Halving world poverty by 2015

economic growth, equity and security

Strategies for achieving the international development targets
The international development targets

Economic well-being
- a reduction by one-half in the proportion of people living in extreme poverty by 2015.

Social and human development
- universal primary education in all countries by 2015;
- demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005;
- a reduction by two-thirds in the mortality rates for infants and children under age 5 by 2015;
- a reduction by three-fourths in maternal mortality by 2015;
- access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015.

Environmental sustainability and regeneration
- the implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

While not amenable to quantification, there is a range of qualitative elements of development that are essential to the attainment of the quantitative goals. These include democratic accountability, the protection of human rights and the rule of law.
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Strategies for achieving the international development targets
The Department for International Development (DFID) is the British government department responsible for promoting development and the reduction of poverty. The government elected in May 1997 increased its commitment to development by strengthening the department and increasing its budget.

The policy of the government was set out in the White Paper on International Development, published in November 1997. The central focus of the policy is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to encourage progress which will help reduce poverty. We also work with multilateral institutions including the World Bank, United Nations agencies and the European Commission. The bulk of our assistance is concentrated on the poorest countries in Asia and sub-Saharan Africa.

We are also contributing to poverty elimination and sustainable development in middle income countries, and helping the transition countries in Central and Eastern Europe to try to ensure that the widest number of people benefit from the process of change.

As well as its headquarters in London and East Kilbride, DFID has offices in New Delhi, Bangkok, Dhaka, Kathmandu, Nairobi, Dar-es-Salaam, Kampala, Harare, Pretoria, Suva and Bridgetown. In other parts of the world, DFID works through staff based in British embassies and high commissions.
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This paper was produced within DFID by a team led by Peter Grant and Rachel Turner and including Peter Dearden, Roger Edmunds, Frances Harper and Arjan de Haan. Inputs also came from Nick Amin, Catherine Cameron, Susanna Moorehead, Martin Surr, John Roberts and David Wright. It was revised by Richard Moberly. The work was directed by Alan Coverdale and steered by a larger group including representatives from DFID’s Regional Divisions and International Division.
This paper is one of a set. Together, they spell out actions which could transform the lives of hundreds of millions of poor people and make the planet a better and safer place for our children and grandchildren. They say what needs to be done to achieve key targets for international development.

These International Development Targets have been agreed by the entire United Nations membership, following a series of summit meetings held by the UN and its specialised agencies over the past ten years or so. The meetings discussed progress in poverty reduction and sustainable development and set targets for measuring that progress.

In the past, targets have often been set and then disregarded. This time, however, the international community is giving them greater weight. In 1996, all the main Western donor countries, grouped together in the Organisation for Economic Co-operation and Development (OECD), committed themselves to a partnership with developing countries and countries in transition from centrally planned economies. The success of this partnership would be measured against key targets from the UN summits. In the following year, the new UK Government made these targets the centrepiece of its 1997 White Paper on International Development. More recently the World Bank and the International Monetary Fund (IMF) decided to co-ordinate their development efforts behind the targets. These targets are listed on the inside front cover.

Neither the United Kingdom nor any other individual donor country can achieve the targets alone. The targets are challenging, some particularly so. But if, by working together, we can increase the effectiveness of the international community, our assessment is that these targets are achievable for developing and transition countries as a group by the target date, or soon after in some cases, even though they may not be achieved in each region or country individually. It is clear that each developing country must lead the effort if the targets are to be achieved. If this commitment is lacking, civil society institutions need to press their governments to take action as, without a local lead, progress cannot be achieved. The international community, in turn, must provide support for those governments committed to the reforms which are necessary to achieve the targets. Most countries should be able to register very considerable progress towards meeting the targets by the due dates.

This paper is about improving the economic well-being of poor people. It addresses the International Development Target of halving the proportion of people living in absolute poverty by 2015. It concentrates on economic aspects of poverty and shows how economic growth, equity and security are the fundamental requirements for poverty reduction. It develops a strategy for achieving the target and highlights the role of the international community. It has strong links to the other papers in this series since economic outcomes depend critically on progress in health, education, governance, the environment and other areas, and will themselves have an impact on the affordability and sustainability of measures pursued to achieve the other targets.

Targets need to be used intelligently. They cannot capture the full richness and complexity of individual and collective transformation that makes for sustainable development. Individual countries should select and debate, in normal democratic ways, their own measures of achievement. But regular public assessment of how countries, as a group and by region, are performing against a simple standard is essential, in order to focus development assistance on achieving real outputs. Doing so will show what works and what does not, will provide accountability for the efforts being made in the name of development, and will give impetus to extending basic life opportunities that should be available to all.

Targets also need to be grounded in reality. For this, we should not underestimate the value of good statistics. The political debate in Britain was strongly influenced by 19th and early 20th century surveys documenting the reality of grinding poverty in our own society. A similar effort of political will is needed in many developing and transition countries if they are to give sufficient emphasis to the needs of their own poor people. Better quality and more accessible information on people’s standards of living is one essential element in creating that will. Much work is needed to improve the collection of reliable and comparable data, and to strengthen local statistical capacity.

These papers do not attempt to provide detailed plans; they will follow, country by country and institution by institution, from discussions with developing countries and the relevant institutions. Many detailed proposals for action in pursuit of the targets are published, or soon will be, as Country and Institutional Strategy Papers. Our bilateral programmes are being reshaped. We are also encouraging the multilateral development institutions in the same direction. One example of this is the policy of the International Development Association – the concessional lending arm of the World Bank – which following its
Twelfth Replenishment now focuses on poverty elimination in the context of the International Development Targets. Another example is the enhanced Heavily Indebted Poor Countries Debt Initiative, agreed at the IMF and World Bank in September 1999, which has started to deliver faster, deeper and broader debt relief to countries committed to eradicating poverty. The G8 Summit in Okinawa endorsed the targets and asked for annual reports on progress.

We must also take advantage of the increased wealth being generated by “globalisation”, to help achieve the International Development Targets. In November 2000, the UK Government will publish a second White Paper on International Development, focusing on managing the process of globalisation to the benefit of poor people.

This paper and the others in the collection assess the challenge and set out an overall approach and strategy for our involvement in achieving the development targets in a clear, focused and realistic way. Each reflects a process of consultation in the United Kingdom and overseas.

I hope that you will find them a valuable statement of what the UK Government will do and how the United Kingdom seeks to use its influence to make a reality of the targets, to which we and the rest of the United Nations membership are committed. We stand ready to be judged against our delivery of this strategy. And the whole development community – governments, international agencies, civil society organisations – should be judged collectively against delivery of the targets.

CLARE SHORT
Secretary of State for International Development
Halving the proportion of people in developing countries living in extreme poverty by 2015 is the focus of this paper. The paper concentrates on the economic aspects of poverty reduction and sets out a strategy for achieving increased economic well-being for poor people. It is complementary to the other papers in this series that focus on the full range of International Development Targets.

Target statement (Section 1)
Reducing the proportion of people living below a dollar a day from 30% to 15% of the developing world’s population between 1990 and 2015 will require reducing the expected number of poor people by around one billion. Poor people live primarily in three regions: South Asia (45%), sub-Saharan Africa (24%) and East Asia (22%). Sub-Saharan Africa is the region which has the greatest percentage of its population in poverty and also the greatest depth of poverty. Progress has been made in reducing poverty during the 1990s, most notably in China between 1993 and 1996, but in many regions the numbers of poor people have continued to rise. The paper focuses on income poverty in absolute terms, but also highlights the importance of poor people’s own wider experience of poverty, including food security, unemployment, housing, water and vulnerability as particular concerns.

The challenge (Section 2)
There are three fundamental requirements for achieving the target: growth, equity and security. The core message of the paper is that the livelihoods of poor people must be at the centre of any strategy for poverty reduction. Growth is essential for poverty reduction. An increase in per capita growth will be required to achieve the target in all regions other than East Asia and the Pacific. Growth will depend on a continuation of market based policies which promote investment in the context of low inflation and effective macro-economic management. For many governments, this will mean continued commitment to programmes of economic reform and market liberalisation. Well-functioning markets require a strong foundation of effective governance and institutions which perform predictably and have low levels of corruption. Public policy must complement private enterprise. The agricultural sector is highlighted as particularly important in achieving poverty reduction through growth.

Globalisation creates significant opportunities for poor people. Open economies grow faster than closed economies. This benefits poor people, and does not systematically increase inequality. But complementary public policies are required to ensure that poor people are protected from adverse shocks and adjustment costs and benefit from the opportunities created. The international community has a vital role in supporting capacity development to enable developing countries to participate more effectively in global trade and financial negotiations.

Recent research highlights the importance of income inequality for poverty reduction. Countries with more equal income distribution are able to convert a given level of growth into greater poverty reduction. There is also evidence that reduced income inequality is good for growth. Addressing micro-level market failures can improve equity and efficiency. Historically, improvements in income inequality have generally been slow, but more rapid increases in income inequality have occurred, particularly in transition countries. These have been damaging to poverty reduction.

For long-term, sustainable poverty reduction, poor people must be able to participate more effectively in growth, utilising their own assets and capabilities. This is especially true in societies where poor people make up a major proportion of the overall population. Changing the pattern of growth is difficult, but can be achieved by tackling the inequalities of opportunity that prevent poor people from contributing to growth. These include access to education, health, information, transport and financial services. Over the long term, this will reduce income inequality. Direct measures to redistribute income and assets can, in some circumstances, also reduce income inequality, notably through land tenure reform and pro-poor public expenditure strategies.

Physical and economic vulnerability often drive people into poverty and threaten the sustainability of their exit from poverty. There are important links between conflict and poverty. Other shocks including poor health, crop failure and market price fluctuations can also threaten vulnerable livelihoods. Increased security is an important part of any poverty reduction strategy. Governments and communities share the responsibility for protecting the vulnerable and assisting those unable to participate in the market.

Experience to date (Section 3)
The primary source of pro-poor growth will be the private sector, and particularly poor people themselves.
Executive summary

But the role of the public sector is vital at both national and international levels. Key lessons have been learnt from past experience of successful poverty reduction. It is important for the state to create a legal and regulatory framework for private sector enterprise and to maintain a commitment to pro-poor economic reform. The pattern of public expenditure and taxation can have a significant impact on poverty reduction and special measures may be needed to address the needs of those who are not able to participate in the market.

Lessons for the international community centre around the global policy framework and the need for a co-ordinated international approach. It is important to consider the impact of all global policies on poor people, and particularly those in the areas of trade, investment, financial regulation, the environment and debt. There have been significant movements towards a more co-ordinated approach between international organisations and bilateral donors over the past few years, but more needs to be done to improve the effectiveness of overall concessional flows and to reduce the administrative burden on developing country governments. There is also need to increase the volume of concessional flows which have fallen drastically in real terms over the past decade.

Meeting the challenge (Section 4)

Improved diagnosis of the causes of poverty needs to be linked to the development of nationally-led poverty reduction strategies. It is only by understanding the characteristics of poor people, and the patterns of growth within the economy, that an effective poverty reduction strategy can be developed. Strategic responses will depend in part on the balance between existing growth and inequality within a society, and different strategies are highlighted for different groups of countries. Further research is needed to develop and monitor poverty reduction programmes. Within countries, there is need for wide debate of poverty reduction strategies, empowerment of poor people to participate in these processes and the development of broad political alliances to ensure the sustainability of poverty reduction initiatives.

The paper develops eight priorities for action at the national and global levels. It stresses the importance of governments pursuing pro-poor growth policies, using resources well and enabling markets to work better for the poor. It recommends the empowerment of households and communities to allow them to claim their rights and influence more of the factors that affect their lives. It highlights the need for special attention to ensure that transfers and social protection reach the poorest. At the global level, it emphasises the importance of a positive policy environment, increased resources for development and improved protection against the impact of shocks for the poorest countries.

Priorities for DFID (Section 5)

Having outlined an action programme for the international community as a whole, the paper considers DFID’s role within this. It notes the strength of DFID’s commitment to pro-poor growth and the coherence provided by the International Development Targets. DFID will work to apply the lessons and action points from this paper and continue to work with developing countries and multilateral institutions in promoting poverty reduction world-wide. The UK is committing increasing public resources to development and has an important role within the European Union in promoting poverty concerns across a broad range of social and economic policies including development assistance and trade. The paper outlines specific actions for DFID under the eight priority areas identified for the international community. DFID will participate fully in new initiatives to develop integrated poverty reduction strategies. Other actions will include improved analysis and policy development, bringing poverty reduction to the centre of global negotiations and designing direct assistance programmes to maximise poverty reduction impact, including micro-finance, skills development, and private sector support.

Measuring progress (Section 6)

The target will need to be monitored and action is needed on data collection and analysis both for the main target and the supporting indicators. It will be necessary to strengthen statistical capacity in poor countries. Continued lesson-learning will be important as further progress is made towards reaching the target in 2015.
1. Target statement

What is the target?

1.1 The economic well-being target is to reduce by half the proportion of people in developing countries living in extreme poverty by 2015. The base year is 1990, when 1.3 billion people were living in extreme poverty. This was about a quarter of the world’s population, or almost 30% of the people living in developing countries.

1.2 The key indicator of achievement is the proportion of people living below a ‘poverty line’ of US$1 per day. This is a measure of absolute poverty defined in terms of per capita consumption, calculated primarily from household surveys. This is useful as a global indicator, but at country level national poverty lines are a more important benchmark.

1.3 Achieving the target requires reducing the proportion of the population of developing countries that is living in poverty from 30% in 1990 to 15% by 2015. The population of developing countries is projected to grow to about 6.2 billion people over this period, which means that the expected number of people below the poverty line needs to be reduced by almost a billion. Even if the target is achieved, it will still leave an estimated 0.9 billion people living in poverty. A second target will be needed after 2015 to move further towards poverty elimination.

1.4 Three supporting indicators have been agreed by the international community:

- the poverty gap, indicating how far people are below the poverty line as well as the numbers of poor people;
- income inequality, defined as the income or expenditure of the poorest 20% of the population as a percentage of total national income; and
- child malnutrition: the prevalence of under-weight, under-five children.

1.5 Progress on these indicators will provide evidence that the economic well-being of poor people is improving. The indicators will be disaggregated by gender when data allows. An international effort is underway to improve the capacity of developing countries to monitor progress towards the target. The World Bank will be producing aggregate poverty figures every three years, but information will only be available with a considerable lag and it will be important to monitor trends.

Box 1: Why is the dollar-a-day measure being used?
The International Development Target for economic well-being is a practical measure of absolute poverty. It is based on an average of national poverty lines in poor countries, which reflect people’s ability to afford a diet sufficient to meet minimal nutritional requirements. A woman whose family is below the dollar-a-day line is unlikely to be able to eat sufficiently or feed her children adequately, let alone be able to send them to school or afford essential medical care. It thus represents an internationally agreed operational method of identifying the number of people who by any standard have unacceptably low incomes.

What will be required?

1.6 There are three fundamental requirements for achieving the target.

Economic growth – First, economies must grow fast enough to reduce poverty. This requires sustainable economic growth at a rate substantially higher than population growth. Economic growth will be driven primarily by private sector activity. Without growth the poverty reduction target will not be achieved, but it is not enough on its own.

