the poorest households due to their lack of able-bodied labor and need for immediate payment. It is recommended that a substantial proportion of food aid be monetized as per current government proposals—with counterpart funds used for agricultural investment. Food security will also be improved by the establishment of public information services to disseminate information on crop price movements, to improve the negotiating power of small producers, provide early warning of food deficits and manage the importation of food aid.

IMPROVING ACCESS TO BASIC EDUCATION AND HEALTH CARE. The principal constraints in primary education occur in two areas. On the demand side, low real income levels and labor constraints in poor families have increased both the direct and opportunity costs of schooling. On the supply side, as discussed above, the quality of education—teacher training, availability of materials—is a more binding constraint than the physical availability of infrastructure. Recommendations to improve educational opportunities for poor children in the short term should therefore focus on improving quality rather than targeting immediate increases in enrolment, and include: (i) expanded teacher training programs; (ii) investment in teacher materials; (iii) measures to subsidize the cost

of school books, and targeted subsidies for the poorest households.

In health as in education, the major constraint is the cost of healthcare in relation to the appallingly low levels of monetary income available to poor households. The cost of care is likely to rise in the near future, as the Ministry of Health has recently introduced a policy of 110 percent cost recovery on medicines. Evaluation of the impact of this policy on poorer households is a top priority, and transitional measures to extend subsidization, possibly targeted to the poorest households, should be considered if utilization rates fall. Other quick impact interventions in health efforts to increase the availability of skilled personnel and the reorganization of pharmaceutical distribution channels to avoid ruptures in the supply of basic medicines.

Medium-term framework for poverty reduction

Rwanda will reach the limits of recovery-based growth fairly quickly, as the remaining factors of production that have been idled since the war are brought back into activity. Growth is expected to return to its long-term trend between 2001 and 2003. At this point, poverty reduction will rest less on ensuring that the poor are able to recover their economic activities and incomes, and more on the prospects for rapid and sustainable growth. To assist in meeting the overall goal of medium-term equitable growth, poverty reduction objectives should: (i) promote growth in sectors that will directly benefit the poorest; (ii) ensure that legal and institutional frameworks for economic activities favor access by poorer households; (iii) equip poor households with the skills and knowledge necessary to access new economic opportunities, and; (iv) provide the social and economic infrastructure necessary to support the movement of poorer households into non-agricultural employment, in particular through improvements in urban infrastructure and services.

MACROECONOMIC ENVIRONMENT. The government has achieved strong progress in macroeconomic stabilization since 1994, and has implemented a number of structural reforms. Prioritizing those structural reforms that will improve economic opportunities and incomes for the poor remains vital. But the principal macroeconomic constraint for poverty reduction in the medium term is the lack of public resources available for investment in human capital. Government revenues

have declined dramatically since the war. Of this reduced pie, the share of the social sectors in current expenditure has decreased from 35 percent in the mid-eighties to around 22 percent in 1996–97. This is particularly destructive as needs have increased—due to reduced income levels households are unable to spend the same on health and education as was spent before the war—so higher allocations are necessary to overcome this poverty effect. Current expenditures on health in 1997 were only US\$0.6 per capita, and on education only US\$5.62.

Both military expenditures and the debt burden constrain allocations to the education and health sectors. The former should be addressed by government in keeping to demobilization targets as far as possible given the security situation, and the latter through rapid negotiations to treat Rwanda as a special case for accelerated debt reduction under the HIPC framework, together with external assistance for debt service in the transitional period. The government has already raised allocations on the social sectors by 30 percent between 1997 and 1998, and assistance in relieving the debt burden should enable further rapid progress. In order to achieve pre-war current expenditure targets of US\$11.00 per capita on education and US\$4.50 per capita on health by 2003, the total share of health and education in the current budget would need to rise to 40 percent. Increased investment spending on the social sectors will also be necessary in the medium term to finance an expanded infrastructure program, in particular for secondary and technical education.

AGRICULTURE. Medium-term growth in agriculture is constrained by low productivity, lack of viable investment opportunities, lack of tradable land rights and adverse incentives for cash crop production. Addressing these constraints will require: (i) investment in fertilizer promotion and the cultivation of higher-value-added crops; (ii) careful consultative design of a land reform program to transfer tradable rights while protecting access of women and the poor; (iii) liberalization of the tea sector, with short-term action prior to liberalization to raise producer prices, and; (iv) suppression of the variable tax on coffee.

PRIVATE SECTOR DEVELOPMENT AND EMPLOYMENT CREATION. Rwanda has strong export potential for selected commodities—both traditional exports such as tea, coffee and hides and skins, and non-traditional such

as fruit and vegetables, cut flowers, pyrethrum and textiles. However, many of these, while carrying high potential producer shares, have low employment potential. Thus growth in these export sectors will assist rural poverty reduction but is unlikely to help the landless poor. Semi-processing of local and regional materials provides better potential for non-agricultural employment creation, as does the promotion of small and medium enterprises for manufacturing and services. Constraints to private sector development and job creation include: (i) weak domestic production logistics; (ii) barriers to international trade, including the level of trade taxes and fees, lengthy freight immobilization and heavy documentation procedures; (iii) strict registration requirements for informal sector businesses; (iv) lack of access to medium-term investment credit, in particular for small, medium and micro-enterprises; (v) regulatory barriers for women entrepreneurs.

EDUCATION AND HEALTH. Lack of a literate and skilled workforce will both constrain investment and exacerbate inequality, by producing high wage differentials between skilled and unskilled workers. Expansion of primary school enrolment is therefore vital in the medium term and will require higher investment in infrastructure to maintain the quality of learning. But the key medium-term constraint in education is in the secondary school system, which, with gross enrolment at only 4.6 percent, provides a bottleneck preventing the majority of the poor from increasing their skills beyond the most minimal level. Reforming the boarding school system to lower costs to parents, expanding secondary and technical school infrastructure, and improving the curriculum are priorities for medium-term poverty reduction.

The principal challenges for the health system in the medium term are; (i) containment of population growth, which at 2.9 percent annually constricts the potential for per capita income growth and means that many poor women are trapped in too onerous a cycle of child-bearing and child-care; (ii) preventing further increases in HIV incidence, which is estimated to have risen sharply over the last 10 years to around 11 percent of the population. This is still below the rates in neighboring countries, but is rising fast; (iii) decreasing external dependence in the funding of the health system. It is recommended that more vigorous efforts be made to publicize contraceptive methods and the benefits of spacing children,

and that funds for AIDS prevention and assistance to victims and carers be increased.

URBANIZATION. Urban infrastructure in Rwanda is entirely inadequate to meet even the needs of the existing population, and cannot absorb rapid urban population growth. The principal constraint is sanitation: the Prefecture of Kigali estimate that they currently have capacity to treat only 3 percent of the liquid waste produced in the city. Land property rights and registration procedures also discourage investment in housing. Commercial infrastructure—roads and markets—is limited in coverage and badly degraded. In effect, in the past Rwanda has survived an almost total lack of urban planning due to the small size of its urban population. But the country is now at a crossroads: if urban development is to be supported as part of the growth and poverty reduction strategy, this must go hand-in-hand with adequate planning and management of urban infrastructure. It is, therefore, an urgent priority to develop and implement an effective urban planning framework; to expand investment in sanitation infrastructure in Kigali, with the aim of extending sanitation services to all areas of the city, including the poor peripheral areas; and to improve and expand market infrastructure in both Kigali and secondary centers.

THE POLITICAL CONTEXT FOR POVERTY REDUCTION STRATEGIES. The Government of National Unity established in July 1994 has faced a formidable series of challenges. These include continued security threats from former soldiers and militia housed in camps along the border with Zaire during 1995 and 1996, the need to ensure adequate legal process against the 130,000 prisoners suspected of genocide crimes currently contained in Rwandese jails, the need to accommodate over 800,000 returning Rwandan citizens who had left the country between 1959 and 1994, and the final return and reintegration of 1.3 million people to Rwanda from Tanzania and the Democratic Republic of Congo in December 1996. In addition, the new government was faced with an economy in shambles, a civil service that had lost three quarters of its qualified staff, and widespread destruction of social and economic infrastructure. Under these difficult circumstances, the government has shown great commitment to reconstruction and has succeeded in stabilizing the economy and reconstituting basic services.

However, the climate remains very fragile: the increased insurgency following the influx of returnees

to the north-west of the country continues to pose serious security problems; processing the cases of genocide suspects is proceeding slowly; and a high level of mistrust remains between different sections of society. Sustainable poverty reduction will rely not only on the developmental interventions outlined in this report, but on a successful transition to political and military stability and the development of a more representative and accountable model of governance.

INSTITUTIONAL FRAMEWORK TO IMPLEMENT THE POVERTY REDUCTION STRATEGY. Poverty reduction is a multisectoral issue, and requires strong coordination to avoid duplication of efforts or contradictory policies. It is also important that the government has the capacity to monitor monetary and social indicators of poverty on an ongoing basis, in order to be able to adjust development strategies as new priorities emerge. It is recommended that a coordination structure for poverty reduction be established, chaired by the Ministry of Finance and Economic Planning, and supported by a small technical unit.

Notes

1. All but Kazakhstan are IDA borrowers.
2. In addition to this report, two other tools have been developed to facilitate the use of the poverty assessment. First, a World Bank Internet web site is under construction to give greater access to the poverty assessment and to link it with its background work. The web site will be linked to the World Bank's public web site. Second, easy-to-use spreadsheets are being prepared to allow analysts and policymakers to simulate poverty measures based on chosen household characteristics and to explore the impact of policies that change these characteristics.
3. The subsistence minimum is based on a consumption basket, 70 percent of which is food and 30 percent non-food goods. The food basket is derived from official nutritional norms. In dollar terms, it is equivalent to around US\$70 per capita per month at purchasing power parity (and around US\$40 at the market rate of exchange). Although more generous than many poverty lines, the subsistence minimum does have the advantage of being recognizable.
4. The regions are defined as: *North*—Kostanai, Kokshetau, Pavlodar, and North Kazakhstan oblasts; *Center*—Zhezkazgan, Karaganda, Akmola and Torgai oblasts; *West*—Manghystau, Atyrau, Aktyubinsk, West Kazakhstan; *East*—Semi Palatinsk, East Kazakhstan, Taldykorgan and Almaty oblasts and Almaty city; *South*—Kzyl-Orda, South Kazakhstan and Zhambyl oblasts. In April 1997, the number of oblasts was reduced from nineteen to fourteen.
5. Natural resources can be a mixed blessing. The competitiveness of non-oil sectors of the economy has been found to be a problem in almost every country that has experienced a rapid expansion in foreign exchange earnings from petroleum exports. In a recent study covering growth in ninety-seven developing countries during the period 1970-89, Sachs and Warner (NBER Working Paper, 1995) found that countries with high export earnings based on natural resource wealth grew more slowly than those without such natural resources.
6. In the first year of the reform, the payroll tax funding the public system would fall from 25 percent to 15 percent.

**ANNEX B. POVERTY ASSESSMENTS, COMPLETED AND SCHEDULED,
FISCAL 1989-2001**

	<i>Completed</i>		<i>Scheduled</i>			<i>Total</i>
	<i>FY89-97</i>	<i>FY98</i>	<i>FY99</i>	<i>FY2000</i>	<i>FY2001</i>	
East Asia and the Pacific	12	0	0	5	0	17
Europe and Central Asia	11	1	6	6	4	28
Latin America and the Caribbean	24	1	4	3	1	33
Middle East and North Africa	5	0	1	0	2	8
South Asia	7	2	1	3	0	13
Sub-Saharan Africa	35	3	0	3	0	41
Total	94^a	7^b	12^c	20^d	7^e	140^f

a. Includes 83 first-round poverty assessments and 11 updates.

b. Includes 3 first-round poverty assessments and 4 updates.

c. Includes 7 first-round poverty assessments and 5 updates.

d. Includes 7 first-round poverty assessments and 13 updates.

e. Includes 4 first-round poverty assessments and 3 updates.

f. Includes 104 first-round poverty assessments and 36 updates.

Note: Poverty notes are not considered full-fledged poverty assessments because they do not provide complete coverage of the topics specified in the World Bank's Operational Directive on Poverty. Some country teams have chosen to prepare a poverty note instead of a full poverty assessment for reasons that include political constraints and data or resource limitations. While poverty notes do not contain the same level of comprehensive analysis as a full poverty assessment, they serve as a springboard for action and further analysis. Poverty notes have been completed for the following countries: Burkina Faso (fiscal 1997) and Central African Republic (fiscal 1998).

ANNEX C. POVERTY ASSESSMENTS COMPLETED, FISCAL 1989-1998

Country	Report Title	Report No.
EAST ASIA AND THE PACIFIC		
China	Strategies for Reducing Poverty in the 1990s	10409-CHA
Fiji	Restoring Growth in a Changing Global Environment	13862-FIJ
Indonesia	Poverty Assessment and Strategy Report	8034-IND
Indonesia (update)	Public Expenditures, Prices and the Poor	11293-IND
Lao PDR	Social Development Assessment and Strategy	13992-LA
Malaysia	Growth, Poverty Alleviation and Improved Income Distribution in Malaysia	8667-MA
Mongolia	Poverty in a Transition Economy	15723-MOG
Philippines	The Philippines: The Challenge of Poverty	7144-PH
Philippines (update)	An Opening for Sustained Growth	11061-PH
Philippines (update)	A Strategy to Fight Poverty	14933-PH
Thailand	Growth, Poverty, and Income Distribution: An Economic Report	15689-TH
Vietnam	Poverty Assessment and Strategy	13442-VN
EUROPE AND CENTRAL ASIA		
Albania	Growing Out of Poverty	15698-ALB
Armenia	Confronting Poverty Issues	15693-AM
Azerbaijan	Poverty Assessment	15601-AZ
Belarus	An Assessment of Poverty and Prospects for Improved Living Standards	15380-BY
Estonia	Living Standards During the Transition	15647-EE
Hungary	Poverty and Social Transfers	14658-HU
Kazakhstan	Living Standards During the Transition	17520-KZ
Kyrgyz Republic	Poverty Assessment and Strategy	14380-KG
Poland	Poverty in Poland	13051-POL
Romania	Poverty and Social Policy	16462-RO
Russia	Poverty in Russia: An Assessment	14110-RU
Ukraine	Poverty in Ukraine	15602-UA
LATIN AMERICA AND THE CARIBBEAN		
Argentina	Argentina's Poor: A Profile	13318-AR
Bolivia	Poverty Report	8643-BO
Bolivia (update)	Poverty Equity & Income: Selected Policies for Expanding Earning Oppor. for the Poor (2 volumes)	15272-BO
Brazil	Brazil: A Poverty Assessment (2 volumes)	14323-BR
Chile	Social Development Progress in Chile: Achievement and Challenges	8550-CH
Chile (update)	Poverty and Income Distribution in a High-Growth Economy: 1987-1995 (2 volumes)	16377-CH
Colombia	Poverty Assessment Report (2 volumes)	12673-CO
Costa Rica	Public Sector Social Spending	8519-CR
Costa Rica (update)	Identifying the Social Needs of the Poor: An Update	15449-CR
Dominican Republic	Growth with Equity: An Agenda for Reform	13619-DO
Ecuador	A Social Sector Strategy for the Nineties	8935-EC
Ecuador (update)	Poverty Report	14533-EC
El Salvador	The Challenge of Poverty Alleviation	12315-ES
Guatemala	An Assessment of Poverty	12313-GU
Guyana	Strategies for Reducing Poverty	12861-GUA