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1 Measured in 1993 purchasing power parity prices (PPPs). PPPs are defined as the number of units of a country’s currency required to purchase the same amount of goods and services as one dollar would in the United States. It is an attempt to remove the distorting effect of imperfect exchange rates, and create proper comparisons of living standards.

2 Consumption is the preferred measure rather than income because it is less variable. This is because people save in good times and draw down their savings in times of stress. However, some dollar-per-day measurements are based on income.

3 The poverty gap index is the mean distance below the poverty line where the mean is taken over the whole population, counting the non-poor as having a zero poverty gap. Or, it is the percentage of the population below the poverty line (‘the incidence of poverty’) multiplied by the ‘depth’ of poverty, defined as the difference between the poverty line and the average income of people below the poverty line, expressed as a fraction of the poverty line.

4 Defined as the number of children with a weight-for-age ratio of more than two standard deviations below the median weight for the healthy reference population expressed as a percentage of the total under-five child population.
Equity — Second, economic growth must be pro-poor. It must include the poor by maximising their opportunities and by utilising their skills, time and physical resources. Poor people require improved access to health, education, markets and assets. Through this, they will be enabled to contribute to economic growth and benefit from increased national income.

Security — Third, the vulnerability of poor people to shocks needs to be reduced. Events such as conflict, ill-health, bad weather or economic downturns can drive poor people deeper into poverty. Resources are also needed to allow affordable transfers at family, community and national levels to those unable to participate in the market.

The target is a global one. Given the numbers of poor people in Asia, particularly in India and China, it could be achieved even if poverty were not to improve in other parts of the world such as Africa. But the principle guiding this strategy is that there should be progress towards the target in all the countries and regions of the developing world.

1.7 Poor people are heavily concentrated in certain regions. The largest proportion of the world’s poor is in South Asia (45%), followed by sub-Saharan Africa (24%), and East Asia (22%). Only 6% of poor people live in Latin America.

1.8 The percentage of people living in poverty shows a different pattern, with sub-Saharan Africa and South Asia being the regions where the greatest percentage of the population live in poverty (48% and 42% respectively). East Asia (15%) and Latin America (16%) have lower proportions of people in poverty.

Figure 1: Population living in poverty (million)†

Figure 2: Poverty headcount index (%)†
The poverty gap index is mean distance below the poverty line, where the mean is taken over the whole population, counting the non-poor as having zero poverty gap.

The intensity of poverty, as measured by the poverty gap index, is most severe in sub-Saharan Africa (see Figure 3). While the focus on the International Development Target might suggest a strategy of focusing on those closest to the poverty line, we aim to reduce poverty for all poor people, while recognising that reaching the poorest of the poor is often very difficult.

How do poor people experience poverty?

The aggregate numbers are striking but cannot describe what it is like to live in poverty. Consultations with poor people emphasise the multidimensional and dynamic nature of poverty. People in rural areas are primarily concerned about food security and lack of work, whereas in urban areas poor people place more emphasis on the quality of work opportunities, unsanitary housing, lack of access to water and violence. The lack of access to a particular material asset, most often good quality land for agriculture and housing, is central to many descriptions of what it is like to be poor. Poor people perceive that unemployment, underemployment and vulnerable occupations are often linked to an absence of basic infrastructure and services to support their livelihoods. Physical health is vital to obtain work and generate income, while education generates options for future generations.

The household is crucial for poor people. It is at the centre of a complex network of social relationships which provide support, particularly in times of shock, but it can also mask poverty differentials between men, women and children. Gender discrimination is an important factor determining income poverty and is covered in more depth in a separate paper in this series. Different stages of life present different livelihood issues within the household. Childhood, marriage practices, relationships within marriage, female-headed households, widowhood and old age are all related to particular kinds of vulnerability. Within a wider context, the community provides the source of livelihoods and security, non-material support and transfers to those who are not able to participate in the market. This community can be a neighbourhood, a village or a wider geographical network of kin or family.

Trends in poverty reduction

Between 1990 and 1996, the proportion of people living in poverty in developing countries as a whole decreased from 29% to 24%, which gives grounds for optimism that poverty proportions can be reduced. But the numbers of poor people increased in all regions except East Asia, the Middle East and North Africa. Much of the favourable performance to date has been due to China, but future progress will depend critically on South Asia. There is concern that despite recent growth, especially in India, poverty does not appear to be falling in line with rising overall income levels as rapidly as in the past.

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5Brock (1999).
**Box 2: Gender inequality**

“Poverty has a woman’s face” – 70% of the world’s poor are female. Share of national income provides a rough measure of economic inequality between women and men. The figure below is drawn from the 1999 United Nations Development Programme (UNDP) Gender-related Development Index and shows that in all cases women have a significantly lower share of national income than men. On average women’s share of GDP in developing countries is less than 50% of men’s.

Lack of income is only one aspect of poverty, which also consists of lack of access to services and opportunities for human development, lack of a voice in political life and decision-making, and social subordination and exclusion.

All poor people experience these deficits, but in almost all cases women and girls suffer from them to a greater degree than men.

There is a growing and compelling body of evidence that shows that not only do women bear the brunt of poverty but also that greater gender equality is a central precondition for its elimination. The evidence suggests that as well as directly reducing the poverty suffered by women, greater gender equality contributes to higher growth.

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**1.13** There are considerable threats to the achievement of the target. The Asian financial crisis and the world economic slow-down that followed have had an impact, particularly over the past three years. Other threats include conflict, AIDS and natural disasters. In sub-Saharan Africa, the population living on less than a dollar a day increased by about 20% between 1990 and 1996, and there is still no evidence of consistent improvement throughout the continent. Instead, Africa demonstrates a wide dispersion between encouraging examples where poverty has fallen, and many countries where poverty has worsened during the last decade. In the transition economies, poverty has also increased substantially.

**1.14** The location and age structures of poor people are changing. The movement of poor people to cities and towns, although creating many problems, should provide greater opportunities for them to benefit from both formal and informal employment generated by manufacturing and service sector growth. By 2015, about half of developing country populations will live in urban areas, which will be producing well over two-thirds of national income. People in rural areas will still, on average, be poorer than those in cities, but the cities will contain an increasing proportion of total poor people.

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9 Blackden and Bhan (1999).
11 A separate paper in this series Meeting the urban challenge looks in more depth at the increasing levels of urban poverty.
Box 3: Poverty is embedded in social structures

Poverty is deeply embedded in social structures which exclude the poor. Social exclusion can be understood as those processes of discrimination which deprive people of their human rights and result in inequitable and fragmented societies. Institutionalised racism in South Africa was responsible for extreme inequality in income and land. Other cases of social exclusion in Africa have led to civil war. Gender discrimination is the most common form of discrimination worldwide, leading also to reductions in levels of economic growth. Practices and ideologies associated with caste in India limit the access of groups of people not only to ritual functions but also to political structures, basic services, and opportunities to improve their well-being. The Kinh ethnic group in Vietnam has a much lower poverty rate than almost all other groups, and poverty incidence among non-Han in China is at least double the Han level, both suggesting that social/ethnic factors matter in people’s chances to improve well-being. In many cases, forms of deprivation overlap, which leads to greater disparities; a girl of scheduled caste in particular poor rural areas of India being at one extreme of the scale.

1.15 Falling fertility is likely to have a positive impact on growth and poverty reduction, and demographic changes will have important implications. The proportion of children and young people among the developing world’s population will fall from 42% at present to 36% in 2015, but a disproportionate number of them will be poor. Achieving the target means not only enhancing the income earning opportunities of people who are already economically active, but making sure that children and young people face much better livelihood opportunities in the future. At the same time, the population in developing countries is ageing. As a consequence, an increasing number of the world’s poor will be old people.

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13Falling fertility had a considerable impact on economic growth in East Asia, and is now expected to have a favourable impact in Africa; see White (2000).
14Heslop (1999).
2. The Challenge

Growth is essential

2.1 Economic growth is essential for poverty reduction. The progress that has been made in reducing the proportion of people living in poverty has been the result of economic growth raising incomes generally, including those of poor people. Even when income inequality has worsened with high growth, the negative effect on the poor has generally been more than outweighed by the positive impact of growth. This has raised the absolute level of income of the poor. Furthermore, the suggestion that economic growth systematically makes poor people relatively worse off by widening inequalities is not supported by the evidence. In recent decades, economic growth has on average been as likely to reduce income inequality as increase it.

2.2 Table 1 provides estimates of how fast different regions’ GDP/capita will need to grow over the period 2000-2015 to meet the target and compares this with historical achievements. Forecasting the growth required is not straightforward. The underlying relationship between growth and poverty is complex and may change over time, for example in response to changes in policies which include the poor in growth, or to environmental degradation caused by intense usage of natural resources. But forecasting can give some indication of the magnitude of growth needed.

2.3 Another analysis in the World Bank’s Global Economic Prospects 2000 projects poverty from 1998 to 2008 based on two alternative growth and equity scenarios. Under a scenario of low growth and rising inequality, the poverty rate falls from 24.0% in 1998 to 21.9% in 2008. Under a scenario of higher growth and no change in inequality the rate falls to 12.4%. However, this latter scenario is very optimistic.

2.4 The broad conclusion from both these analyses is that achieving the target will be feasible for some countries (notably for China and India) providing that they can maintain current growth rates and do not experience worsening income inequality. For the world in aggregate, given the dominance of these countries in the numbers of poor people, it may therefore be possible to achieve the target. For some regions, however, achieving the target will require a significant acceleration in economic growth. The challenge for sub-Saharan Africa, represented by the difference between the required and historical growth rates, is particularly striking.

Promoting growth

2.5 The key challenge for poverty reduction is how best to promote sustainable broad-based growth in per capita incomes. The market economy, when properly regulated, is the most effective environment for achieving growth and sustainably reducing poverty. Growth in this context depends on productive investment. Much

Table 1: Growth rates required to halve proportion of poor by 2015

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>5.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>2.8</td>
<td>0.1</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>3.5</td>
<td>5.4</td>
</tr>
<tr>
<td>South Asia</td>
<td>3.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>7.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Eastern Europe and Central Asia</td>
<td>3.8</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: Hanmer and Naschold (2000) based on cross section estimates of elasticity. The figure shows a ‘worst case’ based on existing policy stance.

15 See, for example, Goudie and Ladd (1999). The relationship between growth and poverty reduction has been studied extensively. A recent study (Dollar and Kraay 2000) based on observations from 80 countries over four decades finds a roughly one-to-one relationship between overall growth in per capita GDP and percentage changes in the incomes of the poorest 20% of the population.


17 Recent evidence indicates that growth in China continues to be translated into poverty reduction. Data for India demonstrates rapid growth but more limited poverty impact.
The challenge

Box 4: Unpacking pro-poor growth

Pro-poor growth is built on productive usage of the assets of the poor and opening up access to markets. It is often equated with labour intensive growth on the assumption that the chief asset available to the poor is labour. But this needs to be disaggregated to explain how growth can create new jobs for those with surplus labour and how it can improve labour productivity for those whose labour is constrained by time. Different strategies are needed for the rural landless, smallholders, women with binding time constraints, informal sector workers and those with jobs. The challenge of operationalising pro-poor growth is carefully to identify — in specific country circumstances — the assets and, hence, the various sources of income of the economically active poor and to identify the cultural, social and economic constraints which prevent them from making full use of existing assets or expanding their asset base. Poor people typically engage in a diverse range of economic activity — production, trade, selling their labour and migrating seasonally or longer term to where economic opportunities call them. Gender analysis is likely to be important as women are often excluded from the opportunities provided by economic growth. It is important not just to describe the approach practically but to use this understanding of the livelihood strategies of the poor to raise the profile of pro-poor growth with decision-makers in developing countries and make better use of evidence of impact in advocating policy and institutional change.

Entrepreneurs in searching out technical innovations, new market opportunities and more efficient production methods. Entrepreneurs and the owners of enterprises small and large must have the freedom and the incentive to innovate and to expand.

2.6 Throughout the developing world, few poor people have salaried, institutional employment. Instead, they depend overwhelmingly upon earnings from occasional, low-paid wage labour, self-employment from

Box 5: Lessons from East Asia

The countries of East Asia have witnessed the most rapid reduction in poverty ever. Between 1975 and 1995, the proportion of their population in poverty fell from 57% to 21%, and the number of people in poverty fell from 717 million to 346 million. The Asian financial crisis of 1997 has interrupted this process but has not reversed it. How was this massive poverty reduction achieved? Although the experience varied from country to country, and between periods in any particular country, the general features which underlay this success were as follows:

Firstly, these countries grew fast. They achieved high levels of savings and investment. They opened their economies to new investors, and diversified their export markets.

Secondly, they made efficient use of resources. Product and factor markets were generally kept flexible and market driven. Outside investors were welcomed and new technology was embraced.

Thirdly, they are relatively equal societies: much more so than Latin America or sub-Saharan Africa. In some cases (Korea/Taiwan), there were deliberate policies to redistribute assets through land reform. This allowed a large proportion of the population to participate in the growth process.

Fourthly, they allowed the rural sector, where the majority of poverty was concentrated, to participate in the growth process. Terms of trade were kept favourable to the agricultural sector, and agricultural markets were liberalised.

Fifthly, they invested to share the benefits of their economic growth more widely. Investments in education enabled workers to seek enhanced economic opportunities. Health investment reduced the burden of disease and agricultural research facilitated rural growth.

Sixthly, they avoided foreign exchange constraints by aggressively pursuing opportunities to increase their export orientation by keeping their currencies competitive and by minimising anti-export bias.

Finally, politicians generally avoided the temptation to meddle in the microeconomic management of the economy.

18World Bank (1997).
The challenge

Micro-enterprises, or employment in small and medium-scale enterprises. The World Bank’s recent “Consultation with the Poor”
19 corroborates this view, finding that poor people often escape from poverty through self-employment and entrepreneurship.

2.7 Investment is promoted by effective macroeconomic management, characterised by low inflation. Investment thrives where there is stable and accountable government, transparency and low levels of corruption, effective institutions and a secure legal environment. In addition, governments need to liberalise markets, move out of activities best undertaken in the private sector and institute effective regulation. For many countries this will mean continued commitment to a programme of structural and economic reform. Countries which have not put the basic macroeconomic framework in place have not achieved sustained positive growth rates. For those that have done this there have been highly variable outcomes for growth and poverty. Low inflation has been pro-poor, but the allocation of government expenditure, even when social sector expenditure has been protected, has often favoured better-off groups. The design of reform programmes funded by multilateral donors has improved over time, but continuing attention must be given to highlighting the direct and indirect impact of reform measures on poor groups.

2.8 The poor benefit from growth, but even if they benefit more than proportionately, there will, inevitably, be some of the poor (and some of the non-poor) who will face adjustment costs. It is important that policy helps to facilitate the adjustment of those poor people who lose out from economic change, with safety nets and other forms of social protection.

2.9 Public policy-makers may face constraints in implementing some pro-poor actions in the short term in order to foster the economic growth which will reduce poverty more sustainably in the longer term. Some examples of this are:

■ low rates of taxation on profits and incomes tend to foster enterprise and investment, but limit government’s ability to mobilise resources to spend immediately on poverty-reducing programmes;

■ budgetary policy should be prudent in order to maintain economic stability and to bolster business confidence, again limiting immediate expenditure on pro-poor programmes; and

■ competition between enterprises inevitably creates victims among those which are out-competed; public

Box 6: Basic services and infrastructure for poor people

Basic services (such as water supply, power, transport and communication), together with the related infrastructure which is necessary for these to be extensive and efficient, are essential to national growth. They also make vital contributions to people’s lives.

Poor and vulnerable people usually have very limited access to these key services which are essential for sustaining even basic livelihoods. In rural situations, poor people often suffer because of the remoteness and low quality of services. This increases the cost of their access to markets and livelihood opportunities to an extent which is often prohibitive. In the urban context, poor people do not have sufficient income to afford basic services, even where these are available. Either way, the opportunities for poor people to improve their livelihoods are severely restricted, and the scope for coping with stress is very limited.

Both the public and private sectors can have important roles to play in the provision of basic services. An appropriate legal, institutional and regulatory environment is essential if these services are to reach poor people. Key measures to improve the effectiveness of services and to give poor people better access to them include:

■ establishing appropriate legislative and fiscal environments to encourage the participation of the private sector in service delivery and related infrastructure provision;

■ building the management capacity in both private and public sectors;

■ securing the recurrent budget to reduce inefficiencies in the delivery of infrastructure-based services;

■ developing effective regulation to ensure that services are delivered cost effectively and equitably in accordance with policies for poverty reduction; and

■ raising awareness of win-win opportunities such as waste reduction, and opportunities to increase efficiency.

policy should accept that jobs will be lost, and should concentrate on facilitating the redeployment of redundant workers and affordable social protection.

2.10 The focus of pro-poor policy lies in ensuring opportunities for all, and, in particular, in improving the opportunities for advancement of women and other disadvantaged groups. Some of the most important capabilities and endowments which poor people need to be able to take advantage of opportunities in a growing market economy are:

- basic education and basic skills – to help poor people to be more productive in their present, or alternative, occupations;
- water and good health;
- personal mobility, and transport access for their farms and enterprises;
- communications facilities and information about market and job opportunities; and
- financial services to support savings and investment.

2.11 This reaffirms that economic outcomes are strongly linked to actions taken to achieve the other International Development Targets for health, education, water, the environment and gender equality.

2.12 In looking at the linkages between growth and poverty reduction, it is important to stress the importance of the structure of growth. In most developing countries, the majority of poor people live in rural areas, although this is likely to change over the longer term with increasing urbanisation. Agricultural sector growth can often provide direct benefits for poor people, and can also be important in generating off-farm employment. It is important that policy does not discriminate against sectors, particularly agriculture, that are critical for the poor. Poverty reduction in East Asia has not just been about foreign investment and industrialisation, but about rising farm incomes and increased agricultural output. This success has to be qualified by the concerns over the environmental sustainability of some of the development in the region. The key to rapid poverty reduction in India appears to be linked to ensuring that enhanced industrial and service sector growth, especially in the urban areas, is matched by increases in rural productivity and incomes. Further progress in China may depend on agricultural liberalisation and allowing farmers access to export markets for higher value products.

Box 7: Poverty reduction in China and Vietnam

China is widely recognised for its achievements in reducing poverty. Overall economic growth has been central. Both over time and across provinces, growth in per capita GDP has been closely associated with the pace of poverty reduction. Official estimates indicate that rural poverty declined from roughly 260 million people in 1978 to 42 million in 1998, or from about 33% to about 5% of total rural population. A key reform was the dismantling of the people’s communes and the leasing of land to families: reductions in rural poverty have been greatest where modern inputs have most enhanced rural productivity, whilst most of the residual poor have remained trapped in more remote upland areas where agricultural productivity gains have proved difficult to achieve and access to markets has been more problematic. But inequality has risen rapidly, particularly between poorer rural and better-off urban areas. An important challenge for the future is reducing the rigid urban-rural divide that has characterised China.

In Vietnam it is estimated that in the mid-1980s 70% of people were living in poverty. A little more than a decade later – a decade of rapid economic growth – the incidence of poverty has halved. The gains in poverty reduction have been largely due to rapid growth and agricultural diversification. Since the late 1980s, when Vietnam introduced economic renovation and restructuring policies, the economy has grown quickly (8.4% p.a. 1992-98). Key policies have reformed the agricultural sector, prices, the macroeconomy, the financial sector, and state enterprises, coupled with increased integration with the international economy. There has been a small increase in inequality in Vietnam over the 1993-98 period, but inequality is still moderate by international standards.

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20Ravallion and Datt (1996).
21Measured by the Government of China’s ‘austere poverty line’.
Box 8: Africa

Africa will need considerably higher growth than in the past to reach the target. Income inequality in Africa is only slightly lower than in Latin America, which is the region with the highest income inequality in the world. Mass poverty in many countries in Africa means that poor people have to be included in growth if the target is to be met. Progress in reducing poverty varies considerably by country, but very few countries show a consistent downward trend. Between 1990 and 1996, the proportion of people in poverty rose slightly and the number of people in poverty increased by almost 20%. Shocks, including the conflicts and export price fluctuations experienced in Africa, have the capacity to throw economies off track. There is evidence that gender inequalities in education have reduced growth and these need to be addressed. The demographic transition has started in most African countries but this will not be enough to make a significant difference to GDP/capita in the short term. Dependency ratios are higher than in the rest of the world (including South Asia) and are increasing as a result of AIDS deaths. Large numbers of the poor are not significantly involved in markets, even at the local level, and cannot improve their economic well-being through markets. Africa’s comparative advantage is likely to be based on primary products. But the current low levels of manufactured exports suggest that there may nonetheless be some scope for increasing exports of manufactures. In spite of stated commitments to poverty reduction from many African governments, few have taken steps to put in place an adequate policy framework.

Globalisation with equity

Trade

2.13 Empirical analysis shows that greater trade openness contributes to higher economic growth\(^22\). World trade in the 1990s has been growing three times as fast as output, and for poor countries this presents a major opportunity for economic growth.

2.14 The impact of trade liberalisation on poverty is more complex, but there is no doubt that by boosting growth it can make a major contribution to the reduction of poverty, or that it forms an essential part of a comprehensive strategy for tackling poverty. The East Asian countries showed, prior to the financial crisis of 1997, how export-oriented growth was an important part of the strategy that made dramatic inroads into income poverty. In 1975 some 57% of their population was in poverty. By the mid 1990s, after two decades or more of rapid export growth, their headcount rate of poverty was 21%.

2.15 Arguments that trade liberalisation increases poverty are not supported by the evidence. Because of the complexity of the methodological issues and the paucity of reliable data, studies of the impact of trade openness on inequality and poverty need to be interpreted with some caution. Recent cross-country analysis shows that the poor benefit equally from the growth generated by trade openness\(^23\).

2.16 The circumstances of each country are different and the precise impact of any particular trade liberalisation measure on the poor will, of course, be complex. Policies for greater trade openness need to be fully integrated into a comprehensive poverty reduction strategy that enables the poor to benefit from liberalisation.

Investment

2.17 A key feature of globalisation has been the dramatic increase in private financial flows across national boundaries, including to developing countries\(^24\). Private capital flows to developing countries increased from US$ 42 billion in 1992 to US $ 268 billion in 1998 – almost five times the level of official flows\(^25\). While domestic investment remains the most important source of investment in developing countries, private capital flows provide an important additional source of investment, contributing to faster economic growth.

2.18 Foreign direct investment (FDI) is the largest component (64%) of these capital flows. In addition to providing additional investment resources, it often brings access to new technology, management skills and markets. There is evidence that FDI improves productivity growth and exports\(^26\).

\(^{22}\)McKay et al (1999).
\(^{23}\)Dollar and Kraay (2000).
\(^{26}\)Blomström and Kokko (1997).
The challenge

2.19 The extent to which capital inflows can actually promote pro-poor growth varies. The more advanced developing countries have succeeded in capturing a growing share of world-wide FDI. But not all countries have benefited, and many of the poorest, with weak legal and regulatory systems, remain dependent on concessional flows. Although, in the past, much FDI was associated with capital intensive extractive industry with little direct livelihood gain, there are now opportunities for much stronger linkages. For developing countries as whole, only 5% of FDI in 1997 was concentrated in the primary sector\textsuperscript{27} and a recent report by the United Nations Conference on Trade and Development (UNCTAD)\textsuperscript{28} also suggests that FDI in Africa is no longer concentrated in the primary sector.

2.20 The Asian financial crisis has provided a reminder of the dangers which financial liberalisation can bring. Portfolio flows, while providing investment resources, have proved to be much more volatile than FDI. This has had significant economic costs and has had a direct impact on poverty. The Asian crisis demonstrated very clearly the need for strong regulation and action against corruption and cronyism in open economies.

Adjusting to Globalisation

2.21 Initial factor endowments will have a strong influence on the growth path followed. A supportive policy environment tailored to the circumstances of each country is important. Globalisation requires economies to adjust. In the short or medium term, the livelihoods of people active in sectors or enterprises which have to compete in expanded markets may be vulnerable, but in the longer term these costs are greatly offset by the increased growth of sectors with a comparative advantage. While it is not possible to generalise about the magnitude and persistence of adjustment costs, nor about which groups are likely to be most vulnerable, the adjustment process is likely to be quicker in economies with more efficient and flexible markets, with a supportive climate for private sector investment and higher levels of skills.

2.22 Globalisation presents enormous opportunities for poverty reduction. But within developing countries, barriers to participation, low skills and inequalities of opportunity may prevent the poor from contributing to trade-led growth and may make it harder for them to adjust to the changing economic environment. The key challenge is to address these constraints in order to ensure that globalisation is a major driver of global poverty reduction. Public policy should prepare poor people, and provide physical infrastructure, to enable them to meet new challenges and to seize new opportunities. But it should also pay particular attention to facilitating the process of adjustment in the case of those people who are adversely affected and ensuring that it does not lead to permanent erosion of key assets of the poor.

Figure 4: Share of foreign direct investment inflows to developing countries by sector, 1997

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Services</td>
<td>41%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>50%</td>
</tr>
<tr>
<td>Primary</td>
<td>5%</td>
</tr>
<tr>
<td>Unspecified</td>
<td>4%</td>
</tr>
</tbody>
</table>


\textsuperscript{27}UNCTAD (1999) World Trade Report.
The rate of skills growth is a key factor in determining the extent to which poor countries (and the poor within those countries) can capture a growing share of trade by increasing manufactured and services exports. Skill levels will need to rise, underpinned by enhanced investment in basic education, so that poorer countries can develop comparative advantage in the faster-growing sectors of world trade. Strategies to improve skill levels need to address women’s training to ensure that they are not trapped in low skill, low pay sectors.29

Many developing countries will find it hard to achieve a rapid rise in the skill levels of their workers, relative to workers of rich countries30, and the comparative advantage of most African countries is likely to remain in natural resource based products for the next few decades. South Asia’s comparative advantage is likely to be in labour intensive manufactures. However, there is great potential for raising absolute levels of exports, which are now very low. In 1995, the total exports of Africa’s 550 million people were about the same as those of Malaysia’s 20 million, while South Asia’s 1.2 billion people exported less than Thailand’s 60 million. In both regions, trade and investment policies have already been made more open and the key to achieving large increases in exports probably now lies mainly in addressing supply side constraints, for example, through improving transport and communications and reducing the risks of investment.

In the future, economies will be increasingly ‘knowledge-based’, and the costs of long-distance communications will continue to decline. Developing countries will have opportunities to be increasingly integrated into the global economy by the electronic media and the Internet. Many more countries will thereby have access to hitherto remote external markets for their services. New areas of comparative advantage will be open to people endowed with the relevant skills living in developing countries which have enabling policies and institutions. But there is also the risk of increased marginalisation if opportunities are not taken, unless action is taken to embrace reform and new trading and technological opportunities.

A rules-based international trade and investment system offers significant gains to smaller countries and companies who would suffer in an unregulated market.

Further trade negotiations at the World Trade Organisation (WTO) will be a key opportunity for developing countries to maximise their benefits from global trade. It is vital that poor countries engage in the wide range of international negotiations that have significant potential impact upon them, and that they have the capacity to do so. Research also plays a vital role in highlighting the impact of potential developments in the global system and the relative priority of key objectives for developing countries to pursue.

Box 9: The Asian crisis
The dramatic success of the East Asian countries in reducing poverty was stalled by the 1997 financial crisis. The first estimates of numbers thrown into poverty were huge, but later indications are that the incomes of the rich may have suffered proportionately more than those of the poor. According to recent data reported by the World Bank, poverty incidences in Indonesia increased from 11% in 1997 to 20% in 1998 (using national poverty lines) and from 11% to 13% in Thailand. The latest data also suggests a return to long-term growth, with the crisis having pushed back progress in poverty reduction by about four years.

Low income inequality makes it easier to achieve the target

Some level of income inequality is inevitable within a market economy. However, the International Development Target is focused on reducing levels of absolute poverty, and as such does not imply any particular distribution of income. Growth, in almost all circumstances, will raise the income of those below the poverty line. The degree of inequality is significant for the achievement of the target only to the extent that it has an impact on reducing levels of absolute poverty. There are two main channels.

First, the lower the level of income inequality, the stronger will be the poverty-reducing effect of a given growth rate because the greater is the share of growth accruing to the poor. For example, a recent study31 of a sample of 105 developing countries estimated that in relatively low income inequality countries a 10% rise in GDP will be associated with a 9% fall in the numbers of the poor, whereas there will be only a 3% fall in high

29Wood and Mayer (1999).
31Hammer and Naschold (2000).
income inequality countries, such as those in Latin America and much of Africa. These relationships are not necessarily stable over time and recent data suggests that India, despite its relatively low levels of income inequality, has not seen a rapid fall in poverty despite recent economic growth.32

2.29 Second, recent work suggests that economies with high income inequality may grow more slowly33. Income inequality is much greater in some countries than in others. The percentage share of income going to the poorest 20% of the population is nearly 10% in some countries, but in others such as Brazil or South Africa it is only 2-3%. In unequal societies, poor people’s productivity and, hence, their contribution to growth is limited by inadequate access to credit, limited assets, ill-health and lack of skills. Also, rich people may exert pressure for policies which favour them but lead to economic inefficiency. This implies that relatively low income inequality countries such as those in South Asia should find it much easier than high income inequality countries like many in sub-Saharan Africa and Latin America to achieve the target.

Table 2: Income Inequality in the 1990s

<table>
<thead>
<tr>
<th>Shares of total income</th>
<th>Gini coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest 20%</td>
<td></td>
</tr>
<tr>
<td>Richest 20%</td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>5</td>
</tr>
<tr>
<td>East Asia</td>
<td>7</td>
</tr>
<tr>
<td>South Asia</td>
<td>9</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>5</td>
</tr>
<tr>
<td>Industrial countries</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Deininger and Squire, 1996

Box 10: Latin America
Countries in Latin America have the greatest income disparities in the world. These translate into requiring high growth rates to achieve the target. A quarter of all national income is received by only 5% of the population. The poorest 30% receive only 7.5% of total income, lower than in any other region. Income inequality is equally bad in rural as in urban areas and appears to be as bad in the 1990s as it was in the 1970s. The number of people in poverty in Latin America has been increasing; between 1990 and 1996 the number below $1/day increased by 3%. Thirty three per cent of the population have incomes of less than $2/day. Other countries with similar levels of development have reduced poverty much more effectively. If income in Latin America were distributed as it is in the countries of South East Asia, the numbers of poor people would be reduced by one half. This inequality is, in part, the outcome of Latin America’s comparative advantage, which lies in the abundance of its natural resources rather than in its unskilled and semi-skilled labour. But access to these natural resources, particularly land, is very unevenly distributed. In part, inequality also reflects high returns to skilled labour resulting from unequal access to education and training.34,35

32Poverty reduction scenarios developed in the World Bank’s Global Economic Prospects 2000 (Chapter 1, pp. 28-36) also highlight the importance of inequality. Rapid and inclusive growth that does not worsen inequality will be needed if South Asia is to meet the target. But even with inclusive growth both sub-Saharan Africa and Latin America will find it difficult to meet the target.