Country	Report Title	Report No.
Honduras	Country Economic Memorandum/Poverty Assessment	13317-HO
Jamaica	A Strategy for Growth and Poverty Reduction	12702-JM
Mexico	Mexico in Transition: Towards a New Role for the Public Sector	8770-ME
Nicaragua	Poverty Assessment	14038-NI
Paraguay	Public Expenditure Review -- the Social Sectors	10193-PA
Paraguay (update)	Poverty and the Social Sectors in Paraguay: A Poverty Assessment	12293-PA
Peru	Poverty Assessment & Social Sector Policies & Programs for the Poor	11191-PE
Trinidad and Tobago	Poverty and Unemployment in an Oil Based Economy	14382-TR
Uruguay	Poverty Assessment: Public Social Expenditures and Their Impact on the Income Distribution	9663-UR
Venezuela	From Generalized Subsidies to Targeted Programs	9114-VE
MIDDLE EAST AND NORTH AFRICA		
Egypt, Arab Republic of	Alleviating Poverty During Structural Adjustment	9838-EGT
Jordan	Poverty Assessment	12675-JO
Morocco	Poverty, Adjustment, and Growth	11918-MOR
Tunisia	Poverty Alleviation: Preserving Progress while Preparing for the Future (2 volumes)	13993-TUN
Yemen, Republic of	Poverty Assessment	15158-YEM
SOUTH ASIA		
Bangladesh	Bangladesh Poverty and Public Expenditures: An Evaluation of the Impact of Selected Government Progs.	7946-BD
Bangladesh	From Counting the Poor to Making the Poor Count	17534-BD
India	Poverty, Employment and Social Services	7617-IN
India (update)	Achievements and Challenges in Reducing Poverty	16483-IN
India (update)	Reducing Poverty in India	17881-IN
Nepal	Relieving Poverty in a Resource-Scarce Economy	8635-NEP
Pakistan	A Profile of Poverty	8848-PAK
Pakistan (update)	Poverty Assessment	14397-PAK
Sri Lanka	Poverty Assessment	13431-CE
SUB-SAHARAN AFRICA		
Benin	Toward a Poverty Alleviation Strategy for Benin	12706-BEN
Cameroon	Diversity, Growth, and Poverty Reduction	13167-CM
Cape Verde	Poverty in Cape Verde: A Summary Assessment and a Strategy for its Alleviation	13126-CV
Chad	Poverty Assessment: Constraints to Rural Development	16567-CD
Comoros	Poverty and Growth in a Traditional Small Island Economy	13401-COM
Congo	Poverty Assessment	16043-COB
Cote d'Ivoire	Poverty in Cote d'Ivoire: A Framework for Action	15640-IVC
Djibouti	Crossroads of the Horn of Africa Poverty Assessment	16543-DJI
Eritrea	Poverty Assessment	15595-ER
Ethiopia	Toward Poverty Alleviation and a Social Action Program	11306-ET
Gabon	Poverty in a Rent-Based Economy	16333-GA
The Gambia	An Assessment of Poverty	11941-GM
Ghana	2000 and Beyond: Setting the Stage for Accelerated Growth and Poverty Reduction	11486-GH
Ghana (update)	Ghana: Poverty Past, Present and Future	14504-GH
Guinea	A Socioeconomic Assessment of Well-Being and Poverty	16465-GUI
Guinea-Bissau	Poverty Assessment and Social Sector Strategy Review	13155-GUB
Kenya	Poverty Assessment	13152-KE
Lesotho	Poverty Assessment	13171-LSO
Madagascar	Poverty Assessment	14044-MAG
Malawi	Growth Through Poverty Reduction	8140-MAI
Malawi (update)	Human Resources and Poverty: Profile and Priorities for Action	15437-MAI

Country	Report Title	Report No.
Mali	Assessment of Living Conditions	11842-MLI
Mauritania	Poverty Assessment	12182-MAU
Mauritius	CEM: Sharpening the Competitive Edge	13215-MAS
Mozambique	Poverty Reduction Framework Paper*	None
Namibia	Poverty Alleviation with Sustainable Growth	9510-NAM
Niger	A Resilient People in a Harsh Environment: Niger Poverty Assessment	15344-NIR
Nigeria	Poverty in the Midst of Plenty: The Challenge of Growth with Inclusion	14733-UNI
Rwanda	Poverty Reduction and Sustainable Growth	12465-RW
Rwanda (update)	Poverty Note: Rebuilding an Equitable Society — Poverty and Poverty Reduction After the Genocide	17792-RW
Senegal	An Assessment of Living Conditions (2 volumes)	12517-SE
Seychelles	Poverty in Paradise	12423-SEY
Sierra Leone	Policies for Sustained Economic Growth and Poverty Alleviation	11371-SL
Tanzania	The Challenge of Reforms: Growth, Incomes and Welfare	14982-TA
Togo	Overcoming the Crisis, Overcoming Poverty: A World Bank Poverty Assessment	15526-TO
Uganda	Growing Out of Poverty	11380-UG
Zambia	Poverty Assessment	12985-ZA
Zimbabwe	Achieving Shared Growth: Country Economic Memorandum (2 volumes)	13540-ZIM

* Document was prepared for consultative group meeting.

ANNEX D. PROGRAM OF TARGETED INTERVENTIONS, FISCAL 1998

Objectives of Projects in the Program of Targeted Interventions (PTI), Fiscal 1998

In fiscal 1992, the Bank developed and began to track the Program of Targeted Interventions (PTI) to provide a measure of targeted poverty lending. A project is included in the PTI if it has a specific mechanism for targeting the poor and/or if the proportion of poor people among its beneficiaries is significantly larger than the proportion of the poor in the total population.

Targeted projects are intended to reach specific groups of poor people, including those in less developed or low-income rural and urban areas, those lacking access to land, migrants, refugees, and other transient population groups, unskilled workers, the disabled and other vulnerable groups, certain ethnic minorities, and groups with certain demographic characteristics such as gender, age (children under five years of age), or health risks (diseases correlated with poverty such as schistosomiasis, stunting, or cholera).

During fiscal 1998, approximately US\$6.7 billion or about 40 percent of World Bank investment lending was channeled for direct poverty-targeted projects,

compared with \$4.1 billion, or about 29 percent in fiscal 1997. Of the 240 Bank-approved investment projects in fiscal 1998, 101 were PTI operations. Table D-1 presents the Bank's funding for PTI projects over the last seven years. Between fiscal 1992 and fiscal 1998, the amount and share of IBRD and IDA lending to projects in the PTI have increased significantly. The only exception in the trend was in fiscal 1997, when there was a decline in both the amount of overall Bank lending and the share of funds for PTI projects. In contrast, the big jump in the share of World Bank PTI lending in fiscal 1998 was due to the fact that there were relatively more PTI projects and relatively larger amounts of PTI lending for projects in the education, social protection, environment, and water supply sectors as compared with the previous two years. The amount of PTI lending also increased significantly in the South Asia region. For IDA countries, PTI lending was 54 percent of fiscal 1998 investment lending, which is the same level as in fiscal 1997. With the exception of fiscal 1996, when the share of IDA PTI lending was unusually high because of a greater number of large PTI loans approved that year, the share of IDA PTI lending has remained at around 54 percent over the last four years.

Table D-1. Program of Targeted Interventions (PTIs), fiscal 1992-1998

Lending	FY92 ^a	FY93	FY94	FY95	FY96	FY97	FY98
World Bank (IBRD and IDA) PTI lending							
Millions of dollars	3,836	4,674	4,441	5,437	5,408	4,090	6,733
Percentage of investment lending ^b	25	27	25	32	32	29	40
Total number of projects in the PTI	57	72	63	75	79	77	101
Total number of projects	187	214	197	208	222	203	240
IDA PTI lending							
Millions of dollars	1,812	2,137	1,853	2,423	3,246	1,874	3,267
Percentage of IDA investment lending ^b	44	41	43	54	63	54	54
Total number of IDA-funded projects in the PTI ^c	34	44	35	46	50	36	55

Note: A project is included in the PTI if it has a specific mechanism for targeting the poor and/or if the proportion of poor people among its beneficiaries is significantly larger than the proportion of the poor in the total population.

a. Fiscal 1992 figures differ from those in *Implementing the World Bank's Strategy to Reduce Poverty* (World Bank, 1993a) because they include seven projects that were added to the PTI after the earlier report went to press.

b. Investment lending includes all lending except for adjustment, debt and debt-service reduction operations, and emergency recovery loans, which are distinct from regular investment operations (see Annex F).

c. The number of IDA-funded projects in the PTI excludes joint IBRD/IDA projects, which are counted only once, as IBRD projects. There was one such PTI project in fiscal 1992, two in fiscal 1995, one in fiscal 1996, one in fiscal 1997, and four in fiscal 1998.

The majority of the PTI projects in fiscal 1998 was broadly targeted, as has been the case in the previous fiscal years. Broad targeting generally expands the provision of services, such as basic education and primary health care, to provide access to as many people as possible. However, it is the poor who benefit most from the extension of basic services since the better-off generally already have access to these services. A smaller number of PTI projects were narrowly targeted. Narrow targeting is used in countries where poverty is relatively isolated, geographically concentrated, where the incidence and location of poverty is well understood, and where the government has the capacity to implement targeted programs. Many PTI operations combined broad and narrow targeting and were mostly concerned with agriculture, education, population, health, and nutrition (PHN), and social protection.

The following are the main issues addressed by projects in the Program of Targeted Interventions in fiscal 1998:

Raising agricultural productivity. Twenty-four projects in fiscal 1998 aim to increase agricultural productivity. The focus of these projects was on building and rehabilitating irrigation and rural roads, supporting on- and off-farm income generation, increasing access to rural finance, promoting agroprocessing and farm product marketing, providing agricultural support services, managing the environment, natural resources, and resettlement, and strengthening agricultural institutions.

The projects funded in fiscal 1998 illustrate the different methods used to increase productivity. The Egypt East Delta Agricultural Services Project (IDA) will provide agriculture extension services, tertiary irrigation and drainage works, and a line of credit through the Principal Bank for Development and Agriculture Credit to finance the purchase of agricultural inputs. Measures will be taken to facilitate women's access to credit, including a program of home visits to assist in the preparation of credit applications and the establishment of four new village banks. The Land Management III Project in Brazil (IBRD) aims to increase agricultural productivity in areas highly susceptible to soil erosion and with the highest concentration of small-scale farmers and poverty through the promotion of sound natural resource management practices and conservation techniques.

The Southern Governorates Rural Development Project (IDA) in Yemen, will help very poor landless families get established in new farming operations by providing them with secure titles for land, training and access to credit. In Indonesia, the introduction of

new agricultural technologies and investments in villages infrastructure (e.g., roads and processing facilities) under the Bengkulu Regional Development Project (IBRD) will help boost farm incomes of villagers living in the second poorest province in Sumatra.

Developing human capital. Forty PTI operations in fiscal 1998 will develop human capital, including increasing access to or improving the quality of primary health care, nutrition, and basic education. The education projects will improve female literacy, develop skills in the informal sector, support training of primary and secondary school teachers, provide school materials, and construct educational facilities. Health and population projects will provide packages of basic health and family planning services, and support disease prevention and immunization programs.

A Basic Health Services Project (IDA) in China will provide improved health care for an estimated 45 million people in poor counties through improved management of health resources and the upgrading of rural health facilities. Key interventions will benefit women, children, and minority populations who may otherwise have limited access to health services, and will include support to maternal and child health care, tuberculosis treatment, immunization of newborn children for hepatitis B, cataract surgery, and deworming of school children. In Madagascar, the Community Nutrition II Project (IDA) aims to improve the nutritional status of children under three years of age (nearly half of whom are malnourished), pregnant and lactating women, and school-age children. It will support a community nutrition program that includes rehabilitating malnourished children and training health administrators. An Information, Education and Communication program to increase health awareness among local communities will be initiated.

In the education sector, the Ethiopia Education Sector Development Program (IDA) is a comprehensive initiative to restructure the education system. Its objective is to expand the access of primary and vocational education to the rural poor, girls, and dropouts. Among the activities to be supported are the construction of more schools, with particular attention given to rural and underserved areas, the elimination of school fees for grades 1-10, the incorporation of gender-sensitive materials and local languages into the curriculum, and training for teachers. The El Salvador Education Reform Project (IBRD) will expand access to preschool and basic education, and will launch an innovative Initial Education program with parent participation in rural and marginal urban areas to benefit children ages 0-3

years. In addition, the implementation of alternative and accelerated education modalities will help meet the needs of overage children and curb repetition. The project focuses on promoting gender equity in classrooms, and boosting girls' self-esteem as a means of addressing the alarming increase in teen pregnancy. The Second General Education Project (IDA) in Sri Lanka will target deprived schools in rural and urban slum areas in providing facilities and quality inputs that will bridge the gap between poor and affluent schools.

Urban development, water supply and sanitation. In the urban development and the water supply and sanitation sectors, 11 projects in fiscal 1998 will improve living conditions of poor people by increasing access to basic infrastructure. These projects will construct and rehabilitate water, sewerage, flood control, and drainage systems, as well as community irrigation schemes. The Algeria Low-Income Housing Project (IBRD) will benefit about 50,000 households in non-serviced, low-income areas, including urban slum residents. The project provides for affordable subsidized housing and land titles. Site development for low-income families will offer basic infrastructure services, including roads, safe drinking water, sewerage, drainage, and electricity. In Mongolia, the Ulanbaatar Services Improvements Project (IDA) will address the inequities in services between the *ger* (low-income urban settlements) and formal housing areas by extending the water supply network, implementing a water leakage and waste reduction program, upgrading infrastructure, including roads, footpaths, and drainage in *ger* areas. The Water Supply, Sanitation and Health Project in Uzbekistan (IBRD) will provide reliable and safe water supply to about 1.12 million inhabitants in rural areas and 0.41 million in urban areas. A community-based approach will be used to promote hygiene education and improve sanitation facilities that will reduce the incidence of water-borne diseases, particularly diarrheal diseases, which are more prevalent among children. Technical assistance will help build institutional capacity in organizations involved in providing water and sewerage services.

Social Protection. Eleven operations in fiscal 1998 support measures to protect the vulnerable through social funds or some type of safety net measure (e.g., retraining schemes, nutrition programs, unemployment benefits, and the reform of the social protection system). Social action funds generally support community-level microprojects aimed at increasing access to basic education and health, safe water, irrigation facilities, and rural roads. Safety net measures are typically short-term measures designed to protect vulnerable groups during periods of

economic adjustment or to provide assistance to those unable to work. The Russia Social Protection Implementation Loan (IBRD) aims to lay a solid foundation for building a pension and welfare system that meets the needs of a market economy, and includes monitoring and evaluation systems to track unemployment and progress in social protection programs. Initiatives under these programs will ensure higher and more regular pensions for about 4 million of the poorest pensioners, guaranteed minimum unemployment benefits, as well as provide effective child allowances, and better sickness and maternity benefits. In addition to improving the quality, effectiveness, and coverage of services provided in selected primary health centers (located mostly in areas where the demographic and socioeconomic status of the population are poor) the Andhra Pradesh Economic Restructuring Project (IDA/IBRD) in India will support the Integrated Child Development Services (ICDS) program to improve the nutrition and health of poor pre-school children and women, particularly pregnant and lactating mothers and adolescent girls from deprived households. ICDS centers are mainly located in rural areas where over 40 percent of the population are defined as being below the poverty line. In Comoros, under the Social Fund Project (IDA), resources will be allocated to demand-driven initiatives developed by the community to improve access to basic services and create employment through labor-intensive works. Results of the beneficiary assessment played an important role in the design of the project. The Angola Post-Conflict Social Recovery Project (IDA) will test in a number of target areas a program to support war-affected rural communities in their efforts to reintegrate displaced people and revitalize the economy. Subprojects will seek to reestablish household livelihood and rehabilitate basic community-level social and economic infrastructure such as water supply, roads, schools, health posts, rural markets, and irrigation works in accordance with the needs and priorities expressed by the communities. In Jordan, the Training and Employment Support Project (IBRD) will test the demand for and the effectiveness and efficiency of employer-based training targeted at the unemployed poor.

Other PTI areas. The PTI also includes projects in areas such as transport, environment, and regional development.

The Transport Infrastructure Rehabilitation Project (IDA) in Niger will help develop a rural roads maintenance program to increase access to markets and basic services and reduce high transport costs for poor people living in outlying areas. In Ecuador, the Indigenous and Afro-Ecuadorian People Development

Project (IBRD) focuses on increasing the income and quality of life of about 815,000 minority people by providing increased access to land and credit. Subprojects include investments in natural resources management and community-based economic and social infrastructure. Poor people living in communes surrounding nature reserves and forestlands will benefit from the Vietnam Forest Protection and Rural Protection Project (IDA). In addition to protecting and managing existing forests, activities will also include land allocation, social and agricultural support services and rural infrastructure, all designed to increase income, employment, and market opportunities for the poor living in remote communities. A Learning and Innovation Loan in Colombia, the Magdalena Medio Regional Development Project (IBRD), addresses the links between poverty and violence in rural areas. The project will help build the operational capacity of the Consortium and the Citizen's Network to implement the Program for Development and Peace. It will also finance specific subprojects for education, health, and the environment.

Community Participation and Decentralization. Many PTI projects in fiscal 1998 involved local organizations and communities in their preparation and implementation, as well as invested in building capacity. Local participation ensures that priorities and concerns of beneficiaries are taken into account. It also fosters ownership of activities and develops capacity for self-management. For example, the Mali Grassroots Initiatives to Fight Hunger and Poverty Project (IDA) supports a Community Development component that starts out with a participatory needs assessment, which forms the basis for beneficiary communities to play a central role in the decision-making process throughout the project cycle. Among its activities is the setting up of a Community Management committee, with emphasis on including women, to lead and coordinate programs, together with local capacity building measures to strengthen community-development skills. An Information, Education, and Communication program will be tailored to community needs. The Bolivia Participatory Rural Investment Project (IDA) will provide technical assistance to municipalities, indigenous districts, rural communities and NGOs in participatory planning and implementation of subprojects and non-formal training of municipal councils, vigilance committees, and community

leaders. In an effort to decentralize decision-making and strengthen local government and community institutions, the Kecamatan Development Project (IBRD) in Indonesia will give block grants to 725 of the poorest subdistricts to finance economic, social and infrastructure activities in line with self-determined local priorities.

Table D-2 shows the share of PTI lending to total investment lending by sectors over the last seven years. Three-year averages have been calculated to smooth out year-to-year fluctuations, which are normal occurrences.

As indicated in Table D-2, a large majority of both IDA and IBRD projects in the education, PHN, and social sectors belongs in the PTI. For total World Bank lending the average share of PTI lending in the education and water supply and sanitation sectors has declined over the period fiscal 1992-1998. The share of PTI lending in PHN and urban development has remained steady, and PTI lending in the social and agriculture sectors has increased (see Table D-2). Over the period fiscal 1992-1998, the average share of IDA PTI lending in total investment lending has increased significantly in agriculture, education, the social sector, and urban development. It has increased moderately in the PHN sector, and has fluctuated in the water supply and sanitation sector, with a noticeable decline in the last three years.

Table D-3 shows the regional variation in the Bank's funding for PTI projects. Table D-4 briefly describes why specific fiscal 1998 projects were included in the PTI.

Although projects in the PTI obviously seek to benefit the poor, this does not mean that non-PTI investment projects do not also contain provisions that help to reduce poverty. For example, the Armenia Municipal Development Project (IDA), though not poverty-targeted, will make emergency short-term improvements in the water supply system to ameliorate the drinking water supply to Yerevan, thereby improving living conditions also for the most deprived population. By improving the quality of urban transport services in the Metropolitan area, the Brazil Rio de Janeiro Mass Transit Project (IBRD) will benefit the urban poor by facilitating access and making it affordable.

Table D-2. Program of Targeted Interventions (PTIs) by sector, fiscal 1992-1998

<i>Sector</i>	<i>FY92-94</i>	<i>FY93-95</i>	<i>FY94-96</i>	<i>FY95-97</i>	<i>FY96-98</i>
PTI Lending as Percentage of Total Investment Lending^a (IDA and IBRD)					
Agriculture	27	31	42	49	47
Education	72	67	63	56	62
Population, health, and nutrition (PHN)	79	84	76	78	78
Social protection	82	95	87	88	90
Urban development	37	37	27	28	39
Water supply and sanitation	44	38	31	24	35
Other sectors	6	7	8	10	10
IDA PTI Lending as Percentage of IDA Investment Lending^a					
Agriculture	46	44	54	62	61
Education	76	84	92	89	88
Population, health, and nutrition (PHN)	87	89	94	94	96
Social protection	72	88	93	95	98
Urban development	29	25	34	47	66
Water supply and sanitation	57	48	59	45	27
Other sectors	12	11	12	17	16

Note: Figures differ from those in earlier reports because of recent sector reclassification of operations.

a. Investment lending includes all lending except for adjustment, debt and debt-service reduction operations, and emergency recovery loans, which are different from regular investment operations in objective and format.

Table D-3. Program of Targeted Interventions (PTIs) lending by region, fiscal 1998

<i>Lending</i>	<i>Sub-Saharan Africa</i>	<i>East Asia and the Pacific</i>	<i>Europe and Central Asia</i>	<i>Latin America and the Caribbean</i>	<i>Middle East and North Africa</i>	<i>South Asia</i>	<i>Total</i>
Total PTI Lending							
Millions of dollars	789.7	979.8	551.0	1,910.7	470.2	2,031.9	6,733.3
Percentage of investment lending	39	25	25	45	60	56	40
Total number of PTI projects	25	14	11	27	10	14	101
IDA PTI Lending							
Millions of dollars	789.7	370.1	72.4	1,61.8	142.2	1,730.6	3,266.8
Percentage of all PTI lending	100	38	13	8	30	85	49
Percentage of IDA investment lending	40	52	18	66	85	68	54
Total number of IDA-funded projects in the PTI ^a	25	4	6	3	4	13	55

a. The number of IDA-funded projects in the PTI excludes joint IBRD/IDA projects, which are counted only once, as IBRD projects. There was one such PTI project in fiscal 1992, two in fiscal 1995, one in fiscal 1996, one in fiscal 1997, and four in fiscal 1998.

Table D-4. Program of Targeted Interventions, fiscal 1998

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
East Asia and the Pacific	
<i>China</i> Basic Health Services Project (IDA: US\$85 m.)	The project will provide improved health care for an estimated 45 million people in 97 designated poor counties in ten provinces. This will be achieved by improving the allocation and management of health resources, upgrading rural health facilities, enhancing the quality and effectiveness of health services and programs, and increasing risk sharing and affordability of essential health care for the poor. Improvements in basic health care will particularly benefit women, children, and minority groups. [b]
Forestry Development in Poor Areas Project (IBRD: US\$100 m., IDA: US\$100 m.)	The development of forest resources in poor areas of central and western China will be supported on a sustainable and participatory basis. Beneficiaries comprise a large share of ethnic minorities and women. Project activities are expected to a) increase per capita income for about 2 million poor people (about 450,000 households), lifting them above the poverty line by project closing; b) increase the supply of forest products used as inputs for construction and agro-processing; c) increase the value-added in processing of forestry products; d) improve environmental management of ecologically fragile mountain watersheds; and e) develop and disseminate agricultural technologies. [b]
Guangxi Urban Environment Project (IBRD: US\$72 m., IDA: US\$20 m.)	This environment project – the second implemented in this poor western region, will target the urban poor for the first time by supporting improvements in environmental sanitation. Beneficiaries include women and ethnic minorities, who make up a majority in the Guangxi. [b]
Tarim Basin II Project (IBRD: US\$90 m., IDA: US\$60 m.)	The project aims to a) increase the incomes of about 200,000 poor households through irrigated agriculture development, b) promote sustainable techniques to upgrade marginal land, including major water storage, transfer, irrigation and flood control in the Tarim Basin, and c) restore and preserve the "green corridor" in the lower reaches of the Tarim River. Minority groups, including Uygur, Hui, Mongols, and Kirghiz are the overwhelming majority of the project's target population, and poor farmers and herdsman are direct project beneficiaries. [a,b]
<i>Indonesia</i> Bengkulu Regional Development Project (IBRD: US\$20.5 m.)	Poverty in 220 villages of Bengkulu - the second poorest province in Sumatra - will be reduced. The adoption of new agricultural technologies and investments in village infrastructure will help boost farm incomes and reduce the burden on women. [b]
Coral Reef Rehabilitation and Management Project (IBRD: US\$6.9 m.)	Protecting, rehabilitating and achieving sustainable use of coral reefs and associated ecosystems in Indonesia are major objectives of this project. The welfare of coastal communities will improve through public awareness campaigns, surveillance and enforcement, and community-based management. Two pilot sites will adopt community-based fisheries management to restore the productive potential of coral reefs and assist poor fishermen in finding alternative income opportunities to minimize destructive activities (illegal fishing practices, use of cyanide, large-scale explosives and overfishing). [b]

¹ A project must meet at least one of two criteria to be included in the Program of Targeted Interventions (PTI). Criterion [a] refers to projects with a specific targeting mechanism for reaching the poor and criterion [b] refers to projects for which the proportion of the poor among the project's beneficiaries is significantly larger than the proportion of the poor in the total population. The applicable criteria for each project are indicated in square brackets.