34Londoño (1996).

35Szchely (1999).
The challenge

Income inequality has changed only slowly

2.30 In many countries, income inequality has, historically, changed only slowly, if at all. This indicates the power of structural, social and economic forces within societies that maintain patterns of distribution over time. The Gini coefficient in India remained almost constant for 40 years (1951-92). In the past, where there has been evidence of a trend in reducing income inequality, it appears that it has been quantitatively small. This may in part reflect the lack of attention given to measures to improve inequality.

2.31 In recent years, however, there is some evidence of rapid increases in income inequality. This has been observed in several instances following economic crises and subsequent adjustment, and following major structural and social changes, such as in the former Soviet Union. Some countries in Africa have also shown evidence of rising inequality. A key policy priority is to understand more about the reasons for these effects and what action can be taken to avoid worsening income inequality.

Box 11: Transition countries of Eastern Europe and Central Asia

In 1989, in the transition economies, about 14 million people were living under a poverty line of $4/day. By mid-1996, that number was about 147 million or one person in three. Poverty in the former Soviet Union accounts for most of the poor. By the international standard of $1/day poverty is much lower. Total numbers below $1/day are 14.5 million or about 3.5% of the population. Some commentators assert that $4/day poverty in the region is directly comparable with $1/day poverty in developing countries. But so far the evidence is unclear on whether the experience of poverty in this region is similar to that in developing countries. The sharp increase in poverty has been caused by falling growth and rising income inequality. In Russia every percentage point decline in GDP throws 700,000 people into poverty (below $4/day). During the transition, the average Gini coefficient for the region has risen from an extremely low 24 to 33 at 1.5 points a year which is very fast compared with other international instances of large changes in income inequality. Russia and Ukraine’s Gini coefficient has doubled to about 48 but the Central European states have avoided this increase.

But progress is possible

2.32 We recognise that changing aggregate income inequality will often be politically difficult, but what is feasible will depend on the circumstances of individual countries. There are often ways of improving the distribution of income and assets within society. Many of these not only improve equity, but also increase economic growth, by improving efficiency at the micro-level. There are two broad approaches.

2.33 First, tackling the inequality of opportunities facing the poor – ensuring that the poor are able to use their own assets and capabilities to contribute to growth – is an essential component of a pro-poor growth strategy. Creating or strengthening the assets of the poor, for example, through increasing poor peoples’ access to education or infrastructure, is critical to a sustainable long-term reduction in poverty. Access to savings, credit and business advice, and positive support in dealing with government regulation at all levels are vital to promoting entrepreneurship amongst poor people. More broadly, socially inclusive policies are essential. Ethnically divisive policies in Africa have led to civil wars and the destruction of economies. Caste discrimination in India prevents people from participating in economic processes and contributing to growth.

2.34 Reducing inequalities of opportunity should start to change overall income inequality over time. Implementing pro-poor growth policies will ensure that the poor contribute to growth more than they have in the past. Given the very high percentages of poor people in many countries, ensuring that their assets and skills are fully integrated into the growth process is also the only way in which the necessary growth rates to achieve the target will be reached and sustained.

2.35 Second, direct redistribution can also play a role in some circumstances. It is important to distinguish between redistributing assets and redistributing income. Measures to redistribute assets, including, for example, land and land tenure reform, may have a longer term impact on inequality by enhancing the productive capacity of the poor. But to be effective in the long term they will frequently require parallel measures to strengthen the

36 The Gini coefficient of income measures the distribution of national income between income groups. A high number shows that income is concentrated in the hands of richer groups.

37 For example, Li, Squire and Zou (1998) conclude that it would take Jamaica 70 years to bring its Gini coefficient down from 49.9 to 36.2 on the basis of recent trends.


39 Bourguignon (2000).
The challenge

Capabilities of poor people. Redistributing income and benefits can also sometimes enhance the productive capacity of the poor. Pro-poor public expenditure and taxation policies (for example spending on education) can be important in building up the assets of the poor. Other types of income transfers can also have longer term benefits. For example, safety nets have an important immediate impact by preventing declines in the income of the poor, but at the same time may help to prevent erosion of the asset base of poor people which will have a much longer term impact. It is important, however, that redistributive policies (for both assets and income) do not undermine the incentives for private investment. Any process of redistribution therefore needs to be transparent, fair and to provide appropriate compensation.

2.36 We conclude that it is possible to change the distribution of assets and income, and this matters not only to increase the well-being of the poor but to promote growth in the economy as a whole. It is likely to be particularly important in regions such as sub-Saharan Africa where reaching the International Development Target looks unattainable given with current low growth and high levels of inequality. Similarly, any increase in inequality in South Asia and China will make it more difficult to reach the target globally.

Increasing security

2.37 The poor are vulnerable and security is very important to them. Avoiding large fluctuations in income and consumption patterns is important. As well as economic security, poor people themselves constantly highlight the importance of physical security – whether it is avoiding war, or simply not living in fear of being beaten up by the police.

Economic security

2.38 Poverty reduction requires a sustainable exit from poverty. Research shows that many people move in and out of poverty and are highly vulnerable to shocks. Shocks can affect individuals, communities, regions or nations as a whole.

Box 12: Land reform is important

In countries such as India, Indonesia and Peru there is considerably greater inequality in land than in income. Evidence indicates that more equal countries grow faster than unequal countries. Further analysis shows that it is the starting distribution of assets (not income) that has the most significant impact40. Land redistribution and associated agrarian reform, including more secure title, affects growth and poverty reduction through higher agricultural productivity (small farms can be more efficient)41, greater capture by the poor of returns to labour, improved access to credit markets and associated consumption smoothing by the poor during crises42 and improved environmental efficiency as a result of clear property rights. To be effective land reform has to be supported by access by the poor to financial and other services needed to operate the land efficiently and, when the land has to be purchased, to gain access to the land in the first place. The overall poverty reducing potential of a more equal distribution of access to land and water resources is clear, but progress with land tenure reform has been poor. The political forces opposing reform are often very strong. Where land tenure reform has been carried out, women have often been excluded from the process. In some countries women do not have the legal right to inherit or own land. Tackling land tenure reform is a complex area, particularly for the international community, but the returns are high43. The international community has supported attempts at negotiated or ‘market-based’ land reform (for example South Africa and Russia), and there is now some understanding of how these schemes can be made a success44. But there are concerns that market-based reforms will concentrate holdings away from the poorest. Work to support improved land titling continues in many countries, but it often fails to appreciate the flexibility of existing traditional systems and does not deliver appropriate accessible local institutions to administer land45. Land tenure reform is an area where there is scope for strong lesson-learning between continents.

40Deininger and Squire (1996) but note empirical evidence is mainly cross-section, again there is little work available based on major changes within country.
42Deininger (1999).
43Herring (1999) argues that the political climate for land reform is improving.
44Deininger (1999).
The performance of South Asia is critical to success in reaching the target. The regional outcome is heavily influenced by India. Income inequality in South Asia is low by international standards (a Gini coefficient of about 32 compared with 47 for Africa) and, where there is evidence, seems to have been relatively stable over time, with most income groups gaining from overall growth roughly in proportion to their initial share of national income. This masks, however, the impact of changes between different regions and groups and also masks more recent concerns about increasing inequality in India. Total numbers in poverty have been increasing slowly but poverty as a percentage of total population has fallen from 45% in 1987 to 40% in 1996. The low Gini-coefficients for South Asia reflect the fact that growth in the region has been relatively labour intensive, reflecting the low land/labour ratio. But large numbers of the poor are still excluded from this growth path, landless and increasingly urbanised. Bangladesh supports the argument that both higher growth and lower income inequality are important. During the 1980s, there was little or no reduction in poverty, with moderate growth in per capita GDP offset by a moderate increase in income inequality. In the 1990s, there has been an acceleration in growth, accompanied by a more marked increase in income inequality but not sufficient to offset the impact of growth. The incidence of poverty has fallen.

Box 14: Natural disasters
Natural disasters are frequent in the poorest countries. The poor are usually the hardest hit by natural disasters, because they often only have access to low cost assets (for example land or housing) which are more vulnerable to disasters. Unless people can preserve or reconstitute their asset base during and after periods of natural disaster, the numbers in poverty will increase and the depth of poverty will intensify. There is growing understanding of how the international community’s response can influence the breadth and depth of the impact of natural shocks. If the assets of the poor cannot be protected, direct asset transfers are needed to facilitate recovery. People must be supported to resume their livelihoods as soon as possible: mass displacement needs to be avoided; food distribution to villages is preferable to the creation of centralised camps; any work programmes should also be local and remunerated at a level that enables reconstitution of assets and not simply consumption. Better preparedness requires improved early warning systems, contingency plans and mechanisms to mobilise international support rapidly. Better relief means that sustainable relief capacity must be developed in poor countries and foreign relief juggernauts must not ride roughshod over fragile local institutions. Policies for rehabilitation must be based on better links between relief and development – many disasters are still managed separately from wider poverty-reducing policies within both countries and international agencies.

Interventions that improve poor people’s access to assets can reduce vulnerability. Reviews of micro-finance programmes suggest that both savings and credit have significant value in smoothing flows of income and consumption and increasing security. They may also have an impact on shifting income and consumption distributions within households. Education for poor people provides greater flexibility of employment options in a changing economy. It can also reduce poor people’s dependence on physical assets from which they may have been historically excluded. Policies which improve access to land and promote environmental protection and sound environmental management increase security and long-term income.
2.41 Governments and communities share the responsibility for protecting the vulnerable and assisting those unable to participate in the market. Public policy can, in particular, have an important role in mitigating the impact of macroeconomic shocks on the poor, through the provision of social safety nets.

Peace and physical security
2.42 Poverty reduction requires peace and physical security. Violent conflict disrupts lives and livelihoods, destroys societies and economies, and reduces people’s access to basic services. It often leads to large-scale population displacement and abuse of human rights. Most of the victims are poor people, and most of those killed, hurt, and disabled are civilians. The risks of conflict are also higher in conditions of poverty where one group seeks to dominate and others are marginalised.

2.43 It is significant that a high proportion of those countries that have the lowest per capita income levels are also experiencing prolonged internal or external conflict. Particularly in Africa, conflict is a major negative determinant of growth and poverty. More than half (28) of all African states have been embroiled in conflict during the past two decades\(^46\). It is estimated that, in 1996, 3–4% of the African population were international refugees or internally displaced as a result of conflict. Large numbers of people are killed and experience severe psychological trauma; state resources are diverted into war effort; and social and physical infrastructure is destroyed.

3. Experience to date

3.1 The previous section has demonstrated that growth, with improved equity and increased security, is required to achieve the target. The paper argues that the primary source of this growth will be the private sector and particularly poor people themselves. But the role of the public sector is vital in providing the governance, institutional and regulatory environment for private sector activity and in delivering high quality public services for all.

3.2 This section summarises eight lessons learnt about public sector intervention by national governments and the international community. These lessons form the foundation for the eight priorities for future action at national and international levels that are developed in Sections 4 and 5.

Lessons learnt at the national level

Lesson 1: Governments need to pursue pro-poor economic policies to maximise poverty reduction

3.3 Macroeconomic stability is a pre-condition for successful poverty reduction. In many developing countries it has been necessary to address fundamental economic imbalances, with policies designed to stabilise prices, shift incentives in favour of employment creation and stimulate sustainable growth. Limiting the role of the public sector has reduced spending on non-essential subsidies and increased opportunities for private sector activity through privatisation, contracting out and a wide range of public-private partnerships. There is evidence that this adjustment has led to better overall performance in countries which are committed to such programmes. A comparison of eight strongly adjusting countries in Africa with a sample of others showed that income per head rose in the reforming group while it fell in other countries. But even reforming countries have failed to achieve the rates of growth needed to reach the International Development Target.

3.4 Some literature argues that well-executed reform programmes succeed in increasing investment rates (and raising investment efficiency), leading to an increased prospect of faster growth. Other research suggests that two policies have been particularly effective: real exchange rate devaluation and lower agricultural taxes leading to higher farm prices. Ugandan evidence strongly supports this view.

3.5 There are no general conclusions about the impact of adjustment on the poor. In some countries, devaluation, import liberalisation, stable prices and export promotion measures have clearly benefited a number of poor groups such as producers of export crops. In others, poor people, including the urban poor, have suffered and inequalities have worsened. In many cases, the economic management programmes associated with structural adjustment programmes have had little significant impact on poverty either way.

3.6 Lessons have been learnt about how to refine economic management to take greater account of impact on the poor. Progress has been made in examining the distributional impact of proposed tax and expenditure policy changes; by ensuring that price reforms are matched by sectoral investments and by linking economic management strategies into longer term poverty reduction programmes. Over time, the Social Funds that have accompanied adjustment programmes have been amended, and made more appropriate for poverty reduction. There is increasing recognition of the need for citizens to be empowered to participate in development of economic policies. This includes provision of basic and employment related skills. But in general, most structural adjustment programmes have not been explicitly designed to address poverty, to tackle underlying structural inequalities or to avoid adverse effects on the poor. More work is also needed to consider the environmental impact of adjustment and the scope for more measures, particularly on taxation, which benefit both poor people and the environment.

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47 Although this paper touches on the vital issue of governance and poverty, including the impact of democracy and decentralisation, these issues are covered more fully in the separate paper in this series: Making government work for poor people.
50 As with all work to assess the impact of policies, it is necessary to make assumptions about the ‘counter-factual’ what would have happened without the policy – modelling by the OECD finds that adjustment is better for economic growth than no adjustment.
3.7 Faced with expenditure cuts, countries have been encouraged increasingly through structural adjustment programmes to protect social sector expenditure in relative terms, albeit with declining quality of service provision. Structural adjustment programmes have not, however, been able to influence governments to shift the balance of social sector expenditure in favour of the poor, and the relatively rich continue to capture disproportionate benefits from public services. Lower inflation based on fiscal restraint has been generally pro-poor, but prolonged deficit restraints may be achieved at the expense of growth.

3.8 Continuing reform will be essential for countries facing macroeconomic imbalances and seeking to remove the barriers to faster growth and poverty reduction. Lessons learnt from past experience provide opportunities to design programmes which will be more pro-poor than in the past. This is combined with increasing experience in developing country governments and a new commitment from the international institutions to put growth and poverty reduction at the centre of strategies for adjustment lending, within an overall nationally-led poverty reduction strategy framework. Strategic assessments of the environmental viability and sustainability of economic policies are needed as a routine part of policy design. Domestic political factors will continue to dominate at the country level. Improved design must be accompanied by attention to governance issues, including the empowerment of poor people, and the construction of political alliances in favour of poverty reduction, if reform is to be sustainable.