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
Kecamatan Development Project (IBRD: US\$225 m.)	This project aims to raise rural incomes, strengthen kecamatan (subdistrict) and village development and community institutions, and build public infrastructure using labor-intensive methods. About 25 million people living in rural areas of 725 kecamatans selected from among the poorest in the country will be targeted. [b]
Maluku Regional Development Project (IBRD: US\$16.3 m.)	About 50,000 households or 520,000 people including isolated, vulnerable people, women and ethnic minority groups in the rural and coastal areas of Maluku, will benefit from increased agricultural productivity, reduced losses due to pests, diseases and lack of storage, and improved agricultural processing and market access. This will be achieved through investments in crops, processing facilities, small-scale infrastructure, and the provision of greater access to credit. [b]
<i>Mongolia</i> Ulaanbaatar Services Improvement (IDA: US\$16.7 m.)	The extension of the water distribution network to the ger areas, low-income urban settlements, will improve the lives of poor people. The project includes building four reservoirs to store water, and 12km of pipelines; implementing a water leakage and waste reduction program, and undertaking a ger area infrastructure-upgrading program. [b]
<i>Philippines</i> Community-Based Resources Management Project (IBRD: US\$50 m.)	About 1.8 million families in four regions, half with incomes below the poverty line, are expected to benefit from natural resource management projects aimed at reducing poverty and environmental degradation. The projects will be designed and implemented by the local population, and are expected to particularly benefit upland farmers and fishermen. [b]
Early Childhood Development Program (IBRD: US\$19 m.)	This project will improve early childhood development policies and programs in health, nutrition, cognitive development and primary education for 10 to 11 million pre-school children, with emphasis on 3 to 4 million children living below the poverty line. Actions will include an expanded program of immunization, management and treatment of childhood illnesses, malnutrition prevention, curriculum development and service delivery enhancement. [b]
SZOPAD Social Fund Project (IBRD: US\$10 m.)	The project aims to increase the access of about 10 million people in the most conflict-affected areas of the Special Zone for Peace and Development (SZOPAD) to basic economic and social infrastructure, public services, and employment opportunities. [b]
<i>Vietnam</i> Agricultural Diversification Project (IDA: US\$66.9 m.)	The project aims to diversify and intensify agricultural production by developing the smallholder rubber sector, upgrading livestock production, and intensifying crop production in the poor central highland and coastal provinces of Vietnam. Ethnic minorities (ethnic Kinh), smallholders and subsistence-shifting cultivators in one of Vietnam's poorest regions will be targeted. [a,b]
Forest Protection and Rural Development Project (IDA: US\$21.5 m.)	Villagers in 40 communes and towns, many of whom are living below the poverty line, will benefit from actions to increase food security, improve literacy, health and sanitation, and expand employment opportunities. Numerous measures are incorporated to safeguard the interests of ethnic minorities and other vulnerable groups, including support for community-based activities with representation from indigenous ethnic minorities and women's groups. [b]
Europe and Central Asia	
<i>Albania</i> Health System Recovery and Development Project (IDA: US\$17 m.)	The most common illnesses at the primary health care level, including acute respiratory infections, diarrheal diseases, and reproductive health problems will be addressed through the provision of better access and service delivery to people living in urban Tirana and the surrounding rural districts. [b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<i>Georgia</i> Cultural Heritage Project (IDA: US\$4.5 m.)	The project will support the government's ongoing Cultural Heritage Initiative (CHI) and will provide investment funding for the rehabilitation and restoration of four pilot sites where a large number of very poor people live. It will also test approaches to revive the once dynamic tourism industry. An Emergency Rehabilitation Fund for emergency repairs at cultural sites or cultural artifacts will generate local jobs to help reduce poverty. [b]
Municipal Development and Decentralization Project (IDA: US\$20.9 m.)	This project will support the initial phase of Georgia's decentralization process, which aims to gradually shift responsibility and accountability to municipalities for maintaining and improving urban services. Among the benefits accruing to the urban population in cities with inadequate services and environmental risks are reduced exposure to water-borne diseases, and increased employment opportunities for low-skilled and unskilled workers. [b]
Social Investment Fund Project (IDA: US\$20 m.)	About 400 communities in the poorest and mountainous areas will be targeted to receive small-scale infrastructure improvements in water supply, sanitation, solid waste management, local health clinics, primary schools and feeder roads. The monitoring and evaluation component will improve the capability to analyze poverty levels and trends, with poverty data disaggregated by gender. Laborers are expected to benefit from an estimated 494,000 employee labor days generated from activities in microprojects. [b]
<i>Macedonia, FYR</i> Education Rehabilitation Project (IDA: US\$5 m.)	About 15,000 primary students in rural and poverty-stricken areas will benefit from the rehabilitation of about 50 schools in danger of collapse or serious physical deterioration, teacher training and textbook reform, curriculum development and institutional development of government agencies. [b]
<i>Moldova</i> Rural Finance Project (IDA: US\$5 m.)	This project will develop and test a cooperative rural banking system that aims to provide effective financial services to an estimated 10,000 small private farmers and rural entrepreneurs. Savings and Credit Associations (SCA) will be established, training will be provided to members, and a rural credit line aimed at providing small loans to finance investments for productive purposes such as seasonal agricultural inputs, spare parts for equipment, small works, and other small investments, will be financed. [b]
<i>Romania</i> Child Welfare Reform Project (IBRD: US\$5 m.)	The project will support the government's Department of Child Protection (DCP) in reforming the child-care and child protection system. This will be achieved by reducing the number of children in institutions, improving the quality of care for institutionalized children, and developing alternative care systems. It will target street children in Bucharest who are particularly at risk to poverty and social deprivation. Support for community-based child welfare services include family counseling, shelter for young single mothers and day care centers for children of families who are at risk. [a,b]
School Rehabilitation Project (IBRD: US\$70 m.)	By rehabilitating rural schools and ensuring the provision of adequate facilities, this project will improve the quality and expand the coverage of education in the poorest communities in Romania. About 200,000 students will benefit from the rehabilitation, upgrading and furnishing of nearly 900 pre-university school buildings (100 kindergarten, 700 primary and 100 general secondary), which are in imminent danger of collapse. [b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<i>Russia</i> Social Protection Implementation Loan (IBRD: US\$28.6 m.)	As a complement to the social reforms proposed under the Social Protection Adjustment Loan, this project supports a broad program of social protection, including setting up monitoring systems, data analysis, and reviews of on going programs for unemployment assistance and social protection. About four million of the poorest pensioners will be targeted to receive regular and adequate pensions. Together, the programs will improve the lives of more than 15 million people over the medium and longer term, providing Russia with a social safety net that will be well targeted towards vulnerable groups. [a,b]
<i>Turkey</i> Basic Education Project (IBRD: US\$300 m.)	To help attain universal coverage and improve the quality of basic education, a new expanded eight-year basic education cycle will be implemented. Regions and groups with the lowest school attendance and educational performance in basic education will be targeted, with special emphasis on girls in the East and Southeast and children from poor households. Free textbooks and school uniforms will be given to children from poor households; teachers will be recruited and trained; schools will be upgraded; and parental and community participation will be encouraged. [a,b]
<i>Uzbekistan</i> Water Supply, Sanitation and Health Project (IBRD: US\$75 m.)	About 50,000 inhabitants in rural and peri-urban areas will benefit from the use of safe and reliable water through improved sanitation facilities. This will also decrease the incidence of water-borne diseases, particularly diarrheal diseases, which are more prevalent among children. Technical assistance will be provided for the institutional building of six organizations involved in providing water and sewerage services. [b]
Latin America & the Caribbean	
<i>Argentina</i> Small Farmer Development Project (IBRD: US\$75 m.)	The project will increase the productive capacity of about 30,000 poor rural households by improving production-oriented infrastructure, diversifying production activities, and integrating beneficiaries into local organizations. A rural Investment Fund will be established to finance subprojects with specific mechanisms to target poor households, indigenous groups, women and rural youth. [b]
Third Social Protection Project (IBRD: US\$284 m.)	This project will support the third phase of the TRABAJAR safety net program by providing temporary financial assistance to an estimated 300,000 poor workers. Subprojects will finance the upgrading and restoration of schools, health facilities, sanitation facilities, and small roads, as well as create employment for low-skilled workers. [b]
<i>Bolivia</i> Education Quality and Equity Strengthening Project (IDA: US\$75 m.)	This project will complement the existing education reform program, which seeks to increase the years of schooling completed, particularly at the primary level, improve the quality of schooling, and develop approaches to reduce gender disparities in selected municipalities. Target beneficiaries are boys and girls from impoverished rural and urban marginal areas, of whom 70-75 percent are indigenous. The rural girls component is expected to benefit approximately 16,000 girls (80-90 percent are indigenous) in the priority municipalities. [b]
Participatory Rural Investment Project (IDA: US\$62.8 m.)	The inhabitants of the 200 poorest municipalities with the lowest index of satisfied basic needs, as well as indigenous districts, will benefit from a) improved access to basic services and markets; b) investments in diversifying and intensifying rural production systems; c) improved natural resource management and environmental protection; d) opportunities in off-farm income from ethno- and eco-tourism; e) employment generation from subprojects (e.g., roads, bridges, irrigation systems, storage facilities); and f) social capital development initiatives at the prefectural, municipal and community levels. A Small Farmer Development Fund will finance small artisanal equipment for women's groups. [b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<i>Brazil</i> Bahia Water Resources Management Project (IBRD: US\$51 m.)	The project aims to improve access to stable water supplies for potable, municipal, industrial and irrigation uses in poor river basin areas. Urban and rural water users of Bahia will benefit from increased supply of safe drinking water, abatement of water-vector health problems, and infrastructure activities. [b]
Federal Water Resources Management Project (PROAGUA) (IBRD: US\$198 m.)	This project aims to promote rational use and participatory management of water resources in Brazil with emphasis in the Northeast region. Infrastructure investments include the construction of water storage and conveyance infrastructure to provide reliable water supply, particularly to those populations living in rural areas and in small towns. Some of the 1.3 million beneficiaries will also benefit from new employment opportunities and increased agricultural production. [b]
School Improvement Project (FUNDESCOLA I) (IBRD: US\$62.5 m.)	Brazil's FUNDESCOLA I project will finance activities covering about 1.3 million students aged seven to fourteen in approximately 4,200 schools. It will also reinforce the government's goal of ensuring that children from the poorest regions successfully complete the basic eight-grade education. Major components include: raising schools to minimum operational standards (educating and certifying teachers, supplying basic furniture and equipment, and financing school improvement investments) and strengthening educational management and administration at all levels, with emphasis on fostering community participation. [b]
Land Management III Project (IBRD: US\$55 m.)	By promoting improved land management and soil conservation practices, this project will increase agricultural productivity in areas with the highest susceptibility to soil erosion and highest concentration of small-scale farmers and poverty. Approximately 4.5 million ha of farmland and 90,000 farmers (of which 49,500 are small farmers) will be covered. Main activities include extension services, strengthening institutional capacity of farmers' associations and promoting rational use of inputs, crop rotation and diversification. [b]
Rural Poverty Alleviation Project Maranhão (IBRD: US\$80 m.)	The project will provide basic social and economic infrastructure and employment and income-generating opportunities for the rural poor. Among its objectives are decentralizing resource allocation and decision-making to local levels and deepening the existing social capital. It will lay the groundwork for participatory institutions and processes at the municipal and community levels. Small-scale subprojects identified by local groups as priority investments include infrastructure projects (rural electricity, local roads, and water supply), social projects (health-related improvements, daycare centers, and schools), and productive projects (communal tractors and minor irrigation schemes). Established criteria will ensure that project activities reach poor rural dwellers and vulnerable groups. [b]
NE Rural Poverty Alleviation Project Paraíba (IBRD: US\$60 m.)	This project will assist the State Government of Paraíba in reducing rural poverty by providing basic social and economic infrastructure, employment and income-generating opportunities for about 1.1 million poor people in isolated settlements of less than 7,500 people. The project will provide matching grants to rural community associations to finance small-scale subprojects identified by these groups as priority investments. Projects will be operated and maintained by the beneficiaries themselves, and will include improving local roads, setting up day care centers, establishing communal irrigation schemes, and providing agricultural equipment. [a,b]
Water Sector Modernization II Project (IBRD: US\$150 m.)	Improved water supply, sewage collection and treatment services will especially benefit the poor population in six states and 24 municipalities. [b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<i>Colombia</i> Antioquia Basic Education Project (IBRD: US\$40 m.)	This project seeks to improve the quality of education for 5-13 year olds. This will be achieved by a) expanding access and increasing school retention of preschool and lower secondary students living in poor rural and urban areas, as well as those in at-risk-of-violence-communities; b) increasing the capacity of schools, communities, municipalities, and the education department to effectively provide better services. Approximately 1,200 schools and 220,000 students will benefit from the programs. [b]
Magdalena Medio Regional Development Project (IBRD: US\$5 m.)	The operational capacity of the Consortium for the Program for Development and Peace of the Magdalena Medio Region will be developed. This will enhance the ability of its citizens network and other partners to work together towards poverty reduction objectives under a peaceful coexistence in the second most violent region in the country. The program provides funding for outreach activities (workshops, training, and study tours) and uses a participatory methodology involving a continuous process of social analyses in which communities play a central role. Roughly 500,000 people with incomes below the poverty line will benefit. [b]
Education Project (Municipality of Pasto) (IBRD: US\$7.2 m.)	Financing for public services to 167 schools will be increased, primarily benefiting 95,000 children aged 5-15. The project provides for educational materials, infrastructure rehabilitation, and funding for subprojects, and includes the active participation of families and local communities in Pasto, where 40 percent of the population lives below the poverty line. [b]
Peasant Enterprise Zones for Peace Project (IBRD: US\$5 m.)	The project develops a replicable methodology for the establishment and operation of a Peasant Enterprise Zone for areas affected by violence and illicit activities and supports prototype actions to protect rainforest reserves and nearby indigenous territories. Project beneficiaries include about 250,000 families, including many landless and low-income peasant families displaced by violence. The project will finance the issuance of land titles and recording in land registry, capacity building focusing on rural finance and micro-enterprise development. The specific needs of women, youths and indigenous people will be addressed. [b]
<i>Dominican Republic</i> Provincial Health Services Project (IBRD: US\$30 m.)	The health status of about 3.8 million people, nearly 48 percent of the country's total population will be improved. The project will help expand essential health care services to the poorest groups and strengthen the capacity of provincial health organizations to deliver quality health care. Project interventions are expected to improve infant and child survival, especially for children under five years of age, and maternal health, particularly for poor pregnant and lactating women, and reduce the prevalence and severity of the most common diseases. [a,b]
<i>Ecuador</i> Agricultural Census and Information System Technical Assistance Project (IBRD: US\$20 m.)	The proposed technical assistance project aims to improve the availability, consistency, validity, and timeliness of agricultural information in order to facilitate the decision-making process in both the public and private sectors. Improved information would lead to better targeting of the government's rural poverty alleviation programs. [b]
Health Services Modernization (MODERSA) Project (IBRD: US\$45 m.)	This project complements the Social Development Project: Health and Nutrition (fiscal 1993), and will support the improvement of health care for the poor, particularly mothers and children under five years of age. This will be achieved by expanding access to essential health services (prenatal care, nutrition surveillance, tetanus vaccination, treatment of STDs, etc), and improving the quality and efficiency of ambulatory and hospital services, as well as developing a new health care organization. The potential beneficiary population is estimated at about 2 million or 20 percent of the total population in the country. [a,b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
Indigenous and Afro-Ecuadorian Peoples Development Project (IBRD: US\$25 m.)	The project is expected to increase the income and quality of life of about 815,000 poor indigenous and Afro-Ecuadorian people by providing increased access to land resources and financing for investment subprojects. Project activities in 288 parroquias, which have been identified as predominantly indigenous or Afro-Ecuadorian based on an Indigenous Poverty Map, will likely be implemented by local membership organizations and communities. [a,b]
<i>El Salvador</i> Education Reform (IBRD: US\$88 m.)	The project will support the expansion of preschool and basic education to children 4 to 15 years old, and will launch a pilot program in Initial Education to benefit children ages 0-3 years old. These programs will be aimed at rural and marginal urban populations, with emphasis on the poorest areas. Project activities address gender, equity in classrooms, and teen pregnancy. [a,b]
Secondary Education Project (IBRD: US\$58 m.)	Improved quality of and greater access to secondary school will be achieved by constructing and expanding schools, providing distance education in rural areas, and reducing the direct and opportunity costs of education for low-income students through a targeted scholarship program. Special measures will be taken to target individuals from low-income households and rural areas, eliminate gender stereotypes in books, introduce career guidance programs and include sex education in the curriculum. [a,b]
<i>Mexico</i> Basic Education Project (IBRD: US\$115 m.)	This project supports the Phase I of the Education Development Program, which seeks to improve the quality of initial and basic education and non-traditional modalities of post-primary education. Project activities include a) improving the school supervision system; b) establishing and implementing school-based management strategies; and c) designing and piloting new education modalities to better meet the needs of migrant, indigenous children, and those children living in marginal urban areas. The project will target children in rural and marginalized urban areas with the highest incidence of poverty. [a]
Higher Education Financing (IBRD: US\$180.2 m.)	To help the government promote greater equity and quality in higher education, the project will provide loans to a minimum of 25,600 academically qualified but financially needy students. Approximately 70 percent of the beneficiaries will come from middle-low to low-income families. The students are selected using established criteria such as academic background, financial need, area of study, and socioeconomic background. [a,b]
Rural Development in Marginal Areas (IBRD: US\$47 m.)	This project is the first phase of a program to improve smallholders' productivity and food security in six marginal areas, which are among the poorest in the country. About 40,000 poor, small farm households will benefit directly from increased agricultural production and diversification through the enhancement of processing and marketing activities, technical assistance and training, and improved access to local markets. The project will promote the participation of indigenous people who comprise 67 percent of the target population, as well as women who play a key role in agricultural production and family nutrition. [b]
<i>Nicaragua</i> Health Sector Modernization Project (IDA: US\$24 m.)	This project is the first phase of a program to improve the efficiency, effectiveness and equity of the Nicaraguan health system by a) strengthening first-level care and nutrition, b) modernizing the hospital network, c) developing the institutional capacity of the Ministry of Health, and d) supporting social security reform. A pilot program will test the expansion of a network of women's centers to combat the high maternal and perinatal mortality associated with inadequate access to health care services, lack of education and poverty. [a,b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<i>Paraguay</i> Fourth Rural Water Supply and Sanitation Project (IBRD: US\$40 m.)	Water supply and sanitation services will be provided to 330 poor communities, including 35 of the poorest indigenous communities. The expansion of these services will help reduce poverty, increase productivity, and improve health status, particularly of women and children. [b]
<i>Venezuela</i> Environmental Management and Cartography Project (IBRD: US\$28 m.)	General health and living conditions, particularly in poor areas, will be improved through support for the modernization and institutional capacity building of environmental management at the national, state, and municipal levels. Major benefits include improved air quality, reduced water pollution from organic wastes and toxic chemicals, increased access to public information, and awareness of long-term health consequences stemming from broad-based campaigns and community participation. [b]
Middle East and North Africa	
<i>Algeria</i> Low Income Housing Project (IBRD: US\$150 m.)	About 50,000 households in non-serviced, low-income areas, including urban slum residents, will benefit from this project through the provision of affordable subsidized housing and land titles. [b]
<i>Egypt</i> East Delta Agricultural Services Project (IDA: US\$15 m.) Health Sector Reform Program (IDA: US\$90 m.)	Support services will be financed to facilitate the resettlement of 26,000 poor farm families on recently developed areas in the East Delta and to increase their agricultural production. [b] This project will help implement the first phase of the government's long-term Health Sector Reform Program (HSRP) intended to improve the population's health status. The primary health care package and universal coverage initiatives will especially benefit women, children and other disadvantaged groups. [b]
<i>Jordan</i> Community Infrastructure Project (IBRD: US\$30 m.)	Approximately 290,000 people in 27 poor urban settlements and 1.3 million people in approximately 300 municipalities and villages will benefit from the provision of safe access roads, street paving and lighting, drainage systems, potable water supply and sanitation services, and social infrastructure such as schools, health centers, and community and youth centers. Target beneficiaries are the poor living in underdeveloped urban squatter settlements and refugee camps, and low-income municipalities and villages. [b]
Training and Employment Support Project (IBRD: US\$5 m.)	This project will pilot test the demand for and the effectiveness and efficiency of employer-based training. It is supported by a Training Fund which is targeted at the unemployed poor and provides for in-service training for up to six months. Jordanian job seekers will be encouraged to accept jobs currently performed by non-Jordanians, and women will be offered jobs in non-traditional occupations. [a,b]
<i>Lebanon</i> Vocational and Technical Education (VTE) Project (IBRD: US\$63 m.)	Students from lower income families, women, and workers in need of training will benefit from a project designed to increase their access to vocational and technical training, improve its relevance, responsiveness, and quality, and make it affordable for economically disadvantaged groups. [a,b]
<i>Morocco</i> Second Municipal Finance Project (IBRD: US\$70 m.)	The standard of living of about 4 million people living in 90 small and medium-sized communes located in Morocco's underdeveloped areas is expected to improve through the provision of basic infrastructure services (e.g., water supply and sewerage, solid waste, wholesale markets and roads). [b]
Rural Water Supply and Sanitation Project (IBRD: US\$10 m.)	Safe water and sanitation will be provided for approximately 1.3 million rural inhabitants in the poorest provinces, thereby improving their health status and productivity. The construction and rehabilitation of public water points will help reduce the burden of rural girls who are traditionally involved in fetching water over long distances. [b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<i>Yemen</i> The Southern Governorates Rural Development Project (IDA: US\$24.7 m.)	Land allocation and titling, irrigation, farmer services (training, extension services, and provision of credit for equipment and inputs), and off-farm income opportunities, (livestock and fishing development), as well as support for microenterprises, are expected to supplement the means of economic livelihood for about 8,750 very poor rural individuals and their families. About 1,950 very poor landless families will be established in new farming operations, including the provision of land and title. [b]
Seeds and Agricultural Services Project (IDA: US\$12.5 m.)	This project seeks to increase food security and agricultural productivity for about 116,000 rural households, the poorest segment of the Yemeni rural population. It will set up a sustainable system for improving and expanding supply marketing channels for seeds of adapted varieties, fertilizers, and other inputs. [b]
South Asia	
<i>Bangladesh</i> Health and Population Program Project (IDA: US\$250 m.)	The program will increase access to essential services for the poor, lower maternal mortality and morbidity, and further improve child health and family planning. It is expected that 25 million married women and approximately 16 million children below the age of five will benefit from better health, nutrition, hospitals and public health structures. [b]
Primary Education Development Project (IDA: US\$150 m.)	This project supports the government's objectives to improve the quality and management of the school system and to provide universal coverage and equitable access to primary schooling. The latter will be achieved by providing additional classrooms and repairing and rehabilitating schools in the under-served areas. Students from the poorest households will be provided with stationery. [b]
Silk Development Project (IDA: US\$11.4 m.)	The first phase of a long-term program to assist small-scale silk producers, 80 percent of whom are poor rural women, will be supported. Job creation, improved technology, institutional and policy environment will foster the sustainable development of the silk sector. The project will also empower poor rural women to become financially independent by providing training and extension services. [a,b]
<i>Bhutan</i> Second Education Project (IDA: US\$13.7 m.)	Children in the poorest rural regions will benefit from a program aimed at providing full access to basic education. Teacher training, curriculum development, reading programs, and construction and rehabilitation of schools will be financed. The provision of boarding facilities in project schools for grades VII and VIII and the appointment of female teachers will further encourage girls' enrollment. [b]
<i>India</i> Andhra Pradesh Economic Restructuring Project (IBRD: US\$301.3 m., IDA: US\$241.9 m.)	Socially disadvantaged groups and the rural poor will benefit from a) greater access to primary education, particularly for girls, scheduled castes, and scheduled tribe children; b) better primary health care focusing on young children and pregnant and lactating mothers; c) increased access to 250 nutrition centers and services for about 2.1 million direct beneficiaries; and d) upgraded infrastructure, including rural roads, irrigation schemes, and agricultural services. [a,b]
Third District Primary Education Project (DPEP III) (IDA: US\$152 m.)	An estimated 5.5 million primary school children in 17 educationally disadvantaged districts of Bihar will benefit from better access to schools and quality of instruction. The project supports infrastructure investments, teacher training, and improving state and district institutional capacity. Early childhood education centers will be established for children aged 0-6, literacy campaigns targeted at women will be launched, and grants to schools and communities will be provided to purchase supplies. Special attention will be given to the most socially disadvantaged groups including girls, scheduled castes, scheduled tribe children, working children, and children with learning disabilities. [a,b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
Orissa Health Systems Development Project (IDA: US\$76.4 m.)	The allocation and use of health resources will be made more efficient through policy and institutional development, with the objectives of improving the quality, effectiveness and coverage of health services. The project will target the poor, and women, especially those living in remote rural areas. It will also implement a strategy to address the specific needs of tribal populations. [a,b]
Uttar Pradesh Forestry Project (IDA: US\$52.9 m.)	Poor general and scheduled caste villagers and tribal groups living in 1,000 forest fringe village communities and 230 communities in the plains will be the major beneficiaries of a project that is designed to improve access to forest products and grazing, as well as provide funds for improved agriculture and alternative income generating activities. [a,b]
Uttar Pradesh Second Basic Education Project (IDA: US\$59.4 m.)	This project will increase access to elementary education, improve student learning, and enhance the government's management capacity in 10 districts. New schools will be constructed, additional teachers will be trained, learning materials will be distributed, and a new improvement fund will be established. [b]
Women and Child Welfare Project (IDA: US\$300 m.)	The quality and cost-effectiveness of the Integrated Child Development Services (ICDS) program in the states of Kerala, Maharastra, Rajasthan, Tamil Nadu, and Uttar Pradesh will be supported in order to improve the nutrition and health status of pre-school children and women. Poor children aged 0-6 years old will be targeted, with particular emphasis on preventing malnutrition for those under 3 years of age. Child care practices and awareness of health and nutritional needs of poor women and adolescent girls will also be addressed. [a,b]
<i>Nepal</i> Irrigation Sector Project (IDA: US\$79.8 m.)	Infrastructure development, along with associated institutional and operational measures, will ensure reliable and equitable distribution of water. Productivity, job opportunities and farm incomes are expected to increase for about 132,200 small and marginal farmers whose landholdings are less than 1.0 ha and 53,200 medium farmers whose landholdings are 1.0 to 3.0 ha. [b]
<i>Pakistan</i> Northern Education Project (IDA: US\$22.8 m.)	Over one million children in kindergarten to grade 8, living in poor and underserved areas, will benefit from better trained teachers and the rehabilitation and reconstruction of schools. Specific actions will address gender concerns, and community and NGO participation will be encouraged. [b]
Second Social Action Project (SAPP II) (IDA: US\$250 m.)	Following up on the first SAPP launched in 1992, this project seeks to further reform the country's weak social services. It aims to improve the quality of and access to elementary education, primary health care, and rural water supply and sanitation, especially for the urban and rural poor. An important element is building government capacity for planning, monitoring and implementing social service programs, as well as increasing its transparency and governance. [b]
<i>Sri Lanka</i> Second General Education Project (IDA: US\$70.3 m.)	This project will target deprived schools in rural and urban slum areas and will provide facilities and quality inputs to bridge the gap between poor and affluent schools. Over one million students will benefit from the installation of 2,000 new libraries, provision of books, instructional equipment and supplies, curriculum development, and adequate resources for school expenditures. [b]
Sub-Saharan Africa	
<i>Angola</i> Post-Conflict Social Recovery Project (IDA: US\$5 m.)	This project will test a program designed to help war-affected rural communities reintegrate displaced people and revitalize community-level economic and social activities. In line with the needs and priorities expressed by the communities, subprojects under the project's Municipio Recovery Program, to be funded on a grant basis, will seek to reestablish household livelihood and rehabilitate basic community-level social and economic infrastructure. [b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<p><i>Benin</i> Borgou Region Pilot Rural Support Project (IDA: US\$4 m.)</p>	<p>In addition to strengthening the capacity of village communities to design, prepare and implement village development plans, the project will seek to meet the immediate needs of about 450,000 people living in Borgou. The project will promote increased access to services and basic productive and social infrastructure (e.g., storage facilities, rural roads and tracks, water points, wells). Women's groups and Fulani herders will be able to voice their concerns in decision-making processes and investment opportunities. [a,b]</p>
<p>Social Fund Project (IDA: US\$16.7 m.)</p>	<p>The project will finance subprojects that will help increase the poor's access to social services, financial services, and income-earning opportunities. The target population will include poor rural and peri-urban communities, with a emphasis on women and unemployed youth. Local communities will be involved in the design and implementation of subprojects. [a,b]</p>
<p><i>Burkina Faso</i> Second National Agricultural Services Development Project (IDA: US\$41.3 m.)</p>	<p>Smallholder production will be increased through the provision of essential services such as fertilizer, farm chemicals, and improved seeds. The agricultural research system will be reorganized to better meet farmer's needs, and the link between agricultural research and extension will also be strengthened. The project will help empower rural women by sponsoring gender-specific initiatives and literacy programs to ensure the effectiveness of extension programs. [b]</p>
<p><i>Chad</i> Household Energy Project (IDA: US\$5.3 m.)</p>	<p>Using a community-based approach that includes community awareness campaigns, this project aims to improve the living conditions of poor rural and urban households by providing an economical and sustainable supply of energy. [b]</p>
<p><i>Comoros</i> Health Project (IDA: US\$8.4 m.)</p>	<p>Increasing access to quality health services and controlling the exposure to malaria will improve family welfare and lower mortality and morbidity rates, particularly among women and children. Three of the four health facilities to be rehabilitated are on islands where poverty is most prevalent. [b]</p>
<p>Social Fund Project (IDA: US\$11.5 m.)</p>	<p>Employment will be created and access to basic social services will be improved for the country's poorer communities. Funding will be available for demand-driven initiatives developed by local communities to improve essential services. Other subprojects will support the rehabilitation of feeder roads, bridges, markets, and the protection of the environment. [b]</p>
<p><i>Cote d'Ivoire</i> Education and Training Support Project (IDA: US\$53.3 m.)</p>	<p>Given the government's goal for universal primary education by 2010, children not already in school, those at risk (of repetition or drop out) and girls will benefit from greater access to better quality schooling. About 40,000 additional places for primary school children, provision of textbooks, better student-teacher ratio, and reduced gender-bias in the curriculum will be supported. Alternative ways of mitigating the cost of schooling for parents will be piloted. [b]</p>
<p><i>Ethiopia</i> Agricultural Research and Training Project (IDA: US\$60 m.)</p>	<p>Small farmers with holdings of less than two hectares will benefit from a more responsive agricultural research program that will address their priority problems. Women farmworkers will also benefit from improved post-harvest technology and other technologies that will improve efficiency and reduce the drudgery of their farming activities. [b]</p>
<p>Education Sector Development Program (ESDP) (IDA: US\$100 m.)</p>	<p>The restructuring of the education system supported by this project includes incorporating the use of local languages in school curriculum, expanding and improving the quality of primary and vocational education, especially in rural and undeserved areas, and eliminating school fees to reduce the financial burden on parents. Girls will benefit from gender-sensitive curricula and books, more female teachers and gender-appropriate facilities. [b]</p>