Lesson 2: Supporting the private sector is key for pro-poor growth

3.9 It is the private sector in rural and urban areas which must play the primary role in delivering the livelihood opportunities to achieve the target. The private sector as a whole needs to operate in an environment that encourages fair competition and market efficiency. Businesses need a framework of competent legal and regulatory institutions. There is a growing understanding of how markets fail the poor and how they can be influenced to increase the opportunities available to economically active poor people. There has been a shift away from a limited focus on ‘getting prices right’ to a stronger appreciation that markets are real and complex institutions with sets of rules, in-built discrimination, physical characteristics and flows of information that can work for and against the poor. Governments have an essential role in creating the institutional and physical infrastructure for successful markets.

3.10 Small and medium-scale enterprises, in particular, are an important source of job and wealth creation in developing countries. Many of these enterprises operate in labour-intensive industries, such as textile manufacture or agro-processing, which employ semi-skilled or unskilled labour from low-income areas. Although many are located in towns and cities and therefore have a more significant positive impact upon urban poverty, those that are established in rural areas help to diversify weak rural economies from dependence upon agriculture. They also respond flexibly to dynamic markets, those in the formal sector pay taxes to hard-pressed governments, and they counteract centralisation of economic power within big business elites.

3.11 Governments for the most part now recognise the private sector as the engine for economic development. Globalisation of markets and freer trade present major opportunities to accelerate private sector growth. In response, governments are adapting from their past interventionist role as producers or managers of state-owned enterprises, to a new role as regulator and “enabler” for the private sector. There are strong examples of successful policies and investments – including removing regulatory barriers to the establishment of small enterprises; providing support services for the lowest tier of formal sector enterprise; investing in appropriate skills for the poor; removing the social, legal and physical barriers that prevent access to markets; ensuring that poor people have more secure access to land and other natural assets; and strengthening the linkages between the formal and informal sectors.

3.12 However, a heritage of heavy state intervention, unfair competition to enterprise from subsidised state-owned corporations, unfavourable government policy, outdated law and excessive regulation still persists in many countries. Even where national enterprise policy is now more positive, implementation still lags well behind government rhetoric. Legislation is often applied unevenly by several, poorly co-ordinated government departments. The bureaucratic barriers facing entrepreneurs in simply registering a business, obtaining a trading licence, or complying with health and safety or labour law at local level can be formidable.
3.13 One of the most important markets for the poor is the financial market. Access to financial services is extremely unequal. Improved access to savings and credit can help smooth consumption and increase investment in productive assets. Failures in the formal financial sector can have severe adverse impacts on poor people, and effective financial regulation is essential for long-term growth. Over the last few years there has been limited progress in re-orienting the existing formal financial sector towards the poor but much greater success in establishing new micro services which target poor people – particularly to reduce economic insecurity.

Box 15: Micro-finance and the poor
The clients of most micro-finance institutions tend to cluster around the poverty line. Potential participants from the poorest groups tend not to join or take micro-credit loans because of exclusion by other group members and self-exclusion because of a lack of self-confidence and a perceived risk in their ability to repay. Even institutions which attempt to target the poorest very rarely attract more than 50% of poor clients in relation to their overall client base. But the clustering of clients around the poverty line means that micro-finance can play an important role in achieving the target. In any one year a large number of people move into and out of poverty. Evidence indicates that the most significant impact of micro-finance is to keep those just above the poverty line from falling below it, particularly through building assets, financing a diversification of household income and smoothing consumption through emergency finance. Women in particular have been shown to be creditworthy and able to use credit in a productive way. Despite the recent success of many micro-finance institutions in extending savings and credit sustainably to the poor, these services still reach only a tiny proportion of micro-enterprises. Also, even amongst the strongest micro-finance institutions, few are linked to the commercial banks or mainstream capital markets and they need to extend their outreach to more clients.

Source: Sebstad and Cohen (1999)

Lesson 3: Public expenditure is important for poverty reduction
3.14 The pattern of public expenditure has a strong influence on economic well-being. This occurs through the delivery of goods and services, particularly primary education, health and water; through social protection; and, through direct and indirect employment funded by public spending. The direct and indirect impact of different taxation strategies for poor people is also important. A broad assessment of the poverty reduction impact of government expenditure and revenue is needed, disaggregated by gender and ethnic groups where possible, taking into account specific priorities in countries. Political commitment and high quality technical inputs are then required to design and implement pro-poor structures.

3.15 There is danger in the international community promoting specific types of expenditure, for example rural roads or urban slum programmes, without an understanding of the impact of the whole public expenditure programme on the poor. Providing resources for one type of expenditure can simply release resources for governments to spend on other things which do not benefit poor people. There are solutions to this problem. Where governments have agreed medium-term expenditure frameworks with a clear poverty orientation for the budget as a whole, then the international community can be more confident that resources will have the poverty reduction impact expected.

3.16 Governments also face regional choices in allocating resources. There is growing understanding of the impact of remoteness in reducing the returns to economic activities. In some countries, the region within which a person lives matters as much for economic well-being as the average level of national income. Physical location and remoteness is an important determinant of poverty. Remoteness raises transactions costs, reducing farm-gate prices and returns to labour and capital. In circumstances of low density demand, such as rural Africa, private sector development requires that key services (including transport, water and power) and a skilled workforce are available and accessible to support enterprise at all levels. But economic returns to such investment may be low, and alternative strategies based on migration and remittances may sometimes prove more sustainable.

3.17 Sustainable pro-poor public expenditure programmes in emergent democracies will depend on broadening public understanding and support of such measures. The design of public sector programmes for poverty reduction benefits enormously from processes of participation and consultation. A public debate on the issues of allocations of public expenditure can be held to develop a national consensus for poverty reduction and lead to the design of a more effective programme. Effective participation, supported by adequate public information, allows citizens to exercise their rights and call governments to account.
Box 16: The public sector in poverty eradication
The Government of Uganda has a clear vision of the public sector role in poverty eradication, linked to a well developed process of consultation. The Poverty Eradication Action Plan involved wide consultation with actors inside and outside government. Consultation has been extended directly to the poor via the Uganda Participatory Poverty Assessment Programme which aims to institutionalise a participatory approach to poverty planning and monitoring down to district level. Uganda has also introduced a medium-term expenditure framework incorporating government and donor flows. Since 1998 this has involved an open consultation on the medium term budget framework with the donor community and with civil society. The Government has used a scenario framework to show how additional donor commitments would be used to fund higher spending on poverty programmes and these have been largely protected despite higher spending on defence. Additional resources freed through the Heavily Indebted Poor Countries (HIPC) debt initiative have been used to create a Poverty Action Fund, which is being used to direct additional resources to the poverty focused budgets of the line ministries.

Source: Centre for Aid and Public Expenditure.

Lesson 4: Political and social empowerment of the poor are central to creating a policy framework which promotes pro-poor growth

3.18 The wider acceptance of democracy improves prospects for pro-poor development. Democracy can offer the poor the opportunity to use social organisation for political action. But in many relatively democratic countries, poor people still lack political influence, even where they are in a majority, because power is held by a narrow elite. Communication between those in power and the people are also often poor. Without good communication democracies cannot effectively develop and implement relevant policies.

3.19 Democratic institutions should be inclusive, fair and effective. Freedom of expression and association is crucial in tackling political exclusion: if people know their rights and have information about government programmes and responsibilities, they are better able to hold the state to account. Free and effective media and a politically active civil society are important, as is an inclusive and fair electoral process and a vigorous and parliament.

3.20 The effectiveness of political organisation by poor people varies according to a number of factors. Politics is rarely a crude struggle of rich against poor. It is frequently about accommodation, compromise and joint gains. Even if poor people are well organised, they need to be part of broad coalitions to increase their influence over government measures. There are a number of bases for such political alliances. Poverty eradication can be seen as a public good. The rich as well as the poor are threatened by epidemics and crime, and poverty increases both. Technological and economic advances can alter the value and potential of assets. For example, land reform becomes more acceptable to elites when they have other opportunities to accumulate wealth such as through industry or commerce. Therefore skills and education will be crucial at all levels.

3.21 It is not just at the political level that poor people face problems. Social structures and institutions are critical in influencing the access of the poor to assets and markets. Having an influence in decision making is crucial if poor people themselves are to safeguard the natural and environmental resources on which their livelihoods depend. Poor people also highlight their inability to access public services because of pervasive corruption, their fears because of a lack of public security and personal safety, the oppressive behaviour of the police and judiciary, and their general sense of powerlessness. These complaints highlight some of the symptoms of deficient government53.

Lesson 5: Governments and communities can work together to support those who are not economically active

3.22 It is important to be realistic about what markets can and cannot achieve. Large numbers of people are not economically active. Shifting growth towards pro-poor patterns will not necessarily directly benefit those people who are not able to participate in market activity. Their potential exclusion, therefore, needs to be dealt with in other ways. Both governments and communities have important roles in social protection (that is to say policies that help poor groups, people and communities to protect themselves against shocks)54.

54 An inter-agency workshop recently explored the ways in which social protection policies are operationalised by various donor agencies; an overview publication is forthcoming. Norton et al (2000).
Experience to date

3.23 The non-economically active are not, as a rule, neglected by other members of their communities. Elderly people are supported in multigenerational households and they may have access to religious societies, savings groups or burial societies as support networks. The disabled are cared for by relatives, and orphans are taken up in communities or cared for by charitable organisations. Public policy must not destroy existing support networks and should, where possible, support them. Policies should also recognise the contributions made by groups such as the elderly. However, recent trends are threatening traditional support networks. Urbanisation can undermine rural social networks, and AIDS is increasing the number of orphans. And the economically active are also at risk as a result of economic shocks, natural disasters and ill health.

3.24 Well designed policies need to address the needs and risks of particular groups. They should build on the specific capabilities of different groups and provide options for people to insure themselves against future risks of illness, disability or crop failure. Experience has shown that policies need to be structural and mainstreamed in development policy rather than ad-hoc (as was the case with the early responses to Structural Adjustment Programmes). Effective policies need to allow individuals to build on their capabilities, improve their livelihoods generally and reduce vulnerability. It is important that transfers reach the poorest, but there are political, social (stigmatising) and technical costs associated with narrow targeting which must be weighed against the benefits.

3.25 Social protection needs to be affordable and sustainable. It also needs to be able to cope with long-term vulnerability as well as shocks; with long-term changes, for example relating to ageing of the population; and with political pressure. Micro-finance has often provided funds for consumption smoothing as well as for investment and has limited the need for public intervention. Rights of access to common property resources for vulnerable groups are also critical to maintaining their livelihoods.

International community: lessons learnt

Lesson 6: The right global policy framework is needed

3.26 The international political commitment to poverty reduction is growing. Globalisation is leading to greater interconnectedness and interdependence of economies and societies. This is starting to feed through into a much greater awareness that tackling poverty in the poorest countries is not just a moral imperative, but that there is an irrefutable common interest in doing so. The International Development Targets are now, for example, supported by almost all the major multilateral development institutions and by the leading industrialised countries (the G8). This group endorsed the targets at recent conferences in Birmingham (1998) and Cologne (1999) and has called for an annual report on global poverty which will have a high profile across governments (and outside traditional development ministries) in pinpointing progress on poverty reduction.

3.27 There is also evidence that the international community is beginning (albeit slowly) to implement pro-poor policies that go beyond the boundaries of the development ministries. Global policy frameworks on trade, investment, the environment, conflict, debt, social protection and many other issues are vital parts of the strategy for poverty reduction. In the UK, we have started to show that it is possible for government departments to work closely behind a common global agenda. But despite some positive steps taken at OECD level, only a small minority of agencies and their governments have taken concrete steps to ensure that their domestic policies and their positions on international policies are always consistent with poverty reduction. The lack of coherence between development and trade policies has presented real barriers to growth and poverty reduction. For example, developing country producers of agricultural products, textiles and steel have all suffered from protectionism in export markets.

3.28 Public and private inputs are needed to ensure that global public goods, from which we all benefit in areas such as environment, health, culture, peace and global financial stability, are adequately provided. For financial stability, the events of the Asia crisis significantly raised the profile of governance in the global capital markets. The international community has started to put in place a better and more transparent international financial architecture and has boosted support for individual countries to tackle structural weaknesses in their financial and corporate sectors. But there is still much to be done in developing robust approaches to transparency, debt sustainability, debt work-out and bankruptcy.

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55Norton et al. (2000) for the interagency workshop.
Experience to date

3.29 The way in which the Asia crisis exposed weaknesses in social policies and social safety nets in many of the Asian crisis countries also prompted much closer scrutiny of the linkages between macroeconomic and social policies. This has led, for example, to attempts to incorporate sets of principles on social policies by the international financial institutions, as a common international framework for addressing these issues. It is also important for the international community to support core labour standards through a comprehensive approach led by the International Labour Organisation (ILO), and not through trade measures which tend to displace the problem but not address its causes. Specific action is needed to address child labour issues, while recognising the role of children in providing an important part of the livelihoods of poor households.

Lesson 7: A co-ordinated international approach is essential

3.30 Improvements in the wider international policy environment are essential but experience shows that they must be underpinned by a co-ordinated approach to poverty elimination by the international financial institutions and by the donor community.

3.31 The UN system has a particularly important role to play. The series of major conferences it organised during the 1990s did much to generate consensus around key development issues, and are the source of the International Development Targets. Its unrivalled authority and legitimacy give it a key role in advocacy and consensus building for poverty elimination, while its intellectual, statistical and professional capacity is a resource for analysis, monitoring and recording progress. Operationally, the UN’s programmes have been fragmented and poorly co-ordinated, and the UN system has failed to fulfil its potential. The UN has started to address these deficiencies, and reform agendas have been formulated and put in train in many agencies. Further efforts are needed to focus the activities of the component agencies of the system on their comparative advantages and co-ordinate their activities through mechanisms such as the UN Development Assistance Framework and the Comprehensive Development Framework.

3.32 The World Bank has played a strong role in improving the quality of poverty assessments at country level but has sometimes failed to link these to poverty focused Country Assistance Strategies. The Bank has proposed a new approach in the poorest countries linking its financing to a country’s own national poverty reduction strategy, as outlined in a Poverty Reduction Strategy Paper. In addition the Bank is encouraging the use of a Comprehensive Development Framework which will allow Bank and other donor resources to be committed at country level, in all their countries of operation, against a more systematic analysis of their contribution to poverty with a focus on clear poverty outcomes. The World Development Report 2000/1 sets a new paradigm for poverty reduction and is expected to lead to the Bank approaching poverty reduction with renewed vigour and to refocus spending. Funding allocation mechanisms within the Bank group need to be further focused in relation to their impact on poverty reduction. Regional development banks will also play an important role and need to ensure close co-ordination with the World Bank and other agencies.

3.33 The IMF has, in the past, paid too little attention to poverty in the design of its Structural Adjustment Programmes. The 1998 external evaluation of the Enhanced Structural Adjustment Facility recommended that the IMF work more closely with the World Bank to forecast and monitor the impact on the poor of different designs of adjustment programmes and incorporate measures to off-set negative impacts. The evaluation recommended that, if a country maintains good macro-economic policies, the IMF should permit budget and external deficits to rise so that donors and foreign investors can fund growing human capital and other investment. The IMF has introduced a new Poverty Reduction and Growth Facility and has agreed to work together with the Bank to link its financing to a country’s own national poverty reduction strategy.

3.34 The new, co-ordinated, focus on poverty elimination by the international financial institutions is a considerable step forward and shows a genuine commitment to link finance to solid and effective poverty reduction policies. It reflects the growing consensus that the international development effort should be more comprehensive, collaborative and locally led. An impetus for this change has also come from the Heavily Indebted Poor Countries (HIPC) debt initiative which now requires all debt relief to be linked to an acceptable strategy for poverty reduction and this new approach will be implemented first in the HIPC countries.

Experience to date

3.35 It will be important for the international community to support nationally owned Poverty Reduction Strategies, which have been produced by the countries concerned as the result of a broad based national dialogue. Country-level strategic planning frameworks, such as Poverty Reduction Strategy Papers and the Comprehensive Development Framework present a significant opportunity for developing countries to achieve the International Development Target of implementing sustainable development strategies by 2002. This will require that the Poverty Reduction Strategies and the Comprehensive Development Framework adhere to their guiding principles, and that they address issues of environmental sustainability.

3.36 These initiatives will need to be matched by continued efforts by the rest of the international community to concentrate efforts on poverty elimination. Improved co-ordination is needed at country levels in the context of agreed poverty reduction strategies. Country programmes need to be redesigned to improve poverty reduction impact. A recent OECD review of donor approaches concluded that ad-hoc solutions to poverty reduction need to be replaced by a more systematic approach, and that donors have been weak in articulating the linkages between interventions and poverty reduction. Many organisations still lack the internal management structures and processes necessary to generate the incentives and skills for a concerted focus on poverty reduction.

3.37 Net concessional flows will continue to be important for poverty reduction in many countries. Flows to recipient countries in 1997 were 13% below 1990 levels in real terms, with every developing region experiencing a sharp fall as a share of their national income. However, 1998 and 1999 saw an increase in official development assistance, due in part to the timing of contributions to multilateral agencies and short term measures to deal with the Asian crisis, but also reflecting firm commitments by some donor countries to maintain or increase aid flows. In 1998, 28% of total allocable net bilateral official development assistance from DAC donors went to the least developed countries whilst lower middle income countries received 33% of flows. The European Commission’s development assistance programmes amount to nearly $7 billion a year, but a high and increasing share of the EC’s development resources goes to middle income countries at the expense of the poorest. DFID also has continuing concerns about the effectiveness of EC aid and the lack of monitorable output measures.

Lesson 8: Reducing and mitigating risk is central to a sustainable reduction in poverty

Economic security

3.38 The poor are particularly vulnerable to shocks of all sorts. At the macro-economic level, crises are associated with rising poverty, with an impact on both income and non-income indicators of poverty. While it is not possible to avoid economic shocks altogether, appropriate macroeconomic policy can help to reduce the impact on the poor. For example, fiscal and monetary policy should avoid excessive responses that overshoot, and fiscal adjustment should be pro-poor, by avoiding cutting programmes of importance to poor people. The experience of the Asian financial crisis shows the importance of limiting a country’s vulnerability to sharp swings in private capital flows. Capital account liberalisation must be properly sequenced with reforms in the financial sector and in some cases countries will need to put in place additional regulatory measures on inflows. Safety nets are also important for the poor in the face of economic shocks.

3.39 The cumulative experience of dealing with natural disasters suggests the need, wherever possible, to take action to reduce and mitigate the risks facing poor people. Some environmental degradation such as climate change and desertification will cause medium-term problems even if action to halt them is taken now; so adaptation to expected changes is important. This is likely to be more cost-effective than helping poor people to cope with disaster once it has happened.

3.40 Nonetheless there will still be a need to respond to disasters. Following a disaster, most lives are saved by immediate local effort. Building up the disaster response capacity of communities and institutions in disaster-prone poor countries is important. International networks – such as those of the UN and Red Cross – that are present in nearly all countries also have an important role. Their local presence allows more timely mobilisation of resources and better co-ordination.

58Cox (1999).
59The Development Assistance Committee of the OECD.
60Lower middle income countries had per capita gross national products in 1995 of between $766 and $3,035.
Peace and physical security

3.41 Given the devastating impact of conflict on the poor, the economic returns to conflict prevention and resolution are likely to be very high. Humanitarian assistance is often an essential part of a long-term strategy for growth and poverty reduction in post-conflict countries. At the local level, physical security, including security of the person and security of assets from theft and damage, is often dependent on the role of the state in providing effective policing and an accessible system of justice. Conflict and physical security have strong links to both governance and human rights and are covered in more depth in other papers in this series.
4. Meeting the challenge

4.1 The time-frame for achieving the target has been set. The challenge is to ensure that poor countries experience increased growth, that poor people participate more than they have in the past in this growth, that they suffer less from shocks and downturns, and that the growth is sustainable over the longer term. Focused policy choices and financing decisions are now required from developing country governments and the international community to meet this challenge. Substantial improvement in performance is required by almost all parties given the limited progress of the last ten years. With growing populations, there will need to be both increases in the efficiency of use of existing assets and growth in knowledge and technology for enhanced productivity.

4.2 Developing country governments must take the lead in setting policies and frameworks for poverty elimination, and where they do so the global community must mobilise behind them if the target is to be met. There must be genuine global political will and an improved co-ordination of efforts if we are significantly to reduce the proportion of people living in poverty. This means that the entire international system, from the Bretton Woods institutions and the Regional Development Banks, to the UN system, through to the actions of individual OECD governments, must be mobilised behind the target. This effort must be such that it promotes and supports a higher political profile for poverty reduction and a greater flow of resources to the poorest countries. The international community must reduce the heavy administrative burden it places on poor countries, it must reduce waste and duplication and it must consider far more carefully than in the past how resources and advice will have systemic and lasting impacts on the pattern of growth and on poverty elimination.

4.3 Focused, country-level research is needed for the continuing development of poverty reduction approaches and to highlight issues raised by the implementation of new strategies. Broad-based discussions are required at every opportunity to consider and implement policies which promote growth and benefit the poor. Quiet consultation is not enough. Strategies must be backed up by transparent and open debate in all fora including the international and local media. The goal is an increasing commitment by all parties to nationally developed poverty reduction strategies which are fully debated and effectively implemented and monitored. These principles are reflected in the type of approach embodied in the development of Poverty Reduction Strategy Papers and also in the development of national strategies for sustainable development which are more fully addressed in a separate paper in this series.

Linking improved diagnosis to strategy

4.4 There can be no blueprint for improved economic well-being which is applicable to all countries. Developing country governments and civil society, working in partnership with the international community, must improve the diagnosis of the causes of poverty at country level and develop strategies accordingly. Extensive work has been put into developing poverty statistics and analysis over the past ten years. Better diagnosis and a stronger link between diagnosis and strategy is required to reduce poverty more quickly. There are four areas where diagnosis must be improved:

- What are the main determinants of the growth path to date?
- Who are the economically active poor, who are the dependent poor and what are their characteristics?
- What are the political, social and economic forces affecting economic outcomes for the poor?
- What is the needed balance between promoting existing patterns of growth and changing the pattern of growth towards more inclusion of the poor?

4.5 The measurement and analysis of poverty must be primarily designed to influence national debates on poverty. Demographic analysis of population trends is needed alongside economic, social and political analysis. The diagnosis should be led by local institutions and should form part of a continuing and open debate with government and other influential groups. Participatory approaches should empower the poor in their interaction with government. There is a continuing role for the international research community to focus its efforts on poverty reduction. As well as generating new knowledge, we need to maximise the effective application of existing well-established research. Priority should be given to explaining how poor people’s assets contribute to growth,
the dynamics of poverty and vulnerability and the social characteristics of poor people, including identification of the most vulnerable groups.

4.6 Poverty analysis must examine the political economy of poverty both at the national and local level. It should include analysis of forces within government and outside that are pro and anti-poor. It must be based on a proper understanding of the stance of elites, of key civil society groups (such as churches) and of the media, and should provide an open and reflective assessment of the role of external actors within domestic political economies. Better analysis of the social and cultural norms and processes of discrimination that determine the inequities facing the poor can help provide a realistic assessment of the time needed to achieve change.

Strategic responses based on growth and inequality

4.8 Linking improved poverty assessments to better strategies is a real challenge. Improved analysis, particularly of the trends in growth, income inequality and poverty reduction, will help steer policy choices by:

- indicating whether existing patterns of growth (including its sectoral composition) are likely to have the required impact on poverty reduction and be sustainable, or whether more needs to be done to promote a pro-poor pattern of growth;
- helping to decide whether targeting the poor and removing inequalities of opportunity are necessary to promote growth and whether any actions which sacrifice some growth (such as more progressive taxation) are acceptable because the growth foregone would have low impact on the poor anyway; and,
- helping to determine how far social protection measures are necessary to achieve the target.

4.9 Different responses are required for groups of countries with varying characteristics in terms of national income, growth and income inequality. For countries with adequate growth but high income inequality, such as many in Latin America, there is need to develop a strategy which promotes poor peoples’ integration into the economy so that they too can participate in and benefit from growth. Where growth is inadequate, increasing it should be the first priority, but policies will need to consider carefully any impact on income inequality or economic or environmental sustainability. Levels of national income will affect the affordability of social protection for the most vulnerable groups. Much of sub-Saharan Africa faces low incomes, poor growth and high income inequality. The key here is making poor people the centre of a growth strategy which utilises their assets and then enables them to share in increasing incomes.

Eight priorities for action

4.10 Improved diagnosis and strategy design must feed through into a strong and concerted response from the international community. This section recommends five priorities at the national level and three at the global level that follow on from the eight lessons identified in Section 3.

Priority 1: Pursue pro-poor growth policies

4.11 Basic macroeconomic stability is the essential foundation for economic growth. This needs to be supported by policies to improve efficiency through liberalisation of markets, privatisation, where appropriate, and improved regulation. Governments must continue to pursue economic reform for long-term growth, while building on lessons learnt to maximise poverty reduction. A further priority is policies which enable the poor to make a stronger contribution to growth and tackle the inequalities of opportunities that they face. These include provision of basic health, education and access to skills training for all. It will also be important to explore ways of addressing the unequal distribution of assets and income directly.

4.12 Policies will increasingly be developed through national poverty reduction strategies. There is need to develop political alliances supporting pro-poor policies. The international community must help in this context to develop effective demand for poverty reduction policies. Development agencies can play a role through demonstrating new approaches (for example, in social protection), and by working directly with centres of power, such as the Ministry of Finance on public expenditure reform. In other cases, their role will be through better dissemination of poverty analysis and supporting advocacy by civil society groups. Instruments can include pilot projects, capacity building for policy development, helping to generate key statistics, advocacy for policy change and conditionality linked to programme finance.

Priority 2: Make markets work better for the poor

4.13 A successful private enterprise economy is a central building block of a successful and sustained anti-
poverty policy. Efficient markets are thus central to growth and poverty reduction. More attention must be paid to sector specific policies and interventions that influence poor people’s, particularly women’s, access to markets, assets and income earning opportunities. Markets for labour, finance and land must be tackled as well as product markets. Reduction in unnecessary formal sector regulations can help improve labour market flexibility. Access to markets in terms of information and the availability of essential infrastructure (such as water, energy and transport) need to be addressed, as do more intangible factors such as confidence and entrepreneurship. Legal changes are often essential for improving access but must be underpinned by appropriate institutional structures to allow the poor to exercise their rights. This may require investment in civil (for example, ombudsman) as well as legal systems. Policies must be developed in the context of gender, social, and political forces. The impact on the sustainability of growth and the livelihoods of the poor is also important. Economic analysis is required to guide choices and maximise poverty reduction impact. It may not be possible to sustain pro-poor interventions in remote areas, and alternative strategies to open opportunities for labour mobility may be required.

4.14 Markets require legal, physical and financial infrastructure to function effectively. Governments need to encourage competition and facilitate a flow of accurate information to market participants. This involves the provision of business support services to all levels of businesses with public sector provision where private sector companies are not active. Adequate transportation facilities and telecommunications are required. Bribery and corruption must be controlled to reduce market transaction costs for poor people. Property rights must be clarified to avoid environmental degradation, which affects the poor disproportionately. Accessible financial services are required from micro-finance through to the formal financial sector to allow enterprises to grow. Deepening financial markets to reach micro-finance institutions will be important. Private investment will also be required in poor countries to provide the physical infrastructure and services that are essential for markets to function and to meet the needs of poor people. This will require the development of an enabling environment including appropriate legislation, regulation and utility structures, as well as significant levels of private sector investment in infrastructure and services. Careful sequencing of reforms will be critical to success.

Priority 4: Promote empowerment and accountability

4.17 Supporting measures to empower the poor to claim their rights will strengthen their ability to access markets and ensure that resources intended for them are not diverted. Poor people need to be empowered in their capacity to interact with other private sector agents (local

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landlords, sellers of inputs, providers of financial services, owners of factories) as well as with public service deliverers and the legal system. Empowering poor women is likely to be particularly important. Improved access to education, skills, and information are vital underpinnings. Successful interventions for empowerment include strengthening the participation of people in decision-making processes by promoting their political rights, securing their rights to information, providing accessible skills training, and increasing the accountability of governments to citizens both directly and through democratic institutions. Democratisation itself is not a guarantee that policies will become more pro-poor63. Alliances need to exist or be created which will work in favour of the poor within a democratic framework. More work is needed to understand how elites can be convinced about the common benefits from including the poor and the costs (such as the risk of lower growth and higher crime) of not doing so.

4.18 Neither does decentralisation guarantee that national policies will become more pro-poor. Additional measures may be necessary to ensure that the voices of women and other people who are often politically excluded, are heard at the local level. Research indicates that corruption can be as serious at local as at national level. People need time and resources to participate and, without effective participation, local governments may become more corrupt and less accountable. The international community must promote participation in decision-making processes as a right, as well as a means of consultation in micro project initiatives. Support should be provided to develop civil society organisation, including the media, which can promote local debate. Changing local power relations is difficult and long-term, but good examples exist where people have been empowered through participatory and inclusive processes which have been embedded in accountable structures of governance and respect for human rights.

Priority 5: Ensure that transfers and social protection reach the poorest

4.19 More can be done to extend the lessons of successful specific social protection policies. Public works schemes, for example, can be effective mechanisms for targeting able bodied poor people, and some schemes have a good record of targeting and impact64. Micro-finance schemes also can reach many poor people, though perhaps not the poorest. Effective targeting is important if publicly funded schemes are to be affordable and sustainable. But there are also political and technical constraints to targeting. For example, opposition can arise when schemes which did benefit the majority (such as food subsidies) are redesigned to target the poor (for example, through food stamps). Some forms of targeting, particularly administrative targeting which requires much information and is costly, are not feasible particularly in poorer countries. Hence understanding local contexts, preferences and consumption patterns, and different impacts on women and men for example, is crucial for design of effective social protection policies.

Priority 6: Create an international policy environment that maximises growth opportunities for poor countries

4.20 Political commitment from rich countries is required to reduce poverty in poor countries. Positive steps must be taken to consider the poverty reduction impacts of global policy making and to empower and facilitate poor countries’ participation in global negotiations. Consistency across the full range of policies, including investment, trade, the environment, financial systems, social policy, governance and conflict, is required from OECD countries.