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<i>Gambia</i> Participatory Health, Population and Nutrition Project (IDA: US\$18 m.)	About 84 percent of the Gambian population living in rural and peri-urban areas, particularly women of reproductive age and children under 5, will be targeted. This project will improve the quality of reproductive health services (including STI/HIV prevention and control) and infant and child health services, as well as implement a family health program. The community will be involved, particularly in the micronutrient initiative to improve the nutritional status of women and children. [a,b]
<i>Guinea</i> Microfinance Project (IDA: US\$5 m.)	This project will help transform three existing financial institutions operating in rural areas: Crédit Rural, Crédit Mutuel, and Le Programme Intégré pour le Développement de l'Entreprise (PRIDE), from donor-funded development projects into sustainable financial institutions. The project will help facilitate the provision of credit to poor farmers and artisans and will establish a Microfinance Support and Monitoring Unit (MSMU) to provide short-term technical advisory support and supervise the institutions to ensure their effective management. [b]
<i>Guinea-Bissau</i> National Health Development Program (IDA: US\$11.7 m.)	The health status and well-being of the population, particularly those of women and children in poor areas, will be improved by programs to increase the coverage and quality of health services. Resources will be shifted to rural areas to ensure that a minimum package of health care including the provision of pharmaceuticals, medical supplies and health staff reach the poor. Family planning and AIDS prevention programs are also supported. [b]
<i>Madagascar</i> Education Sector Development Project (IDA: US\$65 m.)	Learning outcomes and access to primary and secondary education will be improved in the poorest rural areas through the distribution of textbooks and teaching guides, the provision of adequate infrastructure, furniture and equipment, and staff development. A fund will be set up for the development of higher education, and local communities will be encouraged to participate. [b]
Community Nutrition II Project (IDA: US\$27.6 m.)	The nutritional status of about 1.4 million direct beneficiaries, including 425,000 malnourished children and about 700,000 pregnant and lactating women will be improved. A school nutrition program will provide iron/folate supplements, anti-helminth treatment, and promote good hygiene practices. Information, Education and Communication (IEC) and community mobilization programs together with other community activities, will help ensure the long-term sustainability of nutritional outcomes. [a,b]
Rural Water Supply and Sanitation Project (IDA: US\$17.3 m.)	Better hygiene and sanitation will benefit about 300,000 people in rural areas, contributing to the reduction in morbidity and mortality due to water-related diseases. Women and children will particularly benefit from time saved in the collection of water. [b]
<i>Mali</i> Project to Support Grassroots Initiatives to Fight Hunger and Poverty (IDA: US\$21.5 m.)	To reduce poverty in the most vulnerable communities in Mopti and other regions this project will finance sub-projects that have the highest priority according to the communities, such as the construction of tubewells and classrooms. Emphasis will be given to including women in the village management committee, the key decision-making body at the community level, and also to giving them preference in the selection of village animation agents. [b]
<i>Mauritania</i> Health Sector Investment Project (IDA: US\$24 m.)	Although the overall objective is to improve the health status of the general population, this project focuses on providing accessible and quality health services to the rural poor, women and children. [b]
<i>Niger</i> Transport Infrastructure Rehabilitation Project (IDA: US\$28 m.)	A strategy for rural road maintenance, including the regraveling of 13 earth roads, will be developed to help ease the hardships faced by the poor. [b]

<i>Country and project</i>	<i>Reason(s) for inclusion¹</i>
<p><i>Senegal</i> Integrated Health Sector Development Program (IDA: US\$50 m.)</p>	<p>This program aims to reduce morbidity and mortality, particularly among poor women and children below the age of 5 living in peri-urban slums and rural areas, increase the use of contraceptive methods nationwide, and create more cost-efficient and better managed public health facilities. Project activities include the construction and rehabilitation of health posts in densely populated poor areas and sparsely populated rural areas, the introduction of a new program to control endemic diseases, and the formulation of a strategy to help vulnerable groups (e.g., drug addicts and prostitutes). [a,b]</p>
<p>Urban Development and Decentralization Program (IDA: US\$75 m.)</p>	<p>Low-income urban neighborhoods, which currently face inadequate levels of services and serious environmental risks, will benefit from reduced costs of and better access to municipal services and basic infrastructure. Employment will be generated by investments in public works activities (road, drainage, school and health facilities, markets, etc.). [b]</p>
<p><i>Tanzania</i> Human Resources Development Pilot Project (IDA: US\$20.9 m.)</p>	<p>The project supports a government initiative to implement education sector reforms aimed at raising enrollments and the quality of primary and secondary education and building capacity at the district and community levels to carry out these initiatives. The Community Education Fund will also support parental and community involvement in monitoring school performance. The Girl's Secondary Education Support Fund will give scholarships to girls from poor families who would otherwise not be able to attend secondary school. [a,b]</p>
<p><i>Togo</i> National Agricultural Services Support Project (IDA: US\$26.2 m.)</p>	<p>Agricultural productivity will be increased through an extensive program aimed at achieving food security and increasing exports. It includes improved cultivation techniques, implementation of priority research programs (crop and animal husbandry, improved planting materials, soil and water conservation, post-harvest storage and processing), increased credit access for smallholders and women producers, and the establishment of a Village Development Fund to support community-based infrastructure. [a,b]</p>
<p><i>Uganda</i> Nutrition and Early Childhood Development Project (IDA: US\$34 m.)</p>	<p>Large scale investment in early childhood development for children under six will enhance school readiness, the provision of child care arrangements will provide a safe environment for preschoolers to allow mothers to work, and the promotion of child care practices will help families fostering orphaned children (one in four households) whose parents have died of AIDS. [a,b]</p>
<p><i>Zimbabwe</i> Community Action Project (IDA: US\$60 m.)</p>	<p>The project aims to strengthen the capacity of poor communities to participate in local resource allocation, gain access to social and economic services, and manage natural resource endowments. The target population in subprojects are poorer communities in rural areas, with particular attention given to vulnerable groups (e.g., women, children, landless, elderly, unemployed). The project will operate in 26 (out of 57) rural districts with the lowest basic needs indicators according to the district ranking exercise developed for the project. [a,b]</p>

ANNEX E. POVERTY-FOCUSED SALs AND SECALs, FISCAL 1998

Poverty-focused Adjustment Operations

Adjustment operations support macroeconomic and sectoral policies that promote growth and efficient resource allocation, which are essential for reducing poverty. Some adjustment operations that contain specific poverty reduction measures are referred to as "poverty-focused operations."