4.21 The next round of trade negotiations provides an opportunity for the international community to remove barriers to trade and investment and produce direct benefits for developing countries. In particular there is an opportunity to make progress for developing country exporters in agriculture, industrial tariffs, rules of origin, anti-dumping and government procurement rules. But progress is by no means assured. For developing countries, the round promises the possibility of trade benefits and also the ‘lock-in’ of domestic reforms giving longer term policy stability. Whether developing countries, which constitute the majority of World Trade Organisation members, succeed in achieving a positive outcome will depend on their commitment to these outcomes and in their capacity to negotiate effectively, for which external assistance is a high priority. Even if they are successful, experience of the lack of uptake of EU tariff preferences shows that further assistance will be required to enable poor countries to take advantage of trading opportunities.

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64De Haan and Lipton (1999).
Priority 7: Increase the resources for development and channel them to maximise poverty reduction

4.22 To achieve the required growth rates, poor countries require increased investment from all sources. Domestic private investment will continue to be of primary importance. By maintaining a stable policy environment, countries can attract back some capital which has been lost through capital flight. Within international flows, direct investment, rather than portfolio investment, is likely to have the largest growth impact in the poorest countries because it brings with it new technology and management expertise. The international community should continue to support developing countries in setting the right policy framework to attract foreign direct investment (FDI); should promote a rules-based international investment framework; and should play a much stronger role in exporting the lessons about how to maximise FDI impact which have been learned within Europe.

4.23 Poor countries continue to require concessional flows, and those which can use them effectively for poverty reduction should have their allocations increased. A simple refocusing based on estimates of need is not sufficient. Resources should be focused where they can have most impact on achieving the target. Recent work by the World Bank65 examines the impact of the global allocation of aid on growth and poverty reduction. It concludes that a simple re-allocation of aid towards countries with large numbers of poor will enhance the poverty reduction performance of aid. However focusing aid on countries with many poor people and good policies for poverty reduction could double the impact of aid on poverty reduction and lift around 60 million people out of poverty a year, or around 900 million people by the year 2015. This is very close to what is required to meet the target. There are still some caveats around this work, particularly about the additional impact of good policies above focusing aid on countries with large numbers of poor people66, but the analysis lends weight to the need to refocus aid towards poor countries. At the very least, the international community must seek a reallocation of aid away from countries without large numbers of poor people.

4.24 The policies of the multilaterals will be critical in improving the pattern and effectiveness of global resource use. Refocusing the EC aid budget is a particular priority and will need to be supported by moves to improve the effectiveness of EC aid as well. Some countries, especially in the middle income group, will not need additional concessional resources for development. The international community still has a strategic role, however, in the provision of various forms of support to policy reform.

Priority 8: Reduce the impact of shocks, including conflict, on the poorest countries

4.25 Natural disasters (including drought and floods) and health epidemics such as HIV/AIDS threaten household economic security. They have the potential to prevent the target from being achieved in individual countries and to seriously damage progress in poverty reduction. Slowing the spread of AIDS is critical for other International Development Targets but will also have an important impact on economic well-being. The international community must act on the lessons learned during the 1980s and must continue to improve its response to disasters and to slower onset emergencies such as droughts. In particular, all parties must continue to support the development of national capacity for risk reduction and adaptation, better preparedness and relief management; ensure that the assets of the poor are protected or new assets made quickly available; and, build disaster mitigation policies based on a much more careful analysis of existing poverty policies and existing local approaches to shock management.

4.26 Poor people reliant on traded crops can suffer substantial shocks from global price fluctuations. Measures to stabilise global markets have been largely ineffective but there is scope for targeted support for diversification and adjustment in times of crisis. The international community also has special responsibility for dealing with the long-term threat posed by global climate change. This threatens significant loss of productive land for low-lying countries and unpredictable outcomes from global warming on agricultural production. Russia and parts of Africa may be particularly at threat. An initial World Bank estimate of potential costs suggests a possible reduction of national income in the range of 2-9% for developing countries as a whole.

4.27 A reduction in the incidence, duration and destructiveness of conflict is an essential precondition for achieving the target in some parts of the world. DFID’s strategy for conflict reduction aims to: build the political and social means to enable the equitable representation of 65Collier and Dollar (1999) – only looks at how aid affects poverty via its impact on growth, the benefits of aid in terms of changing the patterns of growth are not taken into account.
66Other studies show a weaker impact of good policies but confirm that aid can have a significant impact on poverty reduction via growth effects.
different interest groups; promote all human rights; and resolve disputes without recourse to violence. Internationally, it is important to strengthen the capabilities of the UN; encourage a stronger peace building role for the Commonwealth and regional organisations; encourage rich and poor countries to work together in conflict resolution; promote more co-ordinated conflict prevention policies in the European Union; and promote international co-operation to curb illicit trafficking in small arms67.

5. Priorities for DFID

DFID’s response

5.1 The UK Government embraced the concept of pro-poor growth in the 1997 International Development White Paper which set poverty reduction as DFID’s central objective. DFID has worked with multilateral development institutions to secure wider acceptance of the International Development Targets and will participate fully in the proposed response of the international community. The UK has announced significant increases in its official development assistance and has undertaken to ensure that the oda/GNP ratio increases from 0.27% in 1998 to 0.33% in 2003/4.

5.2 UK bilateral assistance is increasingly decentralised, which allows DFID to develop its approach on a country by country basis. As strategies for achieving the International Development Targets must be built around country realities, we will remain primarily focused on the country context and on opportunities and challenges at country level. DFID’s role in individual countries will be influenced by national priorities. We will co-operate fully with others in the international community to ensure that development efforts are locally led, comprehensive, and collaborative. It is important to encourage prioritisation and focus.

5.3 Poverty Reduction Strategy Papers will be an important part of this process and we expect to contribute to appropriate poverty focused, multi-donor funded support facilities. We are also developing flexible approaches for making financing available through budgets with the advantages this brings in improving the efficiency of resource use. We will continue to provide support to poor performers where there are opportunities for policy reform and medium term prospects for poverty reduction.

5.4 At the global level the UK will continue to work within the international community to improve donor co-ordination and create consensus around poverty reduction. DFID strategies will include activities for working with other bilateral and multilateral donors as well as developing countries directly. Our co-operation with major multilateral development institutions is summarised in a series of Institutional Strategy Papers.

5.5 DFID contributes to the UK role in developing international policies, including trade and investment, to promote poverty reduction. The UK will work to promote greater coherence between European Union trade and development policies and to encourage with international business to consider the poverty impact of their activities. The UK Government has taken a lead in promoting debt relief for poverty reduction. The UK will also give special attention to the provision of global public goods and provide funding to priority initiatives as part of an increased effort by the international community.

Improve diagnosis and strategy design

5.6 Section 4 stressed that there can be no blueprint for improved economic well-being which is applicable to all countries. There is a need to improve the diagnosis of the causes of poverty at country level and develop strategies accordingly. As well as DFID and other donors undertaking analysis, it will be important to strengthen the capacity of developing countries to undertake this analysis themselves. DFID will support efforts to:

- improve understanding of the trends in growth and inequality and of how the patterns of growth could be changed to include poor people and ensure sustainability.
- analyse the implications of the global economic environment for poverty reduction strategies.
- analyse the political, social and economic forces affecting economic outcomes for the poor.
- improve understanding of the politics of poverty reduction and develop a more sophisticated appreciation of our own role in influencing outcomes.
- understand better the livelihood strategies of poor people and identify their options and opportunities for sustainable improvements.
- improve understanding of the impact of the global knowledge based economy on poverty and poor people.
- influence international institutions, and particularly the IMF, to improve the analysis of how their policies and approaches affect the target.
- invest in research on poverty and sustainable development to develop our knowledge of the causes of poverty and approaches to poverty reduction.

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68 Except in larger federal structures where we are moving towards partnerships at the state level (for example in Russia, India, China).
Priorities for DFID

- give high priority to monitoring trends in poverty; in publicising these trends and generating international media interest and debate.

Eight priorities for DFID action

5.7 The paper sets out a framework for poverty reduction of Economic Growth, Equity and Security. Economic growth is essential if countries are going to make progress in reducing poverty. But for growth to reduce poverty most effectively, policies to promote growth need to be supported by policies to promote equity and security for poor people. Addressing the skills and institutional capacity to implement these policies will be an important part of any strategy to reduce poverty. Following on from the eight key lessons identified in Section 3 and the eight priorities for the international community in Section 4, priorities for DFID action are set out below.

Priority 1: Pursue pro-poor growth policies
- work with developing country and international institutions to develop integrated approaches to poverty reduction, which are locally led, comprehensive, and collaborative. In countries committed to poverty reduction, our bilateral country strategies will take the lead from the countries’ own Poverty Reduction Strategies.
- advocate strategies for inclusive growth which remove the inequalities and constraints preventing the poor from contributing to growth.
- engage decision makers and other influential groups more strongly in debate about pro-poor policies.
- support incorporation of analysis of global economic issues into poverty reduction strategies
- support the incorporation of gender equality goals into national and local policy frameworks.

Priority 2: Make markets work better for the poor
- continue to support micro-finance initiatives, while enhancing our understanding of credit and especially savings for social protection.
- stay closely involved with private sector development, promoting and supporting skills for growth, appropriate technologies and making the private sector work for the poor.

Priority 3: Improve the overall effectiveness of public resource use at country level for poverty reduction
- strengthen public expenditure management and promote the use of Medium Term Expenditure Frameworks
- promote and support stronger analysis of the poverty incidence of public expenditure and taxation and encourage more progressive fiscal policy.

Priority 4: Promote empowerment and accountability
- support a stronger voice for poor people in the formulation of policy including at the national level, through more widespread use of participatory approaches and through political organisation.
- mainstream the empowerment of women in all development activities.
- work to increase transparency and reduce corruption.
- look for new mechanisms for collaboration between development agencies, governments and their civil and political societies in better defining government agendas and uphold the rights of poor people.
- find new ways to support the provision of essential skills training.

Priority 5: Ensure that transfers and social protection reach the poorest
- ensure that social protection policies are structural and mainstreamed into development policy.
- learn lessons from examples of successful targeting of social protection.
- ensure that social protection policies do not undermine the functioning of markets, particularly local agricultural markets.
Priority 6: Create an international policy environment that maximises growth opportunities for poor countries

- support developing countries in their integration into the global economy through boosting their capacity to participate in international negotiations, particularly future trade negotiations at the World Trade Organisation.
- work to ensure coherence between trade, investment and development policies and work closely with other OECD countries to promote an integrated approach to poverty reduction.
- collaborate internationally to ensure that poor countries concerns are addressed in environmental negotiations and agreements.
- influence the international financial community and their perceptions of investment opportunities in the poorest countries, including through promoting a rules based international investment framework.

Priority 7: Increase the resources for development and channel them to maximise poverty reduction

- review bilateral expenditure profiles, shifting to an emphasis on technical, rather than financial, assistance for policy reform in countries that do not need our grant finance for achieving the target and ensuring that elsewhere resources are used more effectively towards meeting the target.
- encourage a profile of expenditure by the European Commission and other multilaterals which maximises resources to the poorest countries with good policy environments.
- take a lead in debt reduction and the linking of debt reduction to acceptable poverty policies.
- influence other OECD donors to improve policies and expenditure allocation for poverty reduction, including through the Development Assistance Committee poverty reduction network.
- pay much more attention to the first and second round impacts of development assistance expenditure on the poor, including more careful justification of technical assistance, and critical appraisal of the labour intensity of programme expenditure.
- support untying of aid resources.
- reduce the administrative burden on developing country governments by working with the international community to strengthen joint working including providing resources through common funding mechanisms.

Priority 8: Reduce the impact of shocks, including conflict, on the poorest countries

- work with others to improve the international mechanisms for settling disputes and preventing conflict.
- increase the policy focus on mitigating risks facing poor people.
- support the development of national capacity for better disaster preparedness and relief management.
- work to deliver a more effective global response to HIV/AIDS.
6. Measuring progress

Measuring performance

6.1 The effectiveness of the International Development Targets in generating support for poverty elimination depends on the extent to which progress towards them can be monitored, and strategies to improve performance can be developed and implemented. Progress towards the Economic Well-being target is measured by monitoring the number of people living on less than $1/day, where the $1 is adjusted for national differences in purchasing power. This requires:

- national household expenditure/consumption surveys which provide an estimate of the number and proportion of people living below a specified poverty line; and
- international price comparison surveys which are used to establish purchasing power parities between countries.

Such surveys are good at providing aggregate data but need to be supplemented by participatory approaches to understand inter-generational and gender differences within households.

6.2 Primary responsibility for compiling these measurements at the global level rests with the World Bank, based on nationally produced data. The Bank is committed to producing three-yearly estimates of poverty numbers and proportions by country. The latest of these is available for 1996 (with provisional estimates for 1998), and it is expected that information for 1999 will be available in 2001. The surveys required to develop these estimates are being improved over time and widened in terms of country coverage. Better and more comprehensive information means that baseline data will be updated at each stage, but this will not affect our ability to measure consistent progress towards the target. The triennial review of poverty figures provides an opportunity to create milestones towards the achievement of the target.

6.3 The target is not merely a global one, but one that has implications for each country. Progress towards the target should be reflected in national level monitoring of poverty figures. Ideally this should be against both locally defined poverty lines and the International Development Target. The development of Poverty Reduction Strategy Papers at the country level, supported by the IMF and World Bank, will provide supporting indicators to be monitored at the country level.

6.4 The World Bank is also responsible for compiling information on the supporting indicators of poverty gap and inequality of consumption, which again are based on national household income and consumption surveys. Information on child malnutrition is collated by the UN Children’s Fund (UNICEF) and the World Health Organisation (WHO) based on information provided by national Health Ministries. Responsibility for collating monitoring information for the remaining International Development Target indicators rests, variously, with UNESCO, UNICEF, UNDP and WHO and the World

Figure 5: Poverty trends: 1990–1998 Percentage of people living in extreme poverty†

![Graph showing poverty trends from 1990 to 1998 for different regions.](image-url)
Resources Institute. The OECD’s Development Assistance Committee is committed to disseminating information on all the International Development Target indicators through their website and by other means and this will be updated on a rolling basis as information becomes available.

6.5 The International Development Targets provide clear objectives with global authority. They also provide a mechanism for committing the international community to a collaborative, output-driven system that measures progress against 21 agreed indicators. These include the three indicators relevant to economic well-being which are highlighted in Section 1. In addition, it has been recognised that the International Development Targets are a measure of final outcome and can be expected to show improvements only some time after the necessary precursors for change are put in place. The World Bank is attempting to identify intermediate factors and outputs affecting these outcomes, both to target poverty interventions more closely and to monitor changes more quickly. DFID will contribute towards this work. Because of the multi-faceted nature of poverty the factors involved will be complex and multilayered, covering international negotiations, such as world trade agreements, national policies, such as pro-poor policies, increased and better targeted social spending, better delivery of government services, and donor specific issues, such as levels and quality of aid.

6.6 The international community will monitor these various factors, with DFID contributing to this effort where appropriate. But the main responsibility for monitoring progress in reducing poverty lies with developing countries themselves. The international community should not impose unnecessary indicators on these countries, but support them in building their own capacity to collect policy relevant statistics.