An adjustment operation is considered to be poverty-focused if it meets at least one of the three criteria in supporting government efforts to: (i) reallocate public expenditures in favor of the poor; (ii) eliminate distortions and regulations that disadvantage the poor and limit their income-generating opportunities; and/or (iii) support safety nets that protect the most vulnerable members of the population.²

The Bank approved 37 adjustment operations in fiscal 1998. Forty-three percent (16 of 37) of these adjustment operations were classified as poverty-focused. Table E-1 shows the number and amount of lending for Structural Adjustment Loans (SALs), Sector Adjustment Loans (SECALs), and Rehabilitation Import Loans (RILs). Table E-3 presents the number and amount of lending for poverty-focused adjustment operations for fiscal 1992-

Table E-1. Poverty-focused adjustment operations, fiscal 1998

	FY98		
	Total	IDA	IBRD
SAL lending (\$ mil.)	6,315	510	5,805
Number of SALs	12	6	6
SECAL lending (\$ mil.)	910	110	800
Number of SECALs	3	2	1
RIL lending (\$ mil.)	10	10	0
Number of RILs	1	1	0
Total SAL/SECAL/RIL:			
Lending (\$ mil.)	7,235	630	6,605
Number of loans	16	9	7

² In the past, support to poverty monitoring or the development of poverty policies were also included as criteria. These have been dropped. This does not affect comparability with past figures, however, because no operation was ever classified as poverty-focused on either of these two criteria alone.

1998. Table E-4 briefly describes the poverty-focused adjustment operations for fiscal 1998.

Although the share in the number of operations classified as poverty-focused decreased between fiscal 1997 and fiscal 1998, the total amount of Bank lending for poverty-focused operations increased significantly during the same period. Poverty-focused operations as a share of all adjustment operations decreased from 60 percent in fiscal 1997 to 43 percent in fiscal 1998. However, funds going to poverty-focused operations jumped from US\$2.65 billion in fiscal 1997 to US\$7.24 billion, owing to two very large loans to Korea totaling US\$5 billion. For IDA countries only, the volume of poverty-focused adjustment lending decreased slightly from US\$689 million in fiscal 1997 to US\$630 million in fiscal 1998, but the share of poverty-focused lending in total IDA adjustment lending fell dramatically from 73 percent to 47 percent (reflecting a big jump in non-poverty-focused lending, from US\$259 million in fiscal 1997 to US\$724 million in fiscal 1998). The decline in the share of operations classified as poverty-focused for both IBRD and IDA reflects an increase in fiscal 1998 in the number of loans for institutional, private sector, and capital markets development, and balance of payment support that did not include specific poverty-targeted components. Almost half of the non-poverty-focused operations were in Latin America, including four loans to different provinces in Argentina to reform and restore their government institutions.

The regional spread of poverty-focused operations depends on regional priorities, which vary from year to year. Poverty-focused lending in fiscal 1998 was concentrated in the East Asia and Pacific region, where an unprecedented amount of US\$5.3 billion — 74 percent of total poverty-focused adjustment lending — was approved to finance loans in Korea and Malaysia in response to the crisis. The Europe and Central Asia region received US\$1.6 billion for nine operations, and the Africa region received US\$360 million for four operations. Lending to the ECA and Africa regions mirrors the pattern of last fiscal year in that the bulk of fiscal 1997 funds (US\$2.1 billion) went to the Europe and Central Asia region while Sub-Saharan Africa received the remainder (US\$565 million). Nearly all the poverty-focused adjustment loans in fiscal 1998 included safety nets measures, and all the poverty-focused operations in Africa emphasized reallocating expenditures toward the social sectors. The following

three areas represented the main objectives addressed by poverty-focused SALs, SECALs, and RILs in fiscal 1998 (see Table E-2, which indicates the poverty-focused objectives of each operation).

Public expenditure reforms

The majority of poverty-focused operations (10 of 16) will reform public expenditures to benefit the poor in different ways. The Armenia Second Structural Adjustment Credit (IDA) will improve the access to and quality of education and health services for the poor by supporting the government's reallocation of spending away from higher education towards lower levels of education, as well as outlining plans to increase funding for primary health care. Despite a tight fiscal program, the share of allocations for both the education and health sectors was set at no less than 9.3 percent of total current expenditures, and was slated for an increase in the next budget cycle. In Guinea, the Public Expenditures Management Adjustment Credit (IDA) will implement a new approach to managing public expenditures in order to achieve financial sustainability and improve public sector effectiveness in four priority sectors. Public expenditures will be reoriented toward education, health, road maintenance, and support for rural development, which will benefit the majority of the poor. A decentralized, integrated community-based approach to service delivery will be adopted, and a set of sector-specific performance indicators will be monitored to assess the impact of policies on economic performance and poverty reduction. The Education Sector Adjustment Operation (IDA) in Uganda seeks to better expand universal primary education, as well as to ensure better access for the poor, girls, and those living in rural areas by increasing resources to primary education and promoting more efficient use of these resources. Primary education spending is expected to double in real terms between fiscal 1995-1996 and fiscal 1998-1999, with allocations to primary education increasing from 13 percent of total government budget in fiscal 1996/1997 to 18 percent in fiscal 1999/2000. Measures to promote the efficient use of resources include double shift teaching to increase efficiency in teacher and classroom utilization, as well as multi-grade teaching to provide education services to children in remote areas. A system for monitoring the accountability of public funds allocated to districts and schools will be implemented.

Addressing distortions that especially affect the poor

Three poverty-focused operations approved in fiscal 1998 addressed distortions that especially affect the poor. The Third Structural Adjustment Credit (IDA) in Cameroon will support reforming the incentive and

regulatory framework. In the social sectors, regulatory barriers to the provision of health and education in outlying provinces will be removed; the regulatory framework for the import and distribution of essential and generic drugs will be revised; and regulatory barriers that artificially inflate the price of textbooks will be eliminated. The government will facilitate women's access to appropriate technologies at a low cost, as well as eliminate obstacles resulting from lack of access to land and credit. In Korea, the Bank approved two loans in fiscal 1998 to help overcome immediate liquidity problems resulting from the East Asia economic crisis and to lay the foundation for a medium term program of financial and real sector reforms. An unprecedented amount of US\$3.0 billion was provided under the Economic Reconstruction Loan (IBRD) and another US\$2.0 billion was added under the Structural Adjustment Loan (IBRD). Among many initiatives, the first operation will support measures to improve labor market flexibility: bottlenecks to a well-functioning labor market will be addressed, including a rigid employment security program that makes it difficult to shed workers in declining industries, the lack of a legal framework for private provision of temporary manpower leasing services, restrictions on the scope of private job placement services, and strict job security regulations that deter employers from hiring new workers. The second operation will also expand protection for workers working in small firms (fewer than five employees) by extending the coverage of the labor standards act, which grants workers important rights. In addition, regulations that impose high costs on women's employment will be reviewed in order to reduce gender inequalities in the labor market.

Targeted programs and safety nets

All but one poverty-focused operations in fiscal 1998 will support targeted programs and safety nets. The Albania Rehabilitation Credit (IDA) will strengthen the social safety net and support measures to promote employment following the collapse of pyramid schemes that left many households impoverished. To provide adequate and timely payment of social assurance benefits, the government will pay the full amount budgeted for social assistance to local authorities in the form of block grants and will introduce a 10 percent increase in social assistance to poor families in the next budget cycle. Resources will be earmarked for improving welfare institutions that provide care to orphans and the elderly, as well as for employment programs and services that help the unemployed obtain jobs. The Post-Conflict Rehabilitation Credit (IDA) in Tajikistan will strengthen the funding of the social safety net for children and pensioners through the payment of arrears, particularly to offset the war's adverse impact

on the poor and to help increase purchasing power in towns and villages. Under the Public Sector Adjustment Loan (IBRD) in Hungary, low-income pensioners will be protected by new features of the public pension scheme, and a social assistance program will be set up for the elderly poor who do not qualify for a minimum pension. The Economic Recovery and Social Sector Loan in Malaysia (IBRD) will help strengthen the social safety net to mitigate social tensions due to the economic crisis. In

addition to increasing expenditures on major anti-poverty programs (Fund for Food, small-scale loans to the poorest in rural areas for income-generation, improving water supply in the poorest rural areas), safety net programs will be expanded to cover those who have become vulnerable as a result of the recent crisis. Programs include urban micro-credit programs for hawkers, traders, and small entrepreneurs, and provision of special skills training through public and private entities to retrain retrenched workers.

Table E- 2. Poverty-focused components of adjustment operations, fiscal 1998

	Objectives ^a			Tranche release conditions ^e
	Reforming public expenditures ^b	Addressing distortions ^c	Targeted programs ^d	
Fiscal 1998 Poverty-focused adjustment operations				
<i>Structural Adjustment Loans</i>				
Albania: Rehabilitation Credit*	√		√	
Armenia: Second Structural Adjustment Credit*	√		√	√
Azerbaijan - Structural Adjustment Credit*			√	
Cameroon: Third Structural Adjustment Credit*	√	√	√	
Georgia: Structural Adjustment Credit*	√		√	√
Guinea: Public Expenditure Management Adjustment Credit*	√			√
Hungary: Public Sector Adjustment Loan			√	
Kazakhstan: Pension Reform Adjustment Loan			√	√
Korea: Economic Reconstruction Loan		√	√	
Korea: Structural Adjustment Loan	√	√	√	
Malaysia: Economic Recovery and Social Sector Loan	√		√	
Moldova: Second Structural Adjustment Credit and Loan			√	√
<i>Sectoral Adjustment Loans</i>				
Cape Verde: Economic Reforms Support Operation Credit*	√		√	√
Russia: Second Coal Sector Adjustment Loan			√	√
Uganda: Education Sector Adjustment Operation*	√		√	√
<i>Rehabilitation Import Loans</i>				
Tajikistan: Post-Conflict Rehabilitation Credit	√		√	
Total	10	3	15	8

* IDA credit

a. Nine operations in fiscal 1998 also support the collection of data on poverty and the monitoring of the impact of adjustment on the poor: the Azerbaijan Structural Adjustment Credit, the Cape Verde Economic Reforms Support Operation Credit, the Georgia Structural Adjustment Credit, the Guinea Public Expenditure Management Adjustment Credit, the Korea Economic Reconstruction Loan, the Korea Structural Adjustment Loan, the Malaysia Economic Recovery and Social Sector Loan, the Russia Second Coal Sector Adjustment Loan, and the Uganda Education Sector Adjustment Operation.

b. Supports the reallocation of public expenditures towards physical infrastructure and basic social services for the poor.

c. Focuses specifically on reducing distortions that especially disadvantage the poor.

d. Supports programs that provide safety nets or that target specific groups.

e. Contains tranche release conditions related to poverty-focused measures.

Source: World Bank.

Table E- 3. Poverty-focused adjustment lending, fiscal 1992-1998

<i>Lending</i>	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>	<i>FY96</i>	<i>FY97</i>	<i>FY98</i>
Poverty-focused adjustment lending (US\$ millions)	2,838	1,165	1,665	1,648	2,227	2,649	7,235
Total adjustment lending	5,847	5,253	2,868	5,324	4,509	5,086	11,289
Percentage of adjustment lending	49	22	58	31	49	52	64
Total number of poverty-focused adjustment operations	18	6	20	14	17	18	16
Total number of adjustment operations	32	23	28	30	30	30	37
Percentage of poverty-focused adjustment operations	56	26	71	47	57	60	43
IDA Poverty-focused adjustment lending (US\$ millions)	1,168	645	875	598	1,027	689	630
IDA adjustment lending	2,152	1,423	1,998	1,069	1,679	948	1,354
Percentage of IDA adjustment lending	54	45	44	56	61	73	47
Total number of IDA poverty-focused adjustment operations	10	3	11	9	13	9	9
Total number of IDA adjustment operations	16	8	18	15	19	11	17
Percentage of IDA poverty-focused adjustment operations	63	38	61	60	68	82	53

Note: Adjustment operations include SALs, SECALs, RILs, and DRLs. For joint IBRD/IDA operations, the amount of lending is split between IBRD and IDA as stipulated in the loan/credit document, but it is counted only once, as an IBRD operation.

Table E- 4. Poverty-focused SALs and SECALs, fiscal 1998

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
East Asia and the Pacific	
<i>Korea</i>	
Economic Reconstruction Loan (IBRD: US\$3000 m.)	In response to the recent East-Asia economic crisis, this loan supports government efforts to deal with the immediate liquidity crisis, as well as lay the foundation for a medium-term program of broader financial and real sector reforms. Labor market impediments to industrial restructuring will be removed and a program of measures to improve labor market flexibility will be prepared. This will promote redeployment and deregulate private provision of job placement services and manpower leasing services. Measures to ease the social costs of adjustment will include reviewing the adequacy of fiscal expenditures on social safety nets (including unemployment insurance benefits), assessing long-term financial viability of the social security programs, and reporting on the level and distribution of poverty to prepare an appropriate mitigation plan.
Structural Adjustment Loan (IBRD: US\$2000 m.)	This loan builds on the work initiated under the Economic Reconstruction Loan and is part of an internationally coordinated support package for Korea. In addition to helping Korea overcome the immediate liquidity problems and regain investor confidence, the SAL will support a program of wide-ranging and deep reforms aimed at bringing about a major restructuring of the incentive and institutional framework to underpin financial stability and improve efficiency and competitiveness. The loan supports the following programs that will especially benefit disadvantaged groups: a) relaxing legal restriction to improve labor market flexibility and facilitate redeployment; b) increasing worker protection by extending coverage of the Labor Standard Act, which grants important rights to workers in firms with fewer than five employees; c) reducing gender inequalities in the labor market by reviewing regulations that impose high costs on women's employment; d) improving targeting of anti-poverty programs and maintaining the level of real expenditures per beneficiary; e) expanding in real terms the budget allocations to anti-poverty programs; f) improving poverty monitoring; and g) reforming the pension system to provide better security in income support for the elderly, and (h) extending unemployment insurance coverage to firms with 5-10 workers.
<i>Malaysia</i>	
Economic Recovery and Social Sector Loan (IBRD: US\$300 m.)	This operation supports a preemptive reform program to minimize the downturn in economic activity, including the strengthening of social safety nets in order to soften the negative impact of the crisis on lower-income and vulnerable groups. The budget shares for education and health will be protected. To help the hard-core poor and near-poor, public expenditures will be increased to support major anti-poverty programs, including a food program, a rural and urban microcredit program, and a rural water supply program. Assistance will also be provided to small and medium industries to improve productivity and competitiveness.
Europe and Central Asia	
<i>Albania</i>	
Rehabilitation Credit (IDA: US\$25 m.)	Financial support will help reform the banking sector, strengthen the social safety net, and promote employment. To provide adequate and timely payment of social assistance benefits, the government will pay the full amount budgeted for social assistance to local authorities in the form of block grants and will introduce an increase of ten percent for social assistance for poor families in the next budget cycle. Support will also be given to improve welfare institutions for the elderly and orphans. Employment programs and services will be strengthened to help the unemployed obtain stable jobs.

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
<p><i>Armenia</i> Second Structural Adjustment Credit (IDA: US\$60 m.)</p>	<p>The credit will support the government's program to consolidate macroeconomic stability and to lay the foundations for sustained private-sector-led growth over the medium term, as well as measures to improve the targeting of social benefits to vulnerable populations and strengthen the social safety net (including reforms in the public pension system and in the health and education sectors). To ensure that the poor have adequate access to quality education and health services, the government is reallocating spending away from higher education towards general education, and is outlining plans to increase funding for primary health care. The share of appropriations for both the education and health sectors was set at no less than 9.3 percent of total current expenditures and was slated for an increase in the next budget cycle.</p>
<p><i>Azerbaijan</i> Structural Adjustment Credit (IDA: US\$70 m.)</p>	<p>The credit will support the government's effort to liberalize trade, demonopolize and privatize enterprises, reform the banking system, and protect vulnerable groups from utility price increases. The targeting of subsidies under the cash compensation scheme and communal services (electricity, gas, and water) for pensioners and poor households will be improved.</p>
<p><i>Georgia</i> Structural Adjustment Credit (IDA: US\$60 m.)</p>	<p>In addition to supporting programs to strengthen economic recovery, the credit will also support measures to improve the targeting of social benefits. Reforms in health, education, and pension schemes will ensure equitable access to essential services and protect the most vulnerable. Conditions for second tranche release call for the government to increase the share of total public expenditures allocated to health and education in the 1998 budget, adopt a hospital masterplan to determine which hospitals should be privatized, and enact the Law on Private Pensions to address the sustainability and provision of adequate income for the elderly.</p>
<p><i>Hungary</i> Public Sector Adjustment Loan (IBRD: US\$150 m.)</p>	<p>This operation will support the implementation of a comprehensive reform of the pension system. A social assistance program will be set up for the elderly poor who do not qualify for a minimum pension. Low-income pensioners will be protected by new features of the public scheme.</p>
<p><i>Kazakhstan</i> Pension Reform Adjustment Loan (IBRD: US\$300 m.)</p>	<p>Support for pension reforms in Kazakhstan include establishing laws, regulations and institutions to develop a sound private pension system and strengthen the management of existing schemes. A resolution providing for scheduled increases in the minimum pension adjusted for inflation, together with the establishment of old-age allowances, will help ensure sufficient income support for pensioners. A study will be undertaken to measure the adequacy of pensions for different groups of employees and recommend actions to address identified retirement income deficiencies.</p>
<p><i>Moldova</i> Second Structural Adjustment Credit and Loan (IBRD: US\$55 m., IDA: US\$45 m.)</p>	<p>Critical reforms will be undertaken to ensure macroeconomic stability, including land reform, enterprise privatization, energy sector reforms, pension and social protection reforms. These reforms include measures to offset the negative impact on the most vulnerable groups, such as ensuring that arrears to the population are paid promptly, avoiding delays in the payment of pensions, and targeting compensation to the poor and unemployed to mitigate the impact of energy price increases. The introduction of a pension formula affecting contributions and benefit levels will ensure minimum benefit levels to the poorest. Before the third tranche release, target measures to make energy affordable to the poor and vulnerable groups must be in place.</p>

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
<p><i>Russia</i> Second Coal Sector Adjustment Loan (IBRD: US\$800 m.)</p>	<p>This loan extends the Bank's support for restructuring a critical sector of the Russian economy that is still dependent on government subsidies. Because the transition to a more efficient industry can impose hardships on employees of coal enterprises, this operation also supports social safety net programs that will develop the institutional capacity to deliver social benefits in a transparent and equitable manner. Those most affected by the restructuring — redundant coal workers, their families and communities — will be targeted. Before the first floating tranche is released, a report on the social impact of the coal-restructuring program (based on predetermined social indicators) will have to be issued.</p>
<p><i>Tajikistan</i> Post-Conflict Rehabilitation Credit (IDA: US\$10 m.)</p>	<p>The proposed credit will help ease the foreign exchange shortage so that critical imports can be acquired to restore production, employment and consumption in Tajikistan's post-conflict economy. Strengthening the funding of the social safety net for these groups through payment of arrears will partially offset the war's adverse impact on the poor and help increase purchasing power in towns and villages. The government is committed to protect social spending and has allocated over a quarter of the 1998 total expenditures to education, health, and safety net programs.</p>
Sub-Saharan Africa	
<p><i>Cameroon</i> Third Structural Adjustment Credit (IDA: US\$180 m.)</p>	<p>This adjustment program will provide an enabling environment for growth and support initiatives to create jobs and reduce poverty. Sector specific strategies (transport, agro-industries, financial, forestry and social) will address inefficiencies, regulatory barriers, and legislation that inhibit growth and prevent the poor from accessing basic services. Priority will be given to facilitating access and improving the quality of services for the poor, women, children, and the elderly living in underserved areas. Among the key actions proposed are the support for labor-intensive programs to generate employment opportunities and the increase of capital and recurrent expenditures for improving programs in primary health and education.</p>
<p><i>Cape Verde</i> Economic Reforms Support Operation Credit (IDA: US\$30 m.)</p>	<p>Balance of payments will be financed to support the government's adjustment program to promote private sector development by accelerating privatization, further liberalizing the economy and maintaining a stable macroeconomic environment. The credit will support the recycling and retraining of redundant workers, as well as job creation for the unemployed. It will also improve budget allocations for social sectors and welfare programs in order to reduce poverty. To monitor the operation's impact on growth and poverty reduction, a number of indicators such as life expectancy, and pre-natal mortality will be monitored within the framework of quantitative targets for the year 2000. Prior to the second tranche release, there must be satisfactory progress in the implementation of the three-year rolling Public Investment Program (PIP), a public financial management system overseeing budget allocations to social sectors and investments in infrastructure.</p>
<p><i>Guinea</i> Public Expenditure Management Adjustment Credit (PEMAC) (IDA: US\$70 m.)</p>	<p>In order to help Guinea ensure financial sustainability and improve public service effectiveness in sectors that benefit the majority of the poor the credit will reorient public expenditures by increasing non-wage recurrent budget allocation to four priority sectors from 25 percent to 30 percent. Priority areas include primary education, particularly for girls, primary health care, particularly in remote areas, rural development, especially in food security, and the maintenance of rural infrastructure. Conditions for second tranche release call for the disbursement of non-wage recurrent resources of at least GNF 3.8 billion for education, GNF 2 billion each for public health and road maintenance, and GNF 635 million for rural development in the first half of 1998, recruitment of at least 1,600 additional primary school teachers, and expenditure of GNF 5,000 per primary school student on pedagogical materials.</p>

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
<i>Uganda</i> Education Sector Adjustment Operation (IDA: US\$80 m.)	The budgetary support required for the government to implement its Universal Primary Education Policy will be provided, including programs that will make more efficient use of resources, improve the quality of teaching, expand the provision of physical infrastructure, and strengthen sector management. In addition, recent actions to curb the inequity of education subsidies will allow a greater share of government expenditures to be allocated to primary education. Improvement and expansion of the educational system will especially benefit children from the poorest families, girls, and those who traditionally have not been able to attend school. A third tranche release condition includes the implementation of a monitoring system for the accountability of public funds allocated to districts and schools, as well as provision of evidence that randomly selected schools have received shipment of instructional materials.

ANNEX F. POVERTY-FOCUSED ERLS, FISCAL 1998

Emergency Recovery Loans (ERLs) are designed to provide immediate assistance after major calamities such as wars, civil disturbances or natural disasters. They are usually identified, prepared, approved and completed within a short period, normally three years. They are processed and often disbursed quickly. Although considered to be projects and, by convention, included in the Bank's investment lending total, ERLs are different from regular investment operations in objective and format. Some ERLs provide critical balance of payments support and help lay the foundation for implementing economic reforms while others support programs to reform social sector expenditures and safety nets. By the very concept of their design, it is not feasible to

apply the poverty criteria for investment lending to ERLs. By nature, ERLs in fact resemble adjustment more than investment operations; thus, the poverty criteria established for adjustment operations also apply to ERLs. The Bank approved nine Emergency Recovery Loans in fiscal 1998, of which eight were poverty-focused. Five out of eight operations were in direct response to the El Niño event, and financed the reconstruction of public infrastructure, investments in preventive measures, and the resettlement of mostly poor populations from flood-prone areas. Table F-1 presents the number and amount of lending for poverty-focused ERLs for fiscal 1992-1998. Table F-2 describes the poverty-focused ERLs for fiscal 1998.

Table F-1. Poverty-focused ERL lending, fiscal 1992-1998

<i>Lending</i>	FY92	FY93	FY94	FY95	FY96	FY97	FY98
Poverty-focused ERL lending (US\$ millions)	16	285	13	0	100	98	316
Total ERL lending	316	840.2	387.1	240	110	170.6	516
Percentage of total ERL lending	5	34	3	0	91	57	61
Total number of poverty-focused ERLs	1	1	1	0	1	5	8
Total number of ERLs	3	8	3	4	3	8	9
Percentage of poverty-focused ERLs	33	13	33	0	33	63	89
IDA Poverty-focused ERL lending (US\$ millions)	16	0	13	0	0	98	101
IDA ERL lending	316	142	259	90	10	171	101
Percentage of IDA ERL lending	5	0	5	0	0	57	100
Total number of IDA poverty-focused ERLs	1	0	1	0	0	5	5
Total number of IDA ERLs	3	3	2	2	2	8	5
Percentage of IDA poverty-focused ERLs	33	0	50	0	0	63	100

Table F-2. Poverty-focused ERLs, fiscal 1998

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
East Asia and the Pacific	
<i>China</i> Hebei Earthquake Rehabilitation Project (IDA: US\$28 m.)	Assistance will be provided to an estimated 250,000 earthquake victims, most of whom are poor, to repair or reconstruct their homes, schools, drinking water facilities and health centers. The construction of grain storage facilities and the installation of wells and small sprinkler irrigation systems will help restore productive economic activities.
<i>Papua New Guinea</i> El Nino Drought Response Project (IBRD: US\$5 m.)	This operation will mitigate the hardships suffered by smallholders hardest hit by the drought by improving the supply of rural potable water to the neediest areas and developing infrastructure maintenance programs with full participation of rural communities. Employment will be generated through labor-intensive rural public works projects to help protect the living standards of villagers. Assistance to women's groups in health awareness, education, and management of village water will be provided.
Europe and Central Asia	
<i>Bosnia and Herzegovina</i> Emergency Natural Gas System Reconstruction Project (IDA: US\$10 m.)	This operation will help post-war reconstruction efforts to rebuild infrastructure facilities and restore safe and reliable gas supply to people living in Sarajevo and other towns, many of whom are very poor and living in temporary shelters. This will include replacing home made heating and cooking devices of low-income families with simple wall heaters and plate cookers, thereby ensuring safety and reducing environmental pollution.
<i>Tajikistan</i> Post-Conflict Emergency Reconstruction Project (IDA: US\$10 m.)	In support of the government's Peace Agreement, this project will help reintegrate communities that were cut off and marginalized by the war into the national economy. This will be accomplished through targeted programs for reconstructing physical and social infrastructure and emergency support to jump-start agriculture production. War-damaged roads, bridges, schools, and health care facilities will be reconstructed.
Latin America & the Caribbean	
<i>Bolivia</i> El Nino Emergency Assistance Project (IDA: US\$25 m.)	It is estimated that about 600,000 persons were affected by the drought, and another 350,000 person by severe flood conditions as a result of the recent El Niño weather phenomenon. Widespread damage to infrastructure and losses in agricultural production has exacerbated the socio-economic situation in a country that already has very high levels of poverty. This project will reconstruct public infrastructure facilities (e.g., roads, health posts, schools, irrigation systems); regenerate productive capacity in drought areas (e.g., drilling, wells, rehabilitation of irrigation systems, procurement and distribution of seeds); finance flood-preventive works (e.g., building dikes, cleaning storm drains) and drought-mitigation works (installing pumps, building dams); and strengthening institutions to plan and manage emergency response.
<i>Ecuador</i> El Nino Emergency Recovery Project (IBRD: US\$60 m.)	Assistance will be provided to people who were adversely affected by the El Niño weather phenomenon. Financing for subprojects will help rebuild public infrastructure damaged by recent floods, invest in flood preventive measures, and support the resettlement of people from high-risk flood areas. Special assistance will be provided to poor families, especially when the head of those households are women or ethnic minorities. Reconstruction subprojects will be designed to have high labor content in order to provide more employment opportunities for rural laborers. The capability of the government to forecast and respond to future natural disasters will be strengthened.

<i>Loan or credit</i>	<i>Poverty-related objectives</i>
<p><i>Peru</i> El Niño Emergency Assistance Project (IBRD: US\$150 m.)</p>	<p>This operation will help minimize the loss of human life and damage to economic infrastructure resulting from the El Niño weather phenomenon. It will be implemented in three phases: a) a prevention phase (flood protection and drought mitigation), b) an emergency phase (emergency provisions during flood disasters), and c) a reconstruction phase (reconstruction of public infrastructure, resettlement of families in flood prone areas, and labor-intensive rural works program).</p>
Sub-Saharan Africa	
<p><i>Uganda</i> El Nino Emergency Road Repair Project (IDA: US\$28 m.)</p>	<p>Investments to restore key road and bridge infrastructure facilities severely damaged by floods from the El Niño weather pattern will reestablish the flow of goods and services countrywide. Project activities involving the Atiak-Moyo road of Northern Uganda will significantly improve accessibility to one of the more remote and poverty-stricken regions of the country.</p>

ANNEX G. ANNUAL LENDING TO SELECTED SECTORS, FISCAL 1998

While all World Bank lending is intended to help reduce poverty, lending to certain sectors supports the efforts of governments to reduce poverty more directly. The human capital development, agriculture, water supply and sanitation sectors contain a higher percentage of projects with elements that directly target the poor. As shown in Figure G-1, average lending for human capital development increased more than seven-fold in dollar terms between the early 1980s and fiscal 1998. The share of total Bank lending to these sectors increased from an average of 5 percent during fiscal 1981-1983 to an average of 21 percent during fiscal 1996-1998 (for IDA, the share increased from 8 percent to 31 percent) (see Table G-1). In recent years, the share of lending to the human capital development sectors increased from an average of 17 percent of total lending between fiscal 1993-

1995 to 21 percent between fiscal 1996-1998.

Within the human capital development sector, there has been a steady increase in the volume of lending allocated to population, health, and nutrition, and social protection. Although the volume of lending to the education sector has fluctuated slightly, the overall trend shows about a three-fold increase between fiscal 1981-1998.

Between fiscal 1993-1995 and fiscal 1996-1998, the share of lending to the agricultural and rural development and water and sanitation sectors dropped from an average of 13 percent to 12 percent and from an average of 5 percent to 3 percent respectively. Table G-2 provides data for these selected sectors on an annual basis for the last seven fiscal years.