Strengthening capacity

6.7 Timely and reliable data will be an important force in raising awareness of poverty and generating the political commitment to tackle it. The UNDP’s Human Development Report performs a useful function in bringing issues of poverty to the public’s notice. This encourages a supportive environment for development funding and we will work with them and others to publicise widely the facts about poverty and efforts to reduce it. The report by the multilateral development institutions and by the OECD Development Assistance Committee to the Okinawa Summit are valuable ways of highlighting the extent of progress.

6.8 In addition, there is need to strengthen local capacity to collect and analyse economic data in many countries, and to strengthen skills in designing and implementing policies in support of pro-poor growth. The ability of governments to do this is an essential part of building national ownership of poverty reduction strategies. DFID has a strong commitment to the generation of the required statistical base and will work with partners both in developing countries and in the international community to enhance the quality and timeliness of data to support the International Development Targets. The UN system in particular has a strong role to play in building the widespread support required for effective monitoring of poverty reduction at country level and in setting appropriate standards. Poverty Reduction Strategies should include performance indicators, and there will be need to strengthen capacity for performance assessment as well as data collection.

Assessing DFID’s performance

6.9 DFID is committed to assessing its own contribution to progress towards the International Development Targets. An important instrument for doing this is DFID’s Public Service Agreement (PSA)69, which sets out indicators for assessing DFID’s performance against key departmental objectives, including progress towards the International Development Targets. The linkages between DFID’s inputs – our spending and activities – and ‘real world’ results in terms of progress towards the targets are complex and difficult to quantify. However, the PSA provides a coherent and logical basis for linking the performance of DFID programmes with the achievement of our overall objectives, and in consequence with the contribution we are making towards reaching the International Development Targets.

6.10 DFID has prepared strategies to guide its work at country level and in relation to other development institutions70. Developed through consultation, these strategies include appropriate and coherent sets of indicators for assessing progress of DFID-assisted programmes sectorally, nationally and internationally. Regular review of country strategies and institutional

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69 All Departments in the UK Government are required by HM Treasury to prepare Public Service Agreements, against which performance is reported annually. Linked to each PSA is a Service Delivery Agreement (SDA) which sets out operational targets and indicators, again for annual reporting.

70 See DFID’s range of Country Strategy Papers and Institutional Strategy Papers.
strategies will encourage lesson learning and improved performance, particularly where such reviews are led by the appropriate agencies within developing countries themselves. Routine monitoring and evaluation also continues to capture project and programme level performance information to guide development planning and implementation, and identify best practice for future activities.

Lesson learning and response

6.11 Monitoring progress will be ineffective unless there is also action taken in response to what is measured and reported. Existing analyses of growth and poverty reduction have already highlighted regions and countries which are unlikely to achieve the target on current trends. This calls for renewed efforts to improve performance, especially in the poorly performing countries. The key issue for aid allocation will be whether the policy environment is such that aid can be effective. We will continue to work with a broad range of countries in order to ensure that progress is made against the target in as many countries as possible. But we will concentrate transfer of resources upon poor countries where policy supports pro-poor growth. We will also give priority to the provision of high quality policy-relevant advice and support to middle income countries which have significant numbers of people in poverty.

6.12 The international community needs to continue to learn from insights and lessons generated by the implementation of strategy to reach the International Development Targets. It will be important to maintain mechanisms for monitoring, reviewing and evaluating policy and programme interventions. Greater emphasis is needed on the systems which collate and draw lessons from the information being generated by such exercises around the world. The preparation of Poverty Guidelines by the OECD Development Assistance Committee, scheduled for the end of 2000, provides a mechanism to summarise and disseminate key lessons for improving the poverty reduction impact of development assistance programmes.
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## Annex

Global and regional indicators of development progress for the international development targets

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<th>World total</th>
<th>Developing country total</th>
<th>East Asia &amp; Pacific</th>
<th>Eastern Europe and Central Asia</th>
<th>Latin America and Caribbean</th>
<th>Middle East &amp; North Africa</th>
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<th>Sub-Saharan Africa</th>
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<tbody>
<tr>
<td><strong>Population [millions]</strong></td>
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</tr>
<tr>
<td>1980</td>
<td>4,430</td>
<td>3,641</td>
<td>1,398</td>
<td>426</td>
<td>360</td>
<td>174</td>
<td>903</td>
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<tr>
<td>1990</td>
<td>5,255</td>
<td>4,414</td>
<td>1,641</td>
<td>466</td>
<td>439</td>
<td>238</td>
<td>1,122</td>
<td>508</td>
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<tr>
<td>1998</td>
<td>5,897</td>
<td>5,011</td>
<td>1,817</td>
<td>475</td>
<td>502</td>
<td>286</td>
<td>1,305</td>
<td>627</td>
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### Reducing Extreme Poverty

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<td>1987</td>
<td>88.1</td>
<td>90.8</td>
<td>81.7</td>
<td>88.0</td>
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<td>1,183.2</td>
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### Population living on less than $1 a day [millions]

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<td>25.2</td>
<td>4.0</td>
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<td>1.9</td>
</tr>
<tr>
<td>1996</td>
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<td>14.9</td>
<td>5.1</td>
<td>15.6</td>
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### Poverty Gap [%]

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</thead>
<tbody>
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<td>1987</td>
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<td>0.1</td>
<td>5.2</td>
<td>1.0</td>
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<td>1990</td>
<td>9.0</td>
<td>7.6</td>
<td>1.0</td>
<td>6.0</td>
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<td>1993</td>
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<td>1996</td>
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<td>4.0</td>
<td>1.5</td>
<td>5.3</td>
<td>0.4</td>
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</table>

### National income/consumption by poorest 20% [share that accrues to the bottom 20% of the population]

<table>
<thead>
<tr>
<th></th>
<th>1980s</th>
<th>1990s</th>
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<tbody>
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<td>20%</td>
<td>6.3</td>
<td>6.9</td>
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<td>9.8</td>
<td>8.8</td>
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<tr>
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<td>7.9</td>
<td>8.8</td>
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<tr>
<td></td>
<td>5.7</td>
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### Prevalence of child malnutrition, weight for age [% of children under 5 years old]

<table>
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<tr>
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<tbody>
<tr>
<td>30</td>
<td>31</td>
</tr>
<tr>
<td>22</td>
<td>8</td>
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<tr>
<td>8</td>
<td>15</td>
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<td>51</td>
<td>33</td>
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DFID – September 2000
### Universal Primary Education

<table>
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<tr>
<th>Net primary school enrolment</th>
<th>1980</th>
<th>1990</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female age in school as % of all school age children</td>
<td>77/72</td>
<td>86/83</td>
<td>88/86</td>
</tr>
<tr>
<td>Male</td>
<td>86/83</td>
<td>91/89</td>
<td>92/91</td>
</tr>
<tr>
<td>Total</td>
<td>81/78</td>
<td>86/89</td>
<td>90/99</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>77/74</td>
<td>91/–</td>
<td>76/90</td>
</tr>
<tr>
<td>Male</td>
<td>90/–</td>
<td>90/87</td>
<td>87/77</td>
</tr>
<tr>
<td>Total</td>
<td>94/76</td>
<td>99/94</td>
<td>94/87</td>
</tr>
</tbody>
</table>

### Youth literacy rate

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>70/69</td>
<td>77/77</td>
<td>81/81</td>
</tr>
<tr>
<td>Male</td>
<td>83/83</td>
<td>87/87</td>
<td>89/89</td>
</tr>
<tr>
<td>Total</td>
<td>77/76</td>
<td>90/97</td>
<td>98/99</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Adult literacy rate</th>
<th>1980</th>
<th>1990</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>54/52</td>
<td>62/61</td>
<td>68/67</td>
</tr>
<tr>
<td>Male</td>
<td>72/71</td>
<td>78/78</td>
<td>82/82</td>
</tr>
<tr>
<td>Total</td>
<td>63/62</td>
<td>79/96</td>
<td>84/96</td>
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### Gender Equality

<table>
<thead>
<tr>
<th>Gender equality in school</th>
<th>Primary</th>
<th>1980</th>
<th>1990</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female gross enrolment ratio as a % of male</td>
<td>87/84</td>
<td>90/88</td>
<td>94/99</td>
<td></td>
</tr>
<tr>
<td>Primary &amp; Secondary</td>
<td>94/92</td>
<td>100/98</td>
<td>98/86</td>
<td></td>
</tr>
<tr>
<td>Gender equality in adult literacy as a % of male literacy rate</td>
<td>75/73</td>
<td>79/78</td>
<td>83/82</td>
<td></td>
</tr>
</tbody>
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DFID – September 2000

---
### Infant and Child Mortality

<table>
<thead>
<tr>
<th></th>
<th>World total</th>
<th>Developing country total</th>
<th>East Asia &amp; Pacific</th>
<th>Eastern Europe and Central Asia</th>
<th>Latin America and Caribbean</th>
<th>Middle East &amp; North Africa</th>
<th>South Asia</th>
<th>Sub Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infant mortality rate</strong></td>
<td>1980</td>
<td>80</td>
<td>87</td>
<td>55</td>
<td>41</td>
<td>61</td>
<td>95</td>
<td>119</td>
</tr>
<tr>
<td>(per 1,000 live births)</td>
<td>1990</td>
<td>60</td>
<td>65</td>
<td>40</td>
<td>28</td>
<td>41</td>
<td>60</td>
<td>87</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>54</td>
<td>59</td>
<td>35</td>
<td>22</td>
<td>31</td>
<td>45</td>
<td>75</td>
</tr>
<tr>
<td><strong>Under-5 mortality rate</strong></td>
<td>1980</td>
<td>123</td>
<td>135</td>
<td>82</td>
<td>–</td>
<td>78</td>
<td>136</td>
<td>180</td>
</tr>
<tr>
<td>(per 1,000 live births)</td>
<td>1990</td>
<td>87</td>
<td>91</td>
<td>55</td>
<td>34</td>
<td>49</td>
<td>71</td>
<td>121</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>75</td>
<td>79</td>
<td>43</td>
<td>26</td>
<td>38</td>
<td>55</td>
<td>89</td>
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### Maternal Mortality

<table>
<thead>
<tr>
<th></th>
<th>World total</th>
<th>Developing country total</th>
<th>East Asia &amp; Pacific</th>
<th>Eastern Europe and Central Asia</th>
<th>Latin America and Caribbean</th>
<th>Middle East &amp; North Africa</th>
<th>South Asia</th>
<th>Sub Saharan Africa</th>
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<tbody>
<tr>
<td><strong>Maternal mortality ratio</strong></td>
<td>1990</td>
<td>430</td>
<td>480</td>
<td>210</td>
<td>95</td>
<td>190</td>
<td>320</td>
<td>610</td>
</tr>
<tr>
<td>(per 100,000 live births)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Births attended by health staff</strong></td>
<td>1990</td>
<td>–</td>
<td>49</td>
<td>58</td>
<td>–</td>
<td>–</td>
<td>58</td>
<td>39</td>
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### Reproductive Health

<table>
<thead>
<tr>
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<th>World total</th>
<th>Developing country total</th>
<th>East Asia &amp; Pacific</th>
<th>Eastern Europe and Central Asia</th>
<th>Latin America and Caribbean</th>
<th>Middle East &amp; North Africa</th>
<th>South Asia</th>
<th>Sub Saharan Africa</th>
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</thead>
<tbody>
<tr>
<td><strong>Contraceptive prevalence</strong></td>
<td>1997–1998b</td>
<td>49</td>
<td>48</td>
<td>52</td>
<td>67</td>
<td>59</td>
<td>55</td>
<td>49</td>
</tr>
<tr>
<td>[% of women 15–49]</td>
<td>1999</td>
<td>1.1</td>
<td>–</td>
<td>0.07</td>
<td>0.14</td>
<td>–</td>
<td>0.13</td>
<td>8.0</td>
</tr>
<tr>
<td><strong>HIV prevalence</strong>a</td>
<td>1999</td>
<td>1.1</td>
<td>–</td>
<td>0.07</td>
<td>0.14</td>
<td>–</td>
<td>0.13</td>
<td>8.0</td>
</tr>
<tr>
<td>[Percentage of adults (15–49 years) living with HIV/AIDS in 1999]</td>
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### Environment

<table>
<thead>
<tr>
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<th>Eastern Europe and Central Asia</th>
<th>Latin America and Caribbean</th>
<th>Middle East &amp; North Africa</th>
<th>South Asia</th>
<th>Sub Saharan Africa</th>
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<tbody>
<tr>
<td><strong>National strategies for sustainable development</strong>b</td>
<td>1998</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>[numbers of countries with a strategy in place]</td>
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<tr>
<td><strong>Safe water</strong>c [% of population with access]</td>
<td>Urban</td>
<td>1990–98c</td>
<td>90</td>
<td>89</td>
<td>95</td>
<td>–</td>
<td>88</td>
<td>97</td>
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<tr>
<td></td>
<td>Rural</td>
<td>1990–98c</td>
<td>62</td>
<td>62</td>
<td>58</td>
<td>–</td>
<td>42</td>
<td>72</td>
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<tr>
<td></td>
<td>Total</td>
<td>1990–98c</td>
<td>72</td>
<td>72</td>
<td>69</td>
<td>–</td>
<td>78</td>
<td>85</td>
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<tr>
<td><strong>Forest Area</strong> [% of National Surface Area]</td>
<td>1995d</td>
<td>25</td>
<td>26</td>
<td>24</td>
<td>36</td>
<td>45</td>
<td>1</td>
<td>16</td>
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<td><strong>Biodiversity: land area protected [% of total land area]</strong></td>
<td>1994e</td>
<td>6.7</td>
<td>5.1</td>
<td>6.2</td>
<td>3.6</td>
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<td>3.0</td>
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<td>1996e</td>
<td>6.6</td>
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<td>6.9</td>
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<td>7.3</td>
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<td><strong>Energy efficiency: GDP per unit of energy use</strong></td>
<td>1990</td>
<td>–</td>
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<td>1.5</td>
<td>–</td>
<td>–</td>
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<tr>
<td></td>
<td>1997</td>
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<td><strong>Industrial Carbon Dioxide emissions</strong> ([tonnes per capita])</td>
<td>1980</td>
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<tr>
<td>Life Expectancy at Birth [in years]</td>
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<td>68</td>
<td>69</td>
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<td>[in years]</td>
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<tr>
<td>[births per woman]</td>
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</tr>
<tr>
<td>Total</td>
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<td>4,890</td>
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<sup>a</sup> Combined figure for low and middle income countries used as a proxy for developing countries with the exception of the indicators for persistence to Grade 5, maternal mortality ratio and safe water where a true developing countries figure is used.

<sup>b</sup> Data refer to the most recent year available within the specified period.

<sup>c</sup> At 1993 purchasing power parities (PPPs) adjusted to current price terms.

<sup>d</sup> The poverty gap is the mean shortfall below the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. The measure reflects the depth of poverty as well as its incidence.

<sup>e</sup> Data are for nearest available year.

<sup>f</sup> Figures are based on net enrolment ratios.

<sup>g</sup> The indicator actually relates to HIV prevalence in 15 to 24 year old pregnant women. However, until satisfactory data coverage is achieved on this indicator, the prevalence of HIV infection in all adults will be used.

<sup>h</sup> International understanding on what constitutes an effective national strategy for sustainable development (nssd) process is still under discussion.

<sup>i</sup> Relates to the year in which the strategies or action plans were adopted.

<sup>j</sup> Data may refer to earlier years.

<sup>–</sup> Not available