Figure G-1. Trends in lending for human capital development, fiscal 1981-1998

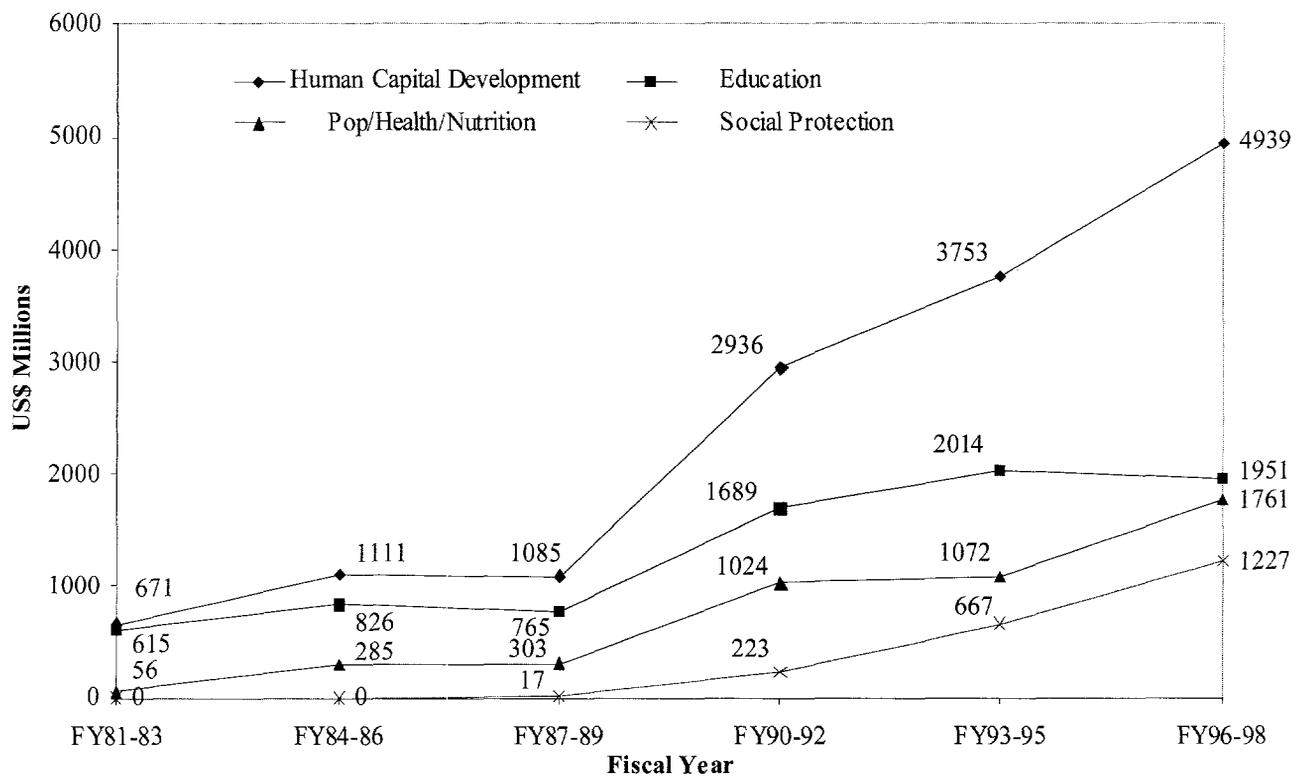


Table G-1. Average lending to selected sectors, fiscal 1981-1998

	<i>FY81-83</i>	<i>FY84-86</i>	<i>FY87-89</i>	<i>FY90-92</i>	<i>FY93-95</i>	<i>FY96-98</i>
World Bank (IBRD and IDA)						
lending						
<i>(US\$ millions)</i>						
Human capital development	670.7	1,110.6	1,085.2	2,935.8	3,753.1	4,938.9
Education	615.0	826.1	765.2	1,688.6	2,014.2	1,950.8
Population, health, and nutrition	55.6	284.5	303.0	1,024.3	1,071.8	1,761.4
Social protection ^a	n/a	n/a	17.0	222.9	667.1	1,226.7
Agriculture	3,583.9	3,942.0	3,649.6	3,210.9	2,861.0	2,780.9
Water supply and sanitation	595.6	686.1	758.6	965.3	1,080.2	615.2
Total	13,261.3	15,408.5	19,420.5	21,697.6	22,351.2	23,031.0
As share of total (percent)						
Human capital development	5	7	6	14	17	21
Agriculture	27	26	19	15	13	12
Water supply and sanitation	4	4	4	4	5	3
IDA lending						
<i>(US\$ millions)</i>						
Human capital development	267.5	450.6	471.9	1,464.1	1,737.6	1,958.6
Education	240.6	298.1	308.2	748.3	787.0	747.2
Population, health, and nutrition	40.5	152.5	146.7	545.2	570.5	877.2
Social protection ^a	n/a	n/a	17.0	170.6	380.1	334.2
Agriculture	1,242.1	1,281.8	1,362.3	1,435.8	1,318.7	1,026.0
Water supply and sanitation	107.4	110.5	175.1	321.3	269.3	165.8
Total	3,169.7	3,247.7	4,292.7	6,121.7	6,337.6	6,331.2
As share of total (percent)						
Human Capital Development	8	14	11	24	27	31
Agriculture	39	39	32	23	21	16
Water supply and sanitation	3	3	4	5	4	3

Note: The data are for average annual lending during the three-year period indicated. The World Bank's fiscal year runs from July 1 of the previous year to June 30 of the year indicated. Three-year moving averages have been reported since the first Progress Report on Poverty in fiscal 1992 to smooth out year-to-year fluctuations. Because of a recent sector reclassification of projects, some numbers may differ from those reported in earlier tables. Note that these sectors do not account for all poverty-focused lending; projects in such sectors as urban development and transport also have components designed to help reduce poverty.

a. Social protection lending includes employment, social assistance, social insurance, and social investment funds.

Table G-2. Annual lending to selected sectors, fiscal 1992-1998

<i>Bank Lending (US\$ millions)</i>	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>	<i>FY96</i>	<i>FY97</i>	<i>FY98</i>
World Bank (IBRD and IDA)							
lending							
<i>(US\$ millions)</i>							
Human capital development	2,715.4	3,814.3	3,241.0	4,204.1	5,053.6	3,327.5	6,435.7
Education	1,666.5	1,871.2	2,119.2	2,052.2	1,705.7	1,017.4	3,129.3
Population, health and nutrition	922.1	1,228.6	885.7	1,101.2	2,353.4	939.9	1,990.9
Social protection ^a	126.8	714.5	236.1	1,050.7	994.5	1,370.2	1,315.5
Agriculture	3,209.9	2,825.8	3,551.8	2,205.3	2,078.9	3,546.5	2,717.4
Water supply and sanitation	786.4	1,283.9	975.2	981.5	609.8	682.8	552.9
Total	21,705.7	23,695.9	20,836.0	22,521.8	21,352.2	19,146.7	28,594.0
As share of total (percent)							
Human capital development	13	16	16	19	24	17	23
Agriculture	15	12	17	10	10	19	10
Water supply and sanitation	4	5	5	4	3	4	2
IDA lending							
<i>(US\$ millions)</i>							
Human capital development	1,297.8	2,139.5	1,245.1	1,828.2	2,197.6	1,015.7	2,662.5
Education	561.3	970.2	619.3	771.6	784.9	255.1	1,201.5
Population, health and nutrition	615.1	541.8	519.7	649.9	858.2	694.1	1,079.4
Social protection ^a	121.4	627.5	106.1	406.7	554.5	66.5	381.6
Agriculture	1,219.2	1,084.0	1,520.0	1,352.0	1,105.1	735.9	1,236.9
Water supply and sanitation	297.4	395.4	103.2	309.2	80.7	302.4	114.3
Total	6,549.7	6,751.4	6,592.1	5,669.2	6,864.1	4,621.8	7,507.8
As share of total (percent)							
Human capital development	20	32	19	32	32	22	35
Agriculture	19	16	23	24	16	16	16
Water supply and sanitation	5	6	2	5	1	7	2

Note: The World Bank's fiscal year runs from July 1 of the previous year to June 30 of the year indicated. These sectors do not account for all poverty-focused lending; projects in such sectors as urban development and transport also have components designed to help reduce poverty. See *World Bank Annual Report 1998* for further details on sector lending. Because of a recent sector reclassification of projects, some numbers may differ from those reported in earlier tables.

a. Social protection lending includes employment, social assistance, social insurance, and social investment funds.

References

- Ahuja, Vinod, B. Bidani, F. Ferreira, and M. Walton. 1997. *Everyone's Miracle? Revisiting Poverty and Inequality in East Asia*. Washington, D.C.: World Bank.
- Bamberger, Michael, ed. Forthcoming. *Integrating Quantitative and Qualitative Research In Development Projects*. A Directions in Development book. Washington, D.C.: World Bank.
- Blejer, Mario, and Isabel Guerrero. 1990. "The Impact of Macroeconomic Policies on Income Distribution: An Empirical Study of the Philippines." *Review of Economics and Statistics* 72 (August): 414–23.
- Booth, David, Jeremy Holland, Jesko Hentschel, Peter Lanjouw, and Alicia Herbert. 1998. *Participatory and Combined Methods in African Poverty Assessments: Renewing the Agenda*. London: Department for International Development.
- Bourguignon, François, and Christian Morrisson. 1992. *Adjustment and Equity in Developing Countries*. Development Centre Studies. Paris: Organisation for Economic Co-operation and Development.
- Blackden, C. Mark, and Chitra Bhanu. 1999. "Gender, Growth, and Poverty Reduction: 1998 Status Report on Poverty for the Special Program of Assistance for Africa." World Bank Technical Paper 428. Washington, D.C.: World Bank.
- Braithwaite, Jeanine. 1998. "Poverty in Russia during the Transition: An Overview." In Jeni Klugman, ed., *Poverty in Russia: Public Policy and Private Responses*. Economic Development Institute Development Study. Washington, D.C.: World Bank.
- Demery, Lionel, and Michael Walton. 1998. *Are Poverty Reduction and Other 21st Century Social Goals Attainable?* Washington, D.C.: World Bank.
- DAC/OECD (Development Assistance Committee of the Organisation for Economic Co-operation and Development). 1996. *Shaping the 21st Century*. Paris: Organisation for Economic Co-operation and Development. [<http://www.oecd.org/dac/Indicators/htm/backgrd.html>].
- Dudwick, Nora. 1998. "Participatory Poverty Assessments in ECA: A Review." World Bank, Environmentally and Socially Sustainable Development Sector Unit, Washington, D.C.
- Ezemenari, Kene, Anders Rudqvist, and K. Subbarao. 1998. "Impact Evaluation: A Note on Concepts and Methods." World Bank, Poverty Division, Washington, D.C.
- Fajnzylber, Pablo, Daniel Lederman, and Norman Loyaza. 1998. "What Causes Violent Crime?" World Bank, Office of the Chief Economist, Latin American and Caribbean region, Washington, D.C.
- Ferreira, Francisco. 1995. *The Dynamic Impact of Expenditure Reduction on Income Distribution in a Dual Economy*. Economics Department, London School of Economics, London.
- Ferreira, Francisco, and Louise Keely. 1998. "The World Bank and the Process of Structural Adjustment: The 1980s and 1990s." World Bank, Poverty Division, Washington, D.C.
- Ferreira, Francisco, and Julie Litchfield. 1998. "Education or Inflation? The Roles of Structural Factors and Macroeconomic Instability in Explaining Brazilian Inequality in the 1980s." DARP 41. London School of Economics and STICERD, London.
- Hicks, Norman. 1998. "Measuring the Poverty Impact of Projects in LAC." Latin America and Caribbean Quality Enhancement Series. World Bank, Latin America and Caribbean Region, Washington, D.C.
- Hentschel, Jesko. 1998. "Distinguishing between Types of Data and Methods of Collecting Them." Policy Research Working Paper 1914. World Bank, Poverty Reduction and Economic Management Network, Poverty Division, Washington, D.C.
- Jayarajah, Carl, William Branson, and Binayak Sen. 1996. *Social Dimensions of Adjustment: World Bank Experience, 1980–93*. Operations Evaluations Study. Washington, D.C.: World Bank.

- Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh*. New York: Oxford University Press.
- Kozel, Valerie, and Barbara Parker. 1998. "Poverty in Rural India: The Contribution of Qualitative Research in Poverty Analysis." World Bank, Poverty Reduction and Economic Management Sector Unit, Washington, D.C.
- Lustig, Nora, ed. 1995. *Coping with Austerity: Poverty and Inequality in Latin America*. Washington, D.C.: Brookings Institutions.
- Manuelyan Atinc, Tamar, and Michael Walton. 1998. *Social Consequences of the East Asian Financial Crisis*. Washington D.C.: World Bank. [<http://www.worldbank.org/poverty>].
- Narayan, Deepa, and Lant Pritchett. 1997. "Cents and Sociability: Household Income and Social Capital in Rural Tanzania." Policy Research Working Paper 1796. World Bank, Social Development and Development Research Group, Poverty and Human Resources, Washington, D.C.
- Norton, Andrew, and Thomas Stephens. 1995. "Participation in Poverty Assessments." Environment Department Papers 020. World Bank, Environment Department, Washington, D.C.
- Operations Evaluation Department. 1994. "An Overview of Monitoring and Evaluation in the World Bank." World Bank, Washington, D.C.
- . 1996. "Poverty Assessment: A Progress Review. Report 15881." World Bank, Washington, D.C.
- Ravallion, Martin. 1999. "Protecting the Poor in a Crisis— and Beyond." PREMnote 12. World Bank, Poverty Reduction and Economic Management Network, Safety Nets Thematic Group, Washington, D.C.
- . Forthcoming. "Appraising Workfare." *World Bank Research Observer*.
- Ravallion, Martin, and Shaohua Chen. 1996. "What Can New Survey Data Tell Us about Recent Changes in Living Standards in Developing and Transitional Economies?" World Bank, Policy Research Department, Development Research Group, Washington, D.C.
- Ravallion, Martin, and Jyotsna Jalan. 1998a. "Are There Dynamic Gains from Poor Area Development Programs?" *Journal of Public Economics* 67 (1): 65–85.
- . 1998b. "Transfer Benefits to the Poor from Workfare: A Matching Estimate for Argentina." World Bank, Development Research Group, Washington, D.C.
- Robb, Caroline M. 1998. "Social Impacts of the East Asia Crisis: Perceptions from Poor Communities." Paper prepared for the East Asian Crisis Workshop, Institute of Development Studies, University of Sussex, Sussex, United Kingdom.
- . Forthcoming. *Can the Poor Influence Policy? Participatory Assessments in the Developing World*. Washington, D.C.: World Bank.
- Salmen Lawrence F. 1995. "Participatory Poverty Assessments: Incorporating Poor People's Perspectives in Poverty Assessment Work." Environment Department Paper 024. World Bank, Environment Department, Washington, D.C.
- Sechrist, L., and S. Sedani. 1995. "Quantitative and Qualitative Methods: Is There an Alternative?" *Evaluation and Program Planning* 18: 77–87.
- SMERU (Social Monitoring and Early Response Unit). 1999. "Social Impact of the Indonesia Crisis: New Data and Policy Implications." Jakarta, Indonesia. [<http://www.smeru.or.id>].
- Subbarao, K., K. Ezemenari, J. Randa, and G. Rubio. 1998. "Impact Evaluation in FY98 Bank Projects: A Review." World Bank, Poverty Division, Washington, D.C.
- World Bank. 1990. *World Development Report 1990: Poverty*. New York: Oxford University Press
- . 1991. *Assistance Strategies to Reduce Poverty*. World Bank Policy Paper. Washington, D.C.: World Bank.
- . 1993. *Poverty Reduction and the World Bank: Progress in Fiscal 1992*. Washington, D.C.: World Bank.
- . 1994. *Poverty Reduction and the World Bank: Progress in Fiscal 1993*. Washington, D.C.: World Bank.
- . 1995a. *Poverty Reduction and the World Bank: Progress in Fiscal 1994*. Washington, D.C.: World Bank.
- . 1995b. *World Development Report 1995: Workers in an Integrating World*. New York: Oxford University Press.
- . 1996a. *Poverty Reduction and the World Bank: Progress and Challenges in the 1990s*. Washington, D.C.: World Bank.
- . 1996b. *Taking Action for Poverty Reduction in Sub-Saharan Africa: Report of an Africa Region Task Force*. Human Resources and Poverty Division, Africa Technical Department. Washington, D.C.: World Bank.
- . 1997. "Strategic Compact." World Bank, Washington, D.C. [<http://www.worldbank.org/html/extdr/backgrd/ibrd/comsum.html>].
- . 1998a. "Africa Region: Review of Impact Evaluation, FY94 and FY98 Projects." World Bank, Africa Region, Washington, D.C.
- . 1998b. *Assessing Aid: What Works, What Doesn't, and Why*. Policy Research Report, Washington, D.C.: World Bank. [<http://www.worldbank.org/research/aid/>].
- . 1998c. *Global Economic Prospects and Developing Countries 1998/99: Beyond Financial Crisis*. Washington, D.C.: World Bank. [<http://www.worldbank.org/prospects/gep98-99/appx1/index.html>].

- . 1998d. "Monitoring Poverty Impacts: Review of Selected Bank Projects in South Asia." World Bank, South Asia Region, Washington, D.C.
- . 1998e. *Poverty Reduction in the World Bank: Progress in Fiscal 1996 and 1997*. Washington, D.C.: World Bank. [http://www.worldbank.org/html/extdr/pov_red/default.htm].
- . 1998f. *World Development Indicators 1998*. Washington, D.C.: World Bank. [<http://www.worldbank.org/wdi>].



THE WORLD BANK

1818 H Street, N.W.

Washington, D.C. 20433 USA

Telephone: 202-477-1234

Facsimile: 202-477-6391

Telex: MCI 64145 WORLDBANK

MCI 248423 WORLDBANK

World Wide Web: <http://www.worldbank.org/>

E-mail: books@worldbank.org



ISBN 0-8213-4384-